

**Fortitude Reinsurance Company Ltd.**  
**Consolidated Financial Statements**  
**As of and for the years ended December 31, 2022 and 2021**

**Fortitude Reinsurance Company Ltd.**  
**Consolidated Financial Statements**  
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## Report of Independent Auditors

To the Board of Directors of Fortitude Reinsurance Company Ltd.

### ***Opinion***

We have audited the accompanying consolidated financial statements of Fortitude Reinsurance Company Ltd., and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of income (loss), of comprehensive income (loss), of changes in shareholders' equity, and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Responsibilities of Management for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

### ***Auditors' Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are



considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

***Required Supplemental Information***

Accounting principles generally accepted in the United States of America require that the incurred and cumulative paid loss and allocated loss adjusted expense information for the years ended December 31, 2021 and prior, and the average annual percentage payout of incurred losses by age, net of reinsurance, as of December 31, 2022, on pages [38–44] be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*PricewaterhouseCoopers LLP*

Nashville, Tennessee  
April 26, 2023

**Fortitude Reinsurance Company Ltd.**  
**Consolidated Balance Sheets**  
(in millions, except share data)

	December 31,	
	2022	2021
<b>Assets:</b>		
Investments:		
Funds withheld - directly managed, at fair value	\$ 33,003	\$ 43,948
Fixed maturities:		
Securities, at fair value	3,481	—
Available for sale, at fair value (amortized cost: \$2,274 and \$2,239 at December 31, 2022 and 2021, respectively)	1,687	2,233
Mortgage loans, at fair value	138	—
Other invested assets (includes \$884 and \$0 of assets measured at fair value at December 31, 2022 and 2021, respectively)	1,228	679
Short term investments	23	13
<b>Total investments</b>	<b>39,560</b>	<b>46,873</b>
Cash and cash equivalents	295	225
Accrued investment income	40	12
Income taxes	2,550	444
Deferred charge assets	279	—
Funds withheld by ceding companies	238	—
Other assets	44	20
<b>Total assets</b>	<b>\$ 43,006</b>	<b>\$ 47,574</b>

See accompanying Notes to Consolidated Financial Statements.

**Fortitude Reinsurance Company Ltd.**  
**Consolidated Balance Sheets (continued)**  
(in millions, except share data)

	December 31,	
	2022	2021
<b>Liabilities and Equity</b>		
<b>Liabilities:</b>		
Future policy benefits for life insurance and annuity contracts	\$ 26,940	\$ 27,771
Policyholder contract deposits	11,518	7,055
Value of business acquired	3,824	4,053
Liability for unpaid losses and loss adjustment expenses	3,613	3,310
Collateral deposit liability	181	188
Reinsurance payable	752	609
Deferred gain from reinsurance contracts	699	731
Other liabilities	57	37
<b>Total liabilities</b>	<b>47,584</b>	<b>43,754</b>
<b>Contingencies and commitments (Note 11)</b>		
<b>Equity:</b>		
Common stock - \$1 par value; 1,250,000 shares authorized; 1,250,000 issued and outstanding in 2022 and 2021	1	1
Additional paid-in capital	3,441	3,441
Retained earnings (deficit)	(7,561)	383
Accumulated other comprehensive loss	(459)	(5)
<b>Total equity (deficit)</b>	<b>(4,578)</b>	<b>3,820</b>
<b>Total liabilities and equity</b>	<b>\$ 43,006</b>	<b>\$ 47,574</b>

See accompanying Notes to Consolidated Financial Statements.

**Fortitude Reinsurance Company Ltd.**  
**Consolidated Statements of Income (Loss)**  
(in millions)

	<b>Year Ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
<b>Revenues:</b>		
Premiums	\$ 225	\$ 280
Policy charges and fee income	84	76
Net investment income	1,821	2,049
Change in fair value of funds withheld	(8,688)	(1,303)
Investment gains (losses)	(1,201)	64
Foreign exchange gains	26	23
<b>Total revenues</b>	<b>(7,733)</b>	<b>1,189</b>
<b>Benefits, losses and expenses:</b>		
Policyholder benefits and losses incurred	898	1,060
Interest credited to policyholder account balances	318	194
General operating and other expenses	157	156
<b>Total benefits, losses and expenses</b>	<b>1,373</b>	<b>1,410</b>
<b>Loss before income tax benefit</b>	<b>(9,106)</b>	<b>(221)</b>
<b>Income tax expense (benefit):</b>		
Income tax benefit	(1,912)	(50)
<b>Net loss</b>	<b>\$ (7,194)</b>	<b>\$ (171)</b>

*See accompanying Notes to Consolidated Financial Statements.*

**Fortitude Reinsurance Company Ltd.**  
**Consolidated Statements of Comprehensive Income (Loss)**  
(in millions)

	Year Ended December 31,	
	2022	2021
<b>Net loss</b>	(7,194) \$	(171)
<b>Other comprehensive loss:</b>		
Change in unrealized losses of fixed maturity securities, available for sale	(575)	(124)
Income tax benefit related to other comprehensive loss	121	26
Total other comprehensive loss, net of tax	(454)	(98)
<b>Comprehensive loss</b>	<b>\$ (7,648)</b>	<b>\$ (269)</b>

*See accompanying Notes to Consolidated Financial Statements.*



**Fortitude Reinsurance Company Ltd.**  
**Consolidated Statements of Changes in Shareholders' Equity**  
(in millions)

For the Years Ended December 31, 2022 and 2021

	Shareholders' Equity	Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity (Deficit)
<b>Balance, December 31, 2020</b>	\$ 1	\$ 3,441	\$ 1,661	\$ 93	\$ 5,196
Net loss	—	—	(171)	—	(171)
Dividends	—	—	(1,107)	—	(1,107)
Other comprehensive loss	—	—	—	(98)	(98)
<b>Balance, December 31, 2021</b>	1	3,441	383	(5)	3,820
Net loss	—	—	(7,194)	—	(7,194)
Dividends	—	—	(750)	—	(750)
Other comprehensive loss	—	—	—	(454)	(454)
<b>Balance, December 31, 2022</b>	<b>\$ 1</b>	<b>\$ 3,441</b>	<b>\$ (7,561)</b>	<b>\$ (459)</b>	<b>\$ (4,578)</b>

See accompanying Notes to Consolidated Financial Statements.

**Fortitude Reinsurance Company Ltd.**  
**Consolidated Statements of Cash Flows**  
(in millions)

	Year Ended December 31,	
	2022	2021
<b>Cash flows provided by (used in) operating activities</b>		
Net loss	\$ (7,194)	\$ (171)
<b>Adjustments to reconcile net loss to net cash provided by (used in) operating activities:</b>		
Amortization of value of business acquired	(229)	(238)
Amortization of deferred gain (charge) from reinsurance contracts	49	14
Change in fair value, other invested assets	(56)	(91)
Investment (gains) losses	207	15
Deferred income tax benefit	(2,029)	(350)
Net foreign exchange gains (losses)	(26)	(23)
Other	(28)	28
<b>Changes in operating assets and liabilities:</b>		
Funds withheld - directly managed	10,838	1,625
Future policy benefits for life insurance and annuity contracts	(669)	(614)
Policyholder contract deposits	(248)	(337)
Liability for unpaid losses and loss adjustment expenses	169	(283)
Deferred gain from reinsurance contracts	115	91
Deferred charge assets	(126)	—
Income taxes	61	(119)
Reinsurance payable	(1)	28
Funds withheld by ceding companies	(238)	—
Derivatives, net	(68)	—
Other, net	(34)	(16)
<b>Net cash provided by (used in) operating activities</b>	<b>493</b>	<b>(441)</b>
<b>Cash flows provided by (used in) investing activities</b>		
<b>Proceeds from the sale, maturities, and prepayments of:</b>		
Fixed maturities, securities at fair value	2,915	—
Fixed maturities, available for sale	455	2,708
Other invested assets	231	112
Short term investments	13	68
<b>Purchases of:</b>		
Fixed maturities, securities at fair value	(6,026)	—
Fixed maturities, available for sale	(374)	(987)
Mortgage loans	(138)	—
Other invested assets	(885)	(390)
Short term investments	—	(37)
Cash loaned to affiliates, net of repayments	15	12
<b>Net cash provided by (used in) investing activities</b>	<b>(3,794)</b>	<b>1,486</b>

**Fortitude Reinsurance Company Ltd.**  
**Consolidated Statements of Cash Flows (continued)**  
(in millions)

	Year Ended December 31,	
	2022	2021
<b>Cash flows provided by (used in) financing activities</b>		
Dividend to parent	(468)	(995)
Deposits received for investment-type policyholder contract deposits	4,179	—
Withdrawals from investment-type policyholder contract deposits	(240)	—
<b>Net cash provided by (used in) financing activities</b>	<b>3,471</b>	<b>(995)</b>
Effect of foreign exchange rate changes on cash and cash equivalents	(100)	—
Net increase in cash and cash equivalents	70	50
Cash and cash equivalents at the beginning of the period	225	175
<b>Cash and cash equivalents at the end of the period</b>	<b>\$ 295</b>	<b>\$ 225</b>
<b>Supplemental Disclosures of Cash Flow Information</b>		
	<b>2022</b>	<b>2021</b>
<b>Cash paid during the period for:</b>		
Taxes, net of refunds	56	420
<b>Non-cash transactions:</b>		
Premiums and deposits on policies reinsured through funds withheld arrangements	\$ 271	\$ 280
Claims, withdrawals and surrenders on policies reinsured through funds withheld arrangements	2,634	2,566
Receipt of securities from funds withheld arrangements	789	632
Dividend to parent paid in the form of other invested assets	282	—
Dividend to parent paid in the form of fixed maturity securities	—	35
Recognition of deferred gain from reinsurance contracts in the form of a dividend to parent (Note 10)	—	77

See accompanying Notes to Consolidated Financial Statements.

**Fortitude Reinsurance Company Ltd.**  
**Notes to Consolidated Financial Statements**

## **1. Organization and Nature of Operations**

Fortitude Reinsurance Company Ltd. ("FRL" or "the Company") is a Bermuda domiciled company. FRL is registered under the Insurance Act 1978 and related regulations, as amended (the "Bermuda Insurance Act") as a Class 4 and Class E composite reinsurance company and is primarily a reinsurer of general insurance and life insurance run-off business. The Company has reciprocal jurisdiction status in a number of U.S. jurisdictions to allow U.S. ceding companies to take full statutory credit for reinsurance ceded to FRL without any regulatory prescribed collateral requirements. FRL is a direct subsidiary of Fortitude Group Holdings, LLC ("FGH" or the "Parent"), a holding company organized in the State of Delaware, United States of America, and an indirect subsidiary of the ultimate parent, FGH Parent, L.P. ("FGP"), a Bermuda limited partnership. The direct and indirect subsidiaries of FRL include:

- Fortitude Re Investments, LLC ("FRI"), an investment holding company organized in the State of Delaware, United States of America, is a wholly owned subsidiary of FRL.
- Grove Funding II, Inc. ("Grove Funding II"), an investment holding company organized in the State of Delaware, United States of America, is a wholly owned subsidiary of FRI.

FGP, together with its subsidiaries, is owned by Carlyle FRL, L.P. ("Carlyle FRL"), an investment fund advised by an affiliate of The Carlyle Group Inc. ("Carlyle"), an SEC-registered global investment firm, T&D United Capital Co., Ltd. ("T&D"), a wholly-owned subsidiary of T&D Holdings, Inc., a listed Japanese insurance group, and AIG, an SEC-registered company, which owned interests in FGP of 71.28%, 25.93% and 2.79%, respectively, as of December 31, 2022 and 71.5%, 25.0% and 3.5%, respectively, as of December 31, 2021.

Unless the context indicates otherwise, the terms "we" "us" or "our" refers to the consolidated group of FRL and subsidiaries.

## **2. Basis of Presentation**

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). All material intercompany transactions have been eliminated. All amounts are presented in United States dollars.

### **Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions when applying accounting policies that often involve a significant degree of judgment. The Company's accounting policies that are most dependent on the application of estimates and assumptions are those related to the determination of:

- Fair value measurements of investments including derivatives and our interest in funds withheld;
- Valuation of future policy benefits liabilities, including timing and extent of loss recognition;
- Estimates of liability for unpaid losses and loss adjustment expenses;
- Estimates of the remaining life of the underlying contracts, which is used as the basis for amortizing the value of business acquired ("VOBA"), deferred gains and deferred charge assets from long duration reinsurance contracts;
- Estimates of the timing and amount of future cash flows, which is used as a basis for amortizing the deferred gains and deferred charge assets from the short duration reinsurance contracts; and
- Estimates with respect to income taxes, including the valuation and recoverability of deferred income tax assets.

Additional details regarding these and other estimates and assumptions are included within the significant accounting policies and the related disclosures that follow. These accounting estimates require the use of assumptions about matters, some of which are highly uncertain at the time of estimation. To the extent actual experience differs from the assumptions used, the Company's consolidated financial condition, results of operations and cash flows could be materially affected.

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**Notes to Consolidated Financial Statements**

### **Business Risks and Uncertainties**

Our operations are influenced by many factors, including but not limited to, general economic conditions, regulatory changes, market risks normally associated with investments, the financial condition of our cedants and risks impacting insurance liabilities.

The Company is regulated by the Bermuda Monetary Authority ("BMA"). Future changes in regulatory requirements could have an unanticipated impact on the Company.

Liquidity, interest rate, foreign exchange and credit spread risks are all market risks. Liquidity risk is the risk that the Company's financial condition will be adversely affected by the inability or perceived inability to meet short-term cash, collateral or other obligations. Interest rate risk can arise from a mismatch in the interest rate exposure of assets compared to liabilities. Changes in interest rates can affect the valuation of fixed maturity securities, financial liabilities, insurance contracts and derivative contracts. Foreign exchange risk can arise from a mismatch in the foreign currency exposure of assets compared to liabilities. Changes in foreign exchange rates can affect the valuation of non-U.S. dollar denominated assets and liabilities. Credit spreads measure an instrument's risk premium or yield relative to that of a comparable duration, default-free instrument. Changes in credit spreads can affect the valuation of fixed maturity securities, including but not limited to corporate bonds, asset-backed securities, mortgage-backed securities, credit derivatives and derivative credit valuation adjustments.

Market risk is monitored and managed using an asset-liability management framework. For both assets and liabilities, market risk exposures are measured in terms of sensitivities to changes in the relevant risk factors. In addition, the Company performs stress testing on these market risk factors to capture concentration risks to a single market risk factor change as well as simultaneous multiple market risk factor changes, to understand the net impact on exposure from impacts on both assets and liabilities.

The Company's insurance liabilities are exposed to policyholder behavior risk and mortality/longevity risk. Longevity risk is the risk of a change in value of a policy or benefit as a result of actual mortality experience being lower than the expected mortality assumed at the time of underwriting. The Company manages this risk through ongoing monitoring and assessment of such experience relative to underlying assumptions, which include those relative to mortality and morbidity.

### **3. Summary of Significant Accounting Policies**

The following summarizes our significant accounting policies.

#### **Investments**

*Fair value option:* The fair value option ("FVO") provides entities with an alternative to use fair value as the initial and subsequent accounting measurement attribute for assets and liabilities that meet the definition of a financial asset or liability. The decision to elect the FVO is determined on an instrument by instrument basis and is applied to an entire instrument. The decision is irrevocable once elected. We have made this election on certain investments as it improves our operational efficiency. Refer to the investments section below and Notes 5 and 7 for more information on the Company's FVO elections.

*Funds withheld - directly managed:* We have elected the FVO on the entirety of our funds withheld - directly managed portfolio. Funds withheld - directly managed represents a reinsurance receivable collateralized by segregated portfolios of investments maintained by the ceding companies. While the investments maintained in the funds withheld - directly managed are legally owned by the ceding companies, the investments are separately identified from their general accounts and, pursuant to our contractual terms with those ceding companies, all realized and unrealized gains and losses and net investment income on the investments accrue to us. The Company is entitled to all economic rights and obligations on the collateral as if the Company held the investments directly. We have therefore elected to present funds withheld - directly managed within the total investments subheading on the consolidated balance sheets.

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The Company has elected to report the net investment income and investment gains (losses) arising from the underlying investments maintained within the funds withheld - directly managed account in the same financial statement line that such investment income would have been recorded had the Company held the investments directly

The change in fair value of funds withheld - directly managed, excluding alternative investments, is presented separately within the consolidated statements of income (loss). The change in fair value of alternative investments collateralizing the funds withheld - directly managed is recorded within net investment income.

Some of the reinsurance agreements contain an embedded derivative because the ceding companies are paying an interest rate attributable to the returns on the portfolio of investments which collateralize the reinsurance receivable that is not associated with the ceding companies own credit risk. The fair value of embedded derivatives in the reinsurance agreements is included in funds withheld - directly managed in the consolidated balance sheets. As the funds withheld - directly managed assets are settled on a quarterly basis, the fair value of the embedded derivatives are equal to the unrealized gain or loss on the segregated investment portfolio.

*Fixed maturity securities:* Fixed maturity securities classified as available for sale ("AFS") are carried at fair value. Unrealized gains and losses from AFS securities are reported as a separate component of accumulated other comprehensive income (loss) ("AOCI"), net of deferred income taxes. We have elected the FVO for certain securities within our fixed maturity securities portfolio. Realized and unrealized gains and losses on FVO securities are reported in investment gains (losses) on the consolidated statements of income (loss).

Investments in fixed maturity securities are recorded on a trade-date basis, with any unsettled trades recorded in other assets or other liabilities on the consolidated balance sheets. Interest income related to fixed maturity securities, including amortization of premium and accretion of discount, are included in net investment income under the effective yield method. Prepayment premiums are also included in net investment income.

Interest income is recognized using the effective yield method and reflects amortization of premium and accretion of discount. Premiums and discounts arising from the purchase of bonds classified as available for sale are treated as yield adjustments over their estimated holding periods, until maturity, or call date, if applicable. For investments in certain structured securities, recognized yields are updated based on current information regarding the timing and amount of expected undiscounted future cash flows. For high credit quality structured securities, effective yields are recalculated based on actual payments received and updated prepayment expectations, and the amortized cost is adjusted to the amount that would have existed had the new effective yield been applied since acquisition with a corresponding charge or credit to net investment income. For structured securities that are not of high credit quality, the structured securities yields are based on expected cash flows which take into account both expected credit losses and prepayments.

On a quarterly basis, the Company reviews its AFS portfolio for potential other-than-temporary impairments which would require that affected securities be written down to an adjusted cost basis with the amount of the write-down recorded as part of investment gains (losses) in the consolidated statements of income (loss). The Company reviewed its AFS investment portfolio for market value changes to identify changes caused by issuer credit deterioration, changes in market interest rates and changes in economic conditions. If this review indicated a decline in fair value that was other-than-temporary, the Company's carrying amount in the investment is reduced to its estimated fair value as an other-than-temporary impairment ("OTTI"). In accordance with GAAP guidance the estimated credit versus non-credit components of the OTTI would be bifurcated. The credit component would be recorded in earnings and result in the establishment of a new cost basis for the security. The non-credit component would be reclassified as unrealized loss in other comprehensive income. The Company would not recognize impairment of securities due to changing of interest rates or market dislocations unless the Company had the intent to sell the securities prior to recovery or maturity.

The Company considers a number of factors in determining whether the impairment was other-than-temporary. These may include, but are not limited to: 1) actions taken by rating agencies; 2) default by the issuer; 3) the significance of the decline in fair value; 4) the intent and ability to hold the investment until recovery; 5) the time period during which the decline had occurred; 6) an economic analysis of the issuer's industry; and 7) the financial strength, liquidity, and recoverability of the issuer. Management performs a security-by-security review in evaluating

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**Notes to Consolidated Financial Statements**

the need for any other-than-temporary impairments. Although no set formula is used in this process, the investment performance, collateral position, and continued viability of the issuer are significant measures considered.

*Mortgage loans, at fair value:* We have elected the FVO on our entire portfolio of residential mortgage loans. Realized and unrealized gains and losses on these investments are reported in investment gains (losses).

*Private equity funds, limited partnerships and limited liability companies ("LPs/LLCs"):* LPs/LLCs interests are accounted for using either the equity method of accounting, or at fair value if we elect the FVO. LPs/LLCs are recorded within other invested assets on the consolidated balance sheets. The Company uses the net asset value ("NAV"), a permitted practical expedient, as an estimate of fair value when the fair value is not readily available for our LPs/LLCs. The carrying value of these investments is written down, or impaired, to fair value when a decline in value is considered to be other-than-temporary. In applying the equity method (including assessment for OTTI), the Company uses financial information provided by the investee, generally on a one to three-month lag. Changes in fair value of other invested assets are reported in net investment income.

*Derivative instruments:* Derivatives are financial instruments whose values are derived from interest rates, foreign exchange rates, financial indices, values of securities or commodities, credit spreads, market volatility, expected returns, and liquidity. Values can also be affected by changes in estimates and assumptions, including those related to counterparty behavior and non-performance risk ("NPR") used in valuation models. Derivative financial instruments generally used by the Company include swaps and forwards and may be exchange-traded or contracted in the over-the-counter ("OTC") market. Certain of the Company's OTC derivatives are cleared and settled through central clearing counterparties, while others are bilateral contracts between two counterparties. Derivative positions are carried at fair value, generally by obtaining quoted market prices or through the use of valuation models.

The Company uses currency derivatives to reduce exposure to foreign currency risks associated with assets held or expected to be purchased or sold, and liabilities incurred or expected to be incurred.

The Company does not designate any derivative positions as hedging instruments. Accordingly, all realized and unrealized changes in fair value of derivatives are recorded in current earnings within foreign exchange gains on the consolidated statements of income (loss). Cash flows from derivatives are reported in the operating activities section in the consolidated statements of cash flows.

Derivatives are recorded as assets, within other invested assets. The Company nets the fair value of all derivative financial instruments with counterparties for which a master netting arrangement has been executed.

*Short-term investments:* These investments primarily consist of highly liquid debt instruments with a maturity of twelve months or less and greater than three months when purchased. These investments are generally carried at fair value or amortized cost that approximates fair value and include certain money market investments and funds managed similar to regulated money market funds.

As a result of acquisitions made by FGH in 2022, and to conform to the 2022 presentation, the Company made a policy election to change its prior accounting policy to include only certain money market investments. The revised accounting policy is a more preferable approach and consistent with the prescribed guidance in ASC 230.

The Company assessed the retrospective application of the above accounting policy change and determined that the impacts were limited to updates to the prior year consolidated balance sheet (reclassification from short-term investments to cash equivalents) and the consolidated statement of cash flows, which also included reclassification from the purchases of and proceeds from short term investments to cash and cash equivalents. The cash and cash equivalents at the beginning of the period reflects increases of \$209 million and \$1 million as of December 31, 2021 and January 1, 2021, respectively.

### **Cash and Cash equivalents**

Cash and cash equivalents include cash on hand, amounts due from banks, certain money market investments, and funds managed similar to regulated money market funds with maturities of three months or less when purchased.

**Fortitude Reinsurance Company Ltd.**  
**Notes to Consolidated Financial Statements**

**Accrued investment income**

Accrued investment income primarily includes accruals of interest and dividend income from investments that have been earned but not yet received.

**Reinsurance**

We assume short duration and long duration insurance and investment contracts under funds withheld, coinsurance and modified-coinsurance funds withheld arrangements. We follow reinsurance accounting for assumed transactions that provide indemnification against loss or liability relating to insurance risk (risk transfer). To meet risk transfer requirements, a reinsurance agreement must include both insurance risk consisting of both underwriting and timing risks, and a reasonable possibility of a significant loss. The mortality and timing risks related to certain life blocks of business, such as whole life, universal life-type, and pension risk transfer annuities with life contingencies were transferred to us and are subject to reinsurance accounting. The remaining blocks of life business, such as fixed annuities and structured settlements without life contingencies, lacked mortality risks, and thus could not achieve risk transfer. Accordingly, these reinsured contracts are subject to deposit accounting, rather than reinsurance accounting. The general insurance lines of business qualify to be accounted for as retroactive reinsurance.

Reinsurance payables include unpaid claims which are based upon estimates of payments to be made for claims incurred whether reported or unreported and net settlements due to ceding companies.

**Deferred charge assets ("Deferred charges")**

For reinsurance transactions where, at contract inception, the value of the liability assumed (plus any ceding commission paid) exceeds the premium received, the Company recognizes a deferred charge asset for this difference.

The premium charged to ceding companies may be lower than our estimate of liabilities as these liabilities may not be settled for many years. As premium is received at inception, we expect to generate a profit from these reinsurance contracts as we may invest the premium for many years, thereby generating investment income.

*Deferred charges - long duration:* The deferred charge is amortized over the lives of the reinsured policies in relation to expected benefit payments or insurance in-force for life insurance contracts. The amortization is included within policyholder benefits and losses incurred within the consolidated statements of income (loss).

*Deferred charges - short duration:* The deferred charge is amortized into income over the settlement period of the assumed reserves using an effective interest rate method. In applying the interest method an effective interest rate is derived and locked in for these retroactive reinsurance contracts based on the expected timing and amount of the loss and loss adjustment expense payments such that the present value of these estimated payments equals the consideration received.

An impairment assessment is performed for each deferred charge at the end of each reporting period. If an asset is deemed to be impaired it is written down within that reporting period, with the adjustment recorded within policyholder benefits and losses incurred within the consolidated statements of income (loss).

Deferred charges are assessed for impairment on an individual contract basis by determining the rate of return that we are required to earn on the invested assets to ensure that all cash flows arising from the assumed liabilities are met in full over the projected remaining payout period. This required rate of return is compared against the modeled rate of return at inception, the forecasted yield and the actual inception-to-date rate of return in order to identify indicators that would lead us to record an impairment of the deferred charge. During the year ended December 31, 2022 we identified two reinsurance contracts requiring impairment. Refer to Note 10 for further discussion on the impairment recorded.



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**Funds withheld by ceding companies**

Funds withheld by ceding companies represent funds that have been retained by ceding companies where we receive a fixed crediting rate. Funds withheld by ceding companies are carried at cost.

The Company has elected to report the net investment income and investment gains (losses) related to the funds withheld by ceding companies in the same financial statement line that such investment income would have been recorded had the Company held the investments directly.

**Other assets**

Other assets primarily consist of other investment-related receivables and receivables from related parties.

**Future policy benefits for life insurance and annuity contracts**

Future policy benefits for life insurance and annuity contracts include retirement products whose payments depend on contract holder's survival such as structured settlements with life contingencies, single premium immediate annuities ("SPIA") with life contingencies, and pension risk transfer annuities; and traditional life insurance products such as whole life ("WL") and return of premium ("RoP") term, accident & health ("A&H") and long term care ("LTC").

For these long duration traditional products, locked-in assumptions apply. The assumptions used to estimate benefit liabilities are set when a contract is issued and do not change with changes in actual experience unless a loss recognition event occurs. These locked-in assumptions include mortality, morbidity, persistency, maintenance expenses, and investment returns and include margins for adverse deviation to reflect uncertainty given that actual experience might deviate from these assumptions. Periodically, we are required to evaluate these locked-in assumptions. A loss recognition event occurs when there is a shortfall between the carrying amount of future policy benefit liabilities and estimated future policy benefit liabilities determined by applying current best estimate assumptions. If we determine a loss recognition event has occurred, we would record additional liabilities through a charge to future benefits expense. We would then replace the old locked-in assumption set with the current best estimate. Future reserves would be set by reviewing the updated best estimate assumptions periodically and making further adjustments where necessary. Other adjustments include unearned premium liabilities, incurred but not reported claims, and disabled lives reserves where A&H products such as disability income have claimants receiving ongoing benefits.

**Policyholder contract deposits**

The liability for policyholder contract deposits is recorded at accumulated or fund value (deposits received, plus accrued interest credited, less withdrawals, charges and fees). Amounts collected on investment-oriented products are not recognized as revenues, because they are recorded directly to policyholder contract deposits upon receipt.

Policyholder contract deposits are primarily comprised of deferred annuities and annuities issued in structured settlement arrangements, single premium immediate annuities ("SPIA"), contracts with no life contingent features and universal life-type contracts. The liability for these products represents an estimate of the present value of future benefits using an interest rate determined at the treaty inception date.

For universal life-type contracts that are determined to have profits in earlier years and losses in subsequent years from the insurance benefits, an additional liability is established in addition to the fund value to recognize the portion of amounts assessed against the contract holder (costs of insurance and all other charges and margins) that compensates us for benefits to be provided in future periods.

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**Liability for unpaid losses and loss adjustment expenses**

Loss reserves and loss adjustment expenses ("LAE") represent estimates of unpaid claims, including estimates for claims incurred but not reported and loss adjustment expenses ("IBNR"), less applicable discount. We regularly review and update the methods used to determine loss reserve estimates. Because these estimates are subject to the outcome of future events, changes in estimates are common given that loss trends vary and time is often required for changes in trends to be recognized and confirmed. Reserve changes that increase previous estimates of ultimate loss are referred to as unfavorable or adverse development. Reserve changes that decrease previous estimates of ultimate cost are referred to as favorable development. Prior year development can refer to either favorable or unfavorable development.

*Discounting of loss reserves:* We discount total workers' compensation liabilities using a discount rate calculated from the U.S. Treasury rates plus a liquidity premium, along with the use of payout patterns specific to our primary and excess workers' compensation portfolios. We lock in this discount rate at the inception of the contract, and no periodical updates are made. The locked in discount rate on the Company's current workers' compensation is 2.31%.

During the year ending December 31, 2022, the Company made a policy election to change its prior accounting policy where the discount rate was updated periodically along with the updated payout patterns. In our view, the revised accounting policy is a more preferable approach as changes in interest rates do not represent changes in amounts or timing of cash flows and the underlying deferred charge or gain would have been measured based on discount rates that existed at the time of the reinsurance contract.

The Company assessed the retrospective application of the above accounting policy change and determined that there were no material impacts to the December 31, 2022 or December 31, 2021 consolidated financial statements. Note that the beginning carrying value of the deferred gain at 2021 (as disclosed in Note 10) was revised from \$2 million to \$162 million to reflect the balance sheet reclassification impact of the accounting policy change with an offsetting impact to the liability for losses and LAE.

*Premium Deficiency:* The Company recognizes a premium deficiency reserve if the expected unpaid ultimate losses and loss adjustment expenses from future insured events exceed the related unearned premiums and other liabilities established and anticipated investment income. Any future expected losses on unearned premium are recorded as an increase to loss and loss adjustment expense reserves within the consolidated balance sheets and included within policyholder benefits and losses incurred within the consolidated statements of income (loss).

**Collateral deposit liability**

The Company has contractually assumed certain environmental protection plan ("EPP") and clean-up cost cap ("CCC") exposures. EPP and CCC products are designed to incorporate elements of program funding (investment risk on EPP) along with cost overrun protection (insurance risk on CCC) for the remediation of known environmental contamination issues.

The Company recognizes proceeds received under EPP programs as a collateral deposit liability, given insurance risk is not transferred under such funding programs. As losses funded by the policyholder are paid, the collateral deposit liability is reduced and as interest, estimated by applying the effective yield method, is accrued, the collateral deposit liability is increased.

**Value of business acquired ("VOBA") and Deferred gain from reinsurance contracts**

VOBA: The VOBA intangible liability represents the difference between estimated fair value of future best estimate liability cash flows and the Company's liability for future policyholder benefits and contract deposits after adjusting for current assumptions measured at the time of the acquisition.

The fair value estimate incorporated the following market participant based assumptions:

- Projections of future liability cash flows;
- A risk-free discount rate, representing the time value of money excluding non-performance risk;

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- An adjustment to the risk-free discount rate to reflect the Company's credit rating and claims paying ability (i.e. non-performance risk); and
- The inclusion of a market risk margin to account for the inherent uncertainty in the liability cash flows.

This VOBA liability is amortized over the lives of the reinsured policies of up to 70 years, in relation to expected benefit payments or insurance in-force amounts for insurance contracts. The amortization is included within policyholder benefits and losses incurred within the consolidated statements of income (loss).

*Deferred gain - long duration:* The difference between the consideration received in excess of the liabilities assumed under the reinsurance contract is recorded as a deferred gain from reinsurance contracts in the consolidated balance sheets. The deferred gain is amortized over the lives of the reinsured policies in relation to expected benefit payments or insurance in-force for life insurance contracts. The amortization is included within policyholder benefits and losses incurred within the consolidated statements of income (loss).

*Deferred gain - short duration:* Retroactive reinsurance contracts provide indemnification with respect to past loss events. For these contracts, the difference between the consideration received in excess of the liabilities assumed under the reinsurance contract, represents a net cost of reinsurance liability and is recorded as a deferred gain from reinsurance contracts in the consolidated balance sheets. The deferred gain is amortized into income over the settlement period of the assumed reserves using an effective interest rate method. In applying the interest method an effective interest rate is derived and locked in for these retroactive reinsurance contracts based on the expected timing and amount of the loss and loss adjustment expense payments such that the present value of these estimated payments equals the consideration received.

We monitor subsequent development on losses that occur during the retroactive period and will revise the deferred gain balance on a cumulative basis. The revised deferred gain balance is determined using the retrospective method so that the adjusted balance reflects the amount that would have existed had the revised estimates been available at the inception of the reinsurance transactions. The amortization, including any catch up adjustment recorded during the period of change, is included within policyholder benefits and losses incurred within the consolidated statements of income (loss).

### **Other liabilities**

Other liabilities primarily consist of due and unpaid claim liabilities, payables to related parties and accrued expenses.

### **Income taxes**

The Company operates as a corporation for U.S. federal income tax purposes and also owns a number of subsidiaries that are subject to U.S. federal and state income tax and, as such, the related tax provision attributable to these operations is reflected in the consolidated statements of comprehensive income.

The income tax provision is calculated under the asset and liability method. We recognize deferred income tax assets and liabilities for the expected future tax effects attributable to temporary differences between the financial statement and tax return basis of assets and liabilities based on enacted tax rates and other provisions of the tax law.

Deferred tax assets and liabilities are recognized for the timing differences between the financial statement carrying amounts of existing assets and liabilities and the respective tax basis at the balance sheet date. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Valuation allowances are established when necessary to reduce deferred tax assets to an amount that in management's opinion, is more likely than not to be realized.

The Company evaluates the recoverability of deferred tax assets and establishes a valuation allowance, if necessary, to reduce the deferred tax asset to an amount that is more likely than not to be realized (a likelihood of more than 50%). The evaluation of the recoverability of the deferred tax asset and the need for a valuation allowance requires the Company to weigh all positive and negative evidence to reach a conclusion that it is more

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likely than not that all or some portion of the deferred tax asset will not be realized. The weight given to the evidence is commensurate with the extent to which it can be objectively verified. The more negative evidence that exists, the more positive evidence is necessary and the more difficult it is to support a conclusion that a valuation allowance is not needed.

The Company's framework for assessing the recoverability of deferred tax assets requires consideration of all available evidence, including: (i) the nature, frequency, and severity of cumulative financial reporting losses in recent years; (ii) the predictability of future operating profitability of the character necessary to realize the net deferred tax asset; (iii) the carry forward periods for the net operating loss, capital loss and foreign tax credit carry forwards, including the effect of reversing taxable temporary differences; and (iv) prudent and feasible tax planning strategies that would be implemented, if necessary, to protect against the loss of the deferred tax asset.

### **Insurance Revenue and Expense Recognition**

Premiums for short-duration contracts are recorded as written on the inception date of the policy. For short-duration insurance contracts, premiums are generally earned on a pro-rata basis over the terms of the related policies. For traditional long-duration insurance contracts (including term and whole life contracts and certain annuities), premiums are earned when due. Estimates for premiums due but not yet collected are accrued. For annuities and structured settlements without significant mortality or morbidity risk (investment contracts) and universal life-type contracts (long-duration contracts with terms that are not fixed or guaranteed), premiums received are reported as policyholder contract deposits. Revenues from these contracts are reflected in policy charges and fee income consisting primarily of fees assessed against the policyholders' account balances for policy administration charges and surrender charges. Policy charges are recognized as revenues in the period in which they are assessed against policyholders, unless the charges are designed to compensate us for the services to be provided in the future, in which case they are deferred.

### **Foreign exchange gains**

Financial statement accounts expressed in foreign currencies are translated into U.S. dollars. Functional currency assets and liabilities are translated into U.S. dollars generally using rates of exchange prevailing at the balance sheet date and the related translation adjustments are recorded as a separate component of other comprehensive income (loss), net of any related taxes. Functional currencies are generally the currencies of the local operating environment. Other foreign currency assets and liabilities that are considered monetary items are translated at exchange rates in effect at the balance sheet date. Foreign currency revenues and expenses are translated either at transaction date exchange rates or using a weighted average exchange rate for the reporting period. These exchange gains and losses are recognized in foreign exchange gains within the consolidated statements of income (loss).

### **Statement of Cash Flows presentation of funds withheld - directly managed**

Withdrawals from our funds withheld - directly managed reinsurance arrangements are based on statutory levels of the associated assets and liabilities. The excess (shortfall) under these agreements is settled on a periodic basis and can be settled in either cash or securities depending on the specific reinsurance agreement. The portion settled in cash is reflected in cash from operations with the securities portion being reflected as a non-cash transaction. The Company presents activity within funds withheld - directly managed as well as activities related to the reinsurance arrangements as operating cash flows.

### **Accounting Standards Adopted During 2022**

#### *ASU 2016-02 Leases:*

In February 2016, the FASB issued ASU No. 2016-02 which is intended to increase transparency and comparability of accounting for lease transactions. ASU 2016-02 requires lessees to recognize leases on the balance sheet as right-of-use assets ("ROU") and lease liabilities and requires both quantitative and qualitative disclosures regarding key information about leasing arrangements. Lessor accounting is largely unchanged. On January 1, 2022, the Company adopted the guidance prospectively. Adoption of the ASU 2016-02 did not have a material impact on the Company's consolidated financial statements.

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*ASU 2019-12 Simplifying the Accounting for Income Taxes:*

In December 2019, the FASB issued ASU No. 2019-12 which eliminates certain exceptions for recognizing deferred taxes for investments, performing intraperiod tax allocation and calculating income taxes in interim periods. ASU 2019-12 also clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

**Future Adoption of Accounting Standards**

*ASU 2020-03 Codification Improvements to Financial Instruments:*

In March 2020, the FASB issued ASU 2020-03 which makes narrow-scope improvements to various topics within the codification relating to financial instruments, inclusive of the new credit losses standard as described below. The amendments related to certain specific issues covered by the ASU were effective immediately upon the issuance of the ASU, and had no impact on our consolidated financial statements and disclosures. Other specific issues covered by the ASU related to the measurement of credit losses on financial instruments will become effective upon our adoption of ASU 2016-13 and the related ASUs as further described below.

*ASUs 2016-13, 2018-19, 2019-04, 2019-05, 2019-10, 2019-11, 2020-02 Financial Instruments - Credit Losses - Measurement of Credit Losses on Financial Instruments:*

In June 2016, the FASB issued an accounting standard that introduced a new credit loss methodology, the Current Expected Credit Losses ("CECL") methodology, which requires earlier recognition of credit losses while also providing additional transparency about credit risk. The CECL methodology utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans, reinsurance receivables, and other financial assets measured at amortized cost. The allowance for credit losses is adjusted each period for changes in expected lifetime credit losses. The CECL methodology represents a significant change from prior U.S. GAAP and replaced the prior multiple existing impairment methods, which generally required that a loss be incurred before it was recognized. For AFS debt securities, if the fair value is less than cost and the Company intends to hold the security or it is more-likely-than-not that the Company will not be required to sell the security, the Company would record any applicable credit-related impairment through an allowance for credit losses and adjust subsequent periods for changes in credit risk. The Company is evaluating the effect that ASU 2016-13 will have on its consolidated financial statements and related disclosures. The impact of the ASU 2016-13 will depend upon the state of the economy, forecasted macroeconomic conditions and the Company's assets at the date of adoption.

*ASU 2018-12 Targeted Improvements to the Accounting for Long-Duration Contracts and ASU 2020-11 Effective Date and Early Application:*

In August 2018, the FASB issued ASU 2018-12, an accounting standard update with the objective of making targeted improvements to the existing recognition, measurement, presentation, and disclosure requirements for long-duration contracts issued by an insurance entity. In November 2019, the FASB issued ASU 2019-09, an amendment to ASU 2018-12 extending the effective date of ASU 2018-12 for all entities, except for public business entities that meet the definition of a Securities and Exchange Commission (SEC) filer, by two years. In November 2020, the FASB issued ASU 2020-11, *Effective Date and Early Application*, an amendment to ASU 2018-12, to defer the effective date of ASU 2018-12 by one year in response to implementation disruptions due to COVID-19.

The changes to the measurement, recognition, presentation and disclosure as provided by the new accounting standard update are summarized below:

- Requires the review and update of future policy benefit assumptions at least annually for traditional and limited pay long duration contracts, with the recognition and separate presentation of any resulting re-measurement gain or loss (except for discount rate changes as noted below) in the consolidated statements of income (loss);
- Requires the discount rate assumption to be updated at the end of each reporting period using an upper medium grade (low-credit risk) fixed income instrument yield that maximizes the use of observable market inputs and recognizes the impact of changes to discount rates in other comprehensive income (loss);

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- Requires the measurement of all market risk benefits associated with deposit (or account balance) contracts at fair value through the income statement with the exception of instrument-specific credit risk changes, which will be recognized in other comprehensive income (loss);
- Requires the amortization of deferred acquisition costs over the expected term of the related contracts on a constant-level basis; and
- Requires significant disclosures, including disclosures of disaggregated roll-forwards of policy benefits, account balances, market risk benefits, separate account liabilities and information about significant inputs, judgments and methods used in measurement and changes thereto and impact of those changes.

ASU 2018-12 permits two adoption methods for the liability for future policy benefits and deferred acquisition costs: (1) a modified retrospective transition method in which the guidance is applied to contracts in force as of the beginning of the earliest period presented on the basis of their existing carrying amounts, adjusted for the removal of any related amounts in AOCI; or, (2) a full retrospective transition method. The Company will adopt ASU 2018-12 effective January 1, 2025 using the modified retrospective transition method where permitted, and apply the guidance as of January 1, 2023 (and record transition adjustments as of January 1, 2023) in the Company's 2025 consolidated financial statements.

The Company has created a governance framework and a plan to support implementation of the updated standard. The Company continues to make progress in its implementation process that includes, but is not limited to, refining significant accounting policy decisions, employing appropriate internal controls, modifying actuarial models and systems, revising reporting processes and developing informative qualitative and quantitative disclosures.

The Company expects that while the adoption of this new accounting guidance will have a significant impact on the Company's consolidated financial statements under U.S. GAAP, it does not expect adoption of the updated standard to impact its overall cash flows, dividend capacity or its ability to meet applicable regulatory capital standards, nor does the Company anticipate adoption to affect its strategies for capital deployment.

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**4. Significant Reinsurance Transactions**

The Company acquires blocks of legacy reserves through legal entity acquisitions and reinsurance agreements. The following table summarizes the Company's significant run-off reinsurance transactions completed between January 1, 2021 and December 31, 2022. Values are shown in millions at the execution date of transaction.

Transaction	Execution Date	Total Liabilities Assumed	Total Assets Transferred	Deferred Gain (Charge)	Primary Nature of Transaction
<b>2022 Inception:</b>					
Reinsurance agreement with a U.S. based life insurance company	November 17, 2022	\$ 1,239	\$ 1,024	\$ (215)	Legacy block of fixed deferred annuities, with an effective date of October 1, 2022.
LPT reinsurance agreement with a Bermuda based reinsurance company	March 31, 2022	\$ 305	\$ 297	\$ (8)	Quota share participation on reinsurance treaties with terms from 2011 through 2020. Effective date of October 1, 2021.
Reinsurance agreement with an affiliated Japanese life insurance company	March 31, 2022	\$ 4,173	\$ 4,173	—	Legacy block of payout and deferred annuities on a coinsurance basis, with an effective date of March 31, 2022.
LPT reinsurance agreement with a Bermuda based reinsurance company	February 17, 2022	\$ 236	\$ 236	—	Small-business primary general liability policies for underwriting years 2013 through 2019, net of inuring reinsurance, with an effective date of February 25, 2021.
<b>Total</b>		<b>\$ 5,953</b>	<b>\$ 5,730</b>	<b>\$ (223)</b>	
<b>2021 Inception:</b>					
Reinsurance agreement with a U.S. based life insurance company	October 28, 2021	\$ 2,882	\$ 3,320	\$ 438	Legacy annuity closed block of business on a funds withheld basis, with an effective date of October 1, 2021.
<b>Total</b>		<b>\$ 2,882</b>	<b>\$ 3,320</b>	<b>\$ 438</b>	

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**5. Investments**

**Fixed Maturity Securities Available for Sale**

The following table presents the amortized cost or cost, gross unrealized gains, gross unrealized losses and fair value of our available for sale fixed maturity securities at December 31, (in millions):

	2022			
	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Fixed maturity securities, available for sale:</b>				
U.S. government and government sponsored entities	\$ 701	\$ —	\$ (314)	\$ 387
Obligations of states, municipalities and political subdivisions	89	—	(15)	74
Non-U.S. governments	45	1	(20)	26
Corporate debt	1,124	5	(221)	908
Mortgage-backed, asset-backed and collateralized:				
RMBS	44	—	(5)	39
CMBS	150	—	(10)	140
CDO / ABS	121	—	(8)	113
Total mortgage-backed, asset-backed and collateralized	315	—	(23)	292
<b>Total fixed maturity securities, available for sale</b>	<b>\$ 2,274</b>	<b>\$ 6</b>	<b>\$ (593)</b>	<b>\$ 1,687</b>

	2021			
	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Fixed maturity securities, available for sale:</b>				
U.S. government and government sponsored entities	\$ 691	\$ —	\$ (41)	\$ 650
Obligations of states, municipalities and political subdivisions	117	1	(1)	117
Non-U.S. governments	52	1	—	53
Corporate debt	990	41	(4)	1,027
Mortgage-backed, asset-backed and collateralized:				
RMBS	47	—	(1)	46
CMBS	265	1	(3)	263
CDO / ABS	77	—	—	77
Total mortgage-backed, asset-backed and collateralized	389	1	(4)	386
<b>Total fixed maturity securities, available for sale</b>	<b>\$ 2,239</b>	<b>\$ 44</b>	<b>\$ (50)</b>	<b>\$ 2,233</b>



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**Fixed Maturity Securities Available for Sale in a Loss Position**

The following table summarizes the fair value and gross unrealized losses on our available for sale securities, aggregated by major investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, (in millions):

	2022					
	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<b>Fixed maturity securities, available for sale:</b>						
U.S. government and government sponsored entities	\$ 1	\$ —	\$ 386	\$ (314)	\$ 387	\$ (314)
Obligations of states and municipalities and other political	44	(9)	31	(6)	75	(15)
Non-U.S. governments	26	(20)	—	—	26	(20)
Corporate debt	702	(150)	200	(71)	902	(221)
Mortgage-backed, asset-backed and collateralized:						
RMBS	30	(3)	9	(2)	39	(5)
CMBS	53	(4)	87	(6)	140	(10)
CDO / ABS	87	(7)	20	(1)	107	(8)
Total mortgage-backed, asset-backed and collateralized	<u>170</u>	<u>(14)</u>	<u>116</u>	<u>(9)</u>	<u>286</u>	<u>(23)</u>
<b>Total fixed maturity securities, available for sale</b>	<b><u>\$ 943</u></b>	<b><u>\$ (193)</u></b>	<b><u>\$ 733</u></b>	<b><u>\$ (400)</u></b>	<b><u>\$ 1,676</u></b>	<b><u>\$ (593)</u></b>

	2021					
	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<b>Fixed maturity securities, available for sale:</b>						
U.S. government and government sponsored entities	\$ 490	\$ (25)	\$ 158	\$ (16)	\$ 648	\$ (41)
Obligations of states and municipalities and other political	68	(1)	—	—	68	(1)
Non-U.S. governments	2	—	—	—	2	—
Corporate debt	417	(4)	8	—	425	(4)
Mortgage-backed, asset-backed and collateralized:						
RMBS	43	(1)	—	—	43	(1)
CMBS	187	(3)	—	—	187	(3)
CDO / ABS	40	—	—	—	40	—
Total mortgage-backed, asset-backed and collateralized	<u>270</u>	<u>(4)</u>	<u>—</u>	<u>—</u>	<u>270</u>	<u>(4)</u>
<b>Total fixed maturity securities, available for sale</b>	<b><u>\$ 1,247</u></b>	<b><u>\$ (34)</u></b>	<b><u>\$ 166</u></b>	<b><u>\$ (16)</u></b>	<b><u>\$ 1,413</u></b>	<b><u>\$ (50)</u></b>

At December 31, 2022, we held 702 individual fixed maturity securities that were in an unrealized loss position, 182 of which were in a continuous unrealized loss position for 12 months or more. At December 31, 2021 we held 264 individual fixed maturity securities that were in an unrealized loss position, 6 of which were in a continuous unrealized loss position for 12 months or more.

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We did not recognize the unrealized losses in earnings on these fixed maturity securities within the consolidated statements of income (loss) at December 31, 2022 or at December 31, 2021 because we neither intended to sell the securities nor did we believe that it was more likely than not that we will be required to sell these securities before recovery of their amortized cost basis.

The Company did not recognize any OTTI losses on fixed maturity securities for the years ended December 31, 2022 or 2021.

**Contractual Maturities of Fixed Maturity Securities Available for Sale**

The following table presents the amortized cost and fair value of fixed maturity securities available for sale by contractual maturity at December 31, (in millions):

	2022		2021	
	Total Fixed Maturity Securities, Available for Sale			
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 20	\$ 19	\$ 27	\$ 27
Due after one year through five years	214	204	135	135
Due after five years through ten years	184	153	86	85
Due after ten years	1,541	1,019	1,602	1,600
Mortgage-backed, asset-backed and collateralized	315	292	389	386
<b>Total</b>	<b>\$ 2,274</b>	<b>\$ 1,687</b>	<b>\$ 2,239</b>	<b>\$ 2,233</b>

Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Asset-backed, commercial mortgage-backed, residential mortgage-backed, and collateralized securities are shown separately in the table above, as they do not have a single maturity date.

**Proceeds and gross gains and losses from voluntary sales**

The following table presents the proceeds from voluntary sales and the gross gains and losses on those sales of AFS fixed maturity securities for the years ended December 31, (in millions):

	2022	2021
Proceeds from voluntary sales	\$ 588	\$ 1,396
Gross gains	2	54
Gross losses	(74)	(68)

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**Other Invested Assets**

The following table presents a breakdown of other invested assets by asset class at December 31, (in millions):

	2022	2021
<b>LPs/LLCs:</b>		
Equity Method:		
Private equity	\$ 344	\$ 679
Fair Value:		
Private equity	793	—
<b>Total LPs/LLCs<sup>(1)</sup></b>	<b>1,137</b>	<b>679</b>
Derivatives	91	—
<b>Total other invested assets</b>	<b>\$ 1,228</b>	<b>\$ 679</b>

<sup>(1)</sup> Includes related party balances of \$1,125 million and \$666 million as of December 31, 2022 and 2021, respectively.

Our private equity funds are subject to restrictions on redemptions and sales that are determined by the governing documents, which limits our ability to liquidate those investments. These restrictions may include lock-ups, redemption gates, restricted share classes or side pockets, restrictions on the frequency of redemption and notice periods.

**Net Investment Income**

The following table presents the components of net investment income for the years ended December 31, (in millions):

	2022	2021
Fixed maturity securities	\$ 128	\$ 76
Other invested assets	50	89
Short term investments and other investments	15	3
Funds withheld - directly managed	1,677	1,923
<b>Gross investment income</b>	<b>1,870</b>	<b>2,091</b>
Investment expenses	(49)	(42)
<b>Net investment income</b>	<b>\$ 1,821</b>	<b>\$ 2,049</b>

**Investment Gains (Losses)**

The following table presents the components of investment gains (losses) for the years ended December 31, (in millions):

	2022	2021
Realized losses on fixed maturity securities	(88)	(15)
Unrealized losses on fixed maturity securities under the FVO	(118)	—
Realized gains (losses) on funds withheld - directly managed	(995)	79
<b>Investment gains (losses)</b>	<b>\$ (1,201)</b>	<b>\$ 64</b>

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The amount of unrealized appreciation (depreciation) of fixed maturity securities, available for sale reclassified from accumulated other comprehensive income (loss) to investment gains (losses) upon the sale of securities was \$(4) million for the year ended December 31, 2022 and \$75 million for the year ended December 31, 2021.

Included in investment gains (losses) from funds withheld - directly managed for the years ended December 31, 2022 and 2021 are \$42 million of gains and \$24 million of gains, respectively, related to the transfer of securities from funds withheld - directly managed to fixed maturity securities, available for sale.

### **Securities Pledged and Restricted Assets**

The Company pledges as collateral investment securities it owns to unaffiliated parties through certain transactions, including postings of collateral with derivative counterparties.

We utilize asset trust accounts to collateralize business with our reinsurance counterparties. As of December 31, 2022 and 2021 we held \$4,211 million and \$266 million, respectively, of assets in these trusts for the benefit of our counterparties.

As of December 31, 2022 and 2021, 90% and 94%, respectively, of the fixed maturity securities within the funds withheld - directly managed, serving as collateral for our reinsurance receivable, are classified as investment grade by the National Association of Insurance Commissioners ("NAIC").

### **Concentration of Credit Risk**

Other than the funds withheld - directly managed balance attributable to the AIG affiliates, there are no significant concentrations of credit risk within the Company's invested assets. In the event of a ceding company's insolvency, we would need to assert a claim on the investments collateralizing our reinsurance receivable and used to settle our liabilities. However, we have the ability to offset amounts we owe to the ceding company, which reduces our risk of loss. In accordance with the terms of our reinsurance agreements, we are obligated to fund any shortfall between U.S. statutory book value of the investments collateralizing the reinsurance receivable and U.S. statutory insurance reserves. Likewise, if there is an excess between the U.S. statutory book value of investments collateralizing the reinsurance receivable and U.S. statutory insurance reserves, the ceding companies are required to distribute the excess to the Company.

## **6. Derivatives and Hedging**

The Company utilizes currency derivatives, including currency swaps and forwards, to reduce risks from changes in currency exchange rates with respect to investments denominated in foreign currencies that the Company either holds or intends to acquire or sell.

Under currency forwards, the Company agrees with counterparties to deliver a specified amount of an identified currency at a specified future date. Typically, the price is agreed upon at the time of the contract and payment for such a contract is made at the specified future date. The Company executes forward sales of the hedged currency in exchange for U.S. dollars at a specified exchange rate. The maturities of these forwards correspond with the future periods in which the non-U.S. dollar-denominated earnings are expected to be generated.

Under currency swaps, the Company agrees with counterparties to exchange, at specified intervals, the difference between one currency and another at an exchange rate and calculated by reference to an agreed principal amount. Generally, the principal amount of each currency is exchanged at the beginning and termination of the currency swap by each party.

See Note 3 for a detailed discussion of the accounting treatment for derivative instruments. See Note 7 for additional disclosures related to the fair value of our derivative instruments.

The table below provides a summary of the gross notional amount and fair value of derivative contracts by the primary underlying risks, excluding derivatives within our funds withheld - directly managed. The fair value amounts

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below represent the value of derivative contracts prior to taking into account the netting effects of master netting agreements and cash collateral at December 31, (in millions):

Instrument Type	2022			2021		
	Notional	Gross Fair Value		Notional	Gross Fair Value	
		Assets	Liabilities		Assets	Liabilities
Foreign currency forwards	\$ 1,616	\$ 97	\$ 13	\$ —	\$ —	\$ —
Foreign currency swaps	410	6	2	—	—	—
<b>Total USD denominated derivatives</b>	<b>2,026</b>	<b>103</b>	<b>15</b>	<b>—</b>	<b>—</b>	<b>—</b>
Foreign currency swaps	—	—	—	5	—	—
<b>Total GBP denominated derivatives</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>5</b>	<b>—</b>	<b>—</b>
<b>Total Derivatives <sup>(1)</sup></b>	<b>\$ 2,026</b>	<b>\$ 103</b>	<b>\$ 15</b>	<b>\$ 5</b>	<b>\$ —</b>	<b>\$ —</b>

<sup>(1)</sup> Recorded in other invested assets on the consolidated balance sheets.

The following table presents the gains and losses reported within foreign exchange gains on the consolidated statement of income (loss) by instrument type for the years ended December 31, (in millions):

Instrument Type	2022	2021
Foreign currency forwards	\$ 27	\$ —
Foreign currency swaps	(1)	—
<b>Total USD denominated derivatives</b>	<b>26</b>	<b>—</b>
Foreign currency swaps	—	—
<b>Total GBP denominated derivatives</b>	<b>—</b>	<b>—</b>
<b>Total Derivatives</b>	<b>\$ 26</b>	<b>\$ —</b>

### Offsetting Assets and Liabilities

The following table presents recognized assets and liabilities (excluding derivative instruments within our funds withheld - directly managed), that are offset in the consolidated balance sheets, and/or are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in the consolidated balance sheets at December 31, (in millions):

	2022				
	Gross Amounts of Recognized Financial Instruments	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts Presented in the Consolidated Balance Sheets	Financial Instruments/ Collateral <sup>(1)</sup>	Net Amount
<b>Offsetting of Financial Assets:</b>					
Derivatives	\$ 95	\$ (4)	\$ 91	\$ (91)	\$ —
<b>Offsetting of Financial Liabilities:</b>					
Derivatives	\$ 7	\$ (7)	\$ —	\$ —	\$ —

<sup>(1)</sup> Amounts exclude the excess of collateral received/pledged from/to the counterparty.

The Company did not have any asset or liabilities, that are offset in the consolidated balance sheets at December 31, 2021.

## **7. Fair Value Measurements**

### **Fair Value Measurements on a Recurring Basis**

Fair value is defined as the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We are responsible for the determination of the value of the investments carried at fair value and the supporting methodologies and assumptions.

The degree of judgment used in measuring the fair value of financial instruments generally inversely correlates with the level of observable valuation inputs. We maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgment is used in measuring fair value. Conversely, financial instruments for which no quoted prices are available have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction, liquidity and general market conditions.

### **Fair Value Hierarchy**

Assets and liabilities recorded at fair value in the consolidated balance sheets are measured and classified in accordance with a fair value hierarchy consisting of three levels based on the observability of valuation inputs as follows:

- Level 1: Fair value measurements based on unadjusted quoted prices in active markets that we have the ability to access for identical assets or liabilities. Market price data generally is obtained from exchange or dealer markets.
- Level 2: Fair value measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active or valuation models whose inputs are observable, directly or indirectly, for substantially the full term of the asset or liability.
- Level 3: Fair value measurements based on valuation techniques that use significant inputs that are both observable and unobservable. The circumstances for using these measurements include those in which there is little, if any, market activity for the asset or liability. Therefore, we must make certain assumptions about the inputs a hypothetical market participant would use to value that asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The following is a description of the valuation methodologies used for assets and liabilities carried at fair value. These methodologies are applied to assets and liabilities across the levels discussed above, and it is the observability of the inputs used that determines the appropriate level in the fair value hierarchy for the respective asset or liability.

### **Valuation of Financial Instruments Measured at Fair Value**

#### ***Funds withheld - directly managed***

The Company has elected the FVO on the funds withheld - directly managed portfolios. The fair value of the underlying assets collateralizing the funds withheld - directly managed is generally based on market observable inputs using industry standard valuation techniques but also requires certain significant unobservable inputs for specific asset classes. The level in the fair value hierarchy assigned to the funds withheld - directly managed is based upon the observability of inputs used to value the underlying investment assets held at fair value within the funds withheld portfolio.

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Fixed maturity securities

Whenever available, we obtain quoted prices in active markets for identical assets at the balance sheet date to measure fixed maturity securities at fair value. Market price data is generally obtained from dealer markets. We employ multiple independent third-party valuation service providers that gather, analyze, and interpret market information to derive fair value estimates for individual investments, based upon market-accepted methodologies and assumptions. The methodologies used by these independent third-party valuation service providers are reviewed and understood by management, through periodic discussion with and information provided by the independent third-party valuation service providers, and a vendor hierarchy is maintained by asset type based on historical pricing experience and vendor expertise. The Company ultimately uses the price from the pricing service highest in the vendor hierarchy based on the respective asset type. The pricing hierarchy is updated for new financial products and recent pricing experience with various vendors. In addition, control processes are applied to the fair values received from independent third-party valuation service providers to determine the accuracy of these values.

These control processes are designed to assess whether the fair values received from independent third-party valuation service providers are accurately recorded, that their data inputs and valuation techniques are appropriate and consistently applied and that the assumptions used appear reasonable and consistent with the objective of determining fair value. We assess the reasonableness of individual security values received from independent third-party valuation service providers through various analytical techniques, review of various pricing integrity reports and pricing trends, back testing, and have procedures to escalate related questions internally and to the independent third-party valuation service providers for resolution. To assess the degree of pricing consensus among various valuation service providers for specific asset types, we conduct comparisons of prices received from available sources. We use these comparisons to establish a hierarchy for the fair values received from independent third-party valuation service providers to be used for particular security classes. We also validate prices for selected securities through reviews by members of management who have relevant expertise and who are independent of those charged with executing investing transactions.

When observable price quotations are not available, internally-developed valuations or indicative broker quotes are also used to determine fair value in circumstances, or where the Company ultimately concludes that pricing information received from the independent pricing services is not reflective of market activity. If the Company concludes the values from both pricing services and brokers are not reflective of market activity, it may override the information with an internally developed valuation. Fair value is determined based on discounted cash flow models using discount rates based on credit spreads, yields or price levels of comparable securities, adjusted for illiquidity and structure. Fair values determined internally are also subject to management review to determine whether the valuation models and related inputs are reasonable. Pricing service overrides, internally-developed valuations and indicative broker quotes are generally included in Level 3 in the fair value hierarchy.

Mortgage loans

Fair value for mortgage loans is based upon the present value of the expected future cash flows discounted at the appropriate U.S. Treasury rate or foreign government bond rate (for non-U.S. dollar-denominated loans) plus an appropriate credit spread for loans of similar quality, average life and currency. The quality ratings for these loans, a primary determinant of the credit spreads and a significant component of the pricing process, are based on an internally-developed methodology.

Derivative instruments (Other invested assets)

The fair values of derivative contracts can be affected by changes in foreign exchange rates, market volatility, expected returns, NPR, liquidity and other factors.

The Company's derivative positions are traded in the OTC derivative market and are classified within Level 2 in the fair value hierarchy. OTC derivatives classified within Level 2 are valued using models that utilize actively quoted or observable market input from external market data providers, third-party pricing vendors and/or recent trading activity. The Company's policy is to use mid-market pricing in determining its best estimate of fair value. The fair

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values of most OTC derivatives, including cross-currency swaps and currency forward contracts are determined using discounted cash flow models.

Other invested assets - LPs/LLCs

Other invested assets include our investments in private equity funds which we utilize NAV as an estimate of the fair value, which is a permitted practical expedient. Due to the time lag in the NAV reported by certain fund managers, we adjust the valuation for capital calls and distributions that occur between the date of the NAV and our consolidated financial statements.

Short-term investments

For short-term investments, amortized cost is used as the best estimate of fair value, and they are classified as Level 2.

Cash and Cash equivalents

Cash and cash equivalents include money market instruments and other highly liquid debt instruments. Cash and cash equivalents, including certain money market instruments, are primarily valued using unadjusted quoted prices in active markets that are accessible for identical assets and are primarily classified as Level 1.



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**Assets Measured at Fair Value**

The following table presents information about assets measured at fair value on a recurring basis and indicates the level of the fair value measurement based on the observability of the inputs used at December 31, (in millions):

	2022					
	Level 1	Level 2	Level 3	Fair Value Based on NAV as Practical Expedient	Netting <sup>(1)</sup>	Total
<b>Assets:</b>						
Fixed maturity securities, available for sale:						
U.S. government and government sponsored entities	\$ —	\$ 387	\$ —	\$ —	\$ —	\$ 387
Obligations of states, municipalities and political subdivisions	—	74	—	—	—	74
Non-U.S. governments	—	26	—	—	—	26
Corporate debt	—	908	—	—	—	908
RMBS	—	39	—	—	—	39
CMBS	—	140	—	—	—	140
CDO / ABS	—	113	—	—	—	113
<b>Total fixed maturity securities, available for sale</b>	<b>—</b>	<b>1,687</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1,687</b>
Fixed maturity securities, securities at fair value:						
U.S. government and government sponsored entities	—	—	—	—	—	—
Obligations of states, municipalities and political subdivisions	—	192	—	—	—	192
Non-U.S. governments	—	1,223	—	—	—	1,223
Corporate debt	—	724	30	—	—	754
RMBS	—	192	—	—	—	192
CMBS	—	320	—	—	—	320
CDO / ABS	—	665	135	—	—	800
<b>Total fixed maturity securities, securities at fair value</b>	<b>—</b>	<b>3,316</b>	<b>165</b>	<b>—</b>	<b>—</b>	<b>3,481</b>
Funds withheld - directly managed	607	21,583	8,572	2,241	—	33,003
Mortgage loans	—	—	138	—	—	138
Cash and cash equivalents	295	—	—	—	—	295
Other invested assets	—	95	—	1,137	(4)	1,228
Short term investments	—	23	—	—	—	23
<b>Total assets</b>	<b>\$ 902</b>	<b>\$ 26,704</b>	<b>\$ 8,875</b>	<b>\$ 3,378</b>	<b>\$ (4)</b>	<b>\$ 39,855</b>

<sup>(1)</sup>“Netting” amounts represent offsetting considerations as disclosed in Note 6.

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2021						
	Level 1	Level 2	Level 3	Fair Value Based on NAV as Practical Expedient	Netting <sup>(1)</sup>	Total
<b>Assets:</b>						
Fixed maturity securities, available for sale:						
U.S. government and government sponsored entities	\$ —	\$ 650	\$ —	\$ —	\$ —	\$ 650
Obligations of states, municipalities and political subdivisions	—	117	—	—	—	117
Non-U.S. governments	—	53	—	—	—	53
Corporate debt	—	1,027	—	—	—	1,027
RMBS	—	46	—	—	—	46
CMBS	—	263	—	—	—	263
CDO / ABS	—	77	—	—	—	77
Total fixed maturity securities available for sale	—	2,233	—	—	—	2,233
Short term investments	1	—	12	—	—	13
Cash and cash equivalents	225	—	—	—	—	225
Other invested assets	—	—	—	679	—	679
Funds withheld - directly managed	343	34,154	7,451	2,000	—	43,948
<b>Total assets</b>	<b>\$ 569</b>	<b>\$ 36,387</b>	<b>\$ 7,463</b>	<b>\$ 2,679</b>	<b>\$ —</b>	<b>\$ 47,098</b>

<sup>(1)</sup>“Netting” amounts represent offsetting considerations as disclosed in Note 6.

**Quantitative Information About Level 3 Fair Value Measurements**

The table below presents information about the significant unobservable inputs used for recurring fair value measurements for certain Level 3 assets, which includes only those financial instruments for which information about the inputs is reasonably available to us, such as data from independent third-party valuation service providers and from internal valuation models. Weighted averages are calculated by weighting each input by the relative fair value of the respective assets. Table shows values at December 31, (in millions):

2022					
	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)	Impact of increase in the input on fair value
<b>Assets:</b>					
Fixed maturities:					
Corporate debt	30	Discounted Cash Flow	Discount rate	7.46%-8.46% (7.96%)	Decrease
CDO / ABS	135	Discounted Cash Flow	Discount rate	2.20%-13.77% (5.40%)	Decrease
Mortgage loans:					
Residential	138	Trade price	Trade price	N/A	Increase
2021					
	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)	Impact of increase in the input on fair value
<b>Assets:</b>					
Short term investments	\$ 12	Discounted Cash Flow	Yield	2.04%	Increase

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**Transfers into or out of Level 3**

The following is a reconciliation for all the Level 3 assets measured at fair value on a recurring basis at December 31, (in millions):

	2022				
	Assets				
	Fixed maturity securities, securities at fair value	Funds withheld - directly managed	Mortgage loans	Other invested assets	Total assets
<b>Beginning balance</b>	\$ —	\$ 7,451	\$ —	\$ 12	\$ 7,463
Purchases	170	—	138	—	308
Sales, maturities, redemptions	(13)	—	—	(12)	(25)
Investment gains / (losses) included in net income (loss) <sup>(1)</sup>	(3)	—	—	—	(3)
Change in fair value of funds withheld included in net income (loss)	—	1,121	—	—	1,121
Transfers into Level 3	11	—	—	—	11
<b>Ending balance</b>	<b>\$ 165</b>	<b>\$ 8,572</b>	<b>\$ 138</b>	<b>\$ —</b>	<b>\$ 8,875</b>

<sup>(1)</sup> Fixed maturity securities, securities at fair value includes changes in unrealized gains (losses) of (\$3) million reported in investment gains (losses) on the consolidated statements of income (loss) for instruments still held at December 31, 2022.

	2021			
	Assets			
	Fixed maturity securities, available for sale	Funds withheld - directly managed	Other invested assets	Total assets
<b>Beginning balance</b>	\$ 25	\$ 7,228	\$ 5	\$ 7,258
Purchases	—	—	37	37
Sales, maturities, redemptions	(7)	—	(30)	(37)
Change in fair value of funds withheld included in net income (loss)	—	223	—	223
Transfers out of Level 3	—	(18)	—	(18)
<b>Ending balance</b>	<b>\$ —</b>	<b>\$ 7,451</b>	<b>\$ 12</b>	<b>\$ 7,463</b>

The Company's policy is to recognize transfers into and out of levels within the fair value hierarchy at the beginning of the year in which the actual event or change in circumstances that caused the transfer occur.

**Fair Value Information About Financial Instruments Not Measured at Fair Value**

The following table presents the carrying amounts and estimated fair values of our financial instruments not measured at fair value and indicates the level in the fair value hierarchy of the estimated fair value measurement based on the observability of the inputs used at December 31, (in millions):

	2022				Carrying Value
	Estimated Fair Value				
	Level 1	Level 2	Level 3	Total	
<b>Liabilities:</b>					
Policyholder contract deposits associated with investment-type contracts	\$ —	\$ —	\$ 10,064	\$ 10,064	\$ 11,518
Collateral deposit liability	—	—	184	184	181

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	2021				Carrying Value
	Estimated Fair Value				
	Level 1	Level 2	Level 3	Total	
<b>Liabilities:</b>					
Policyholder contract deposits associated with investment-type contracts	\$ —	\$ —	\$ 8,179	\$ 8,179	7,055
Collateral deposit liability	—	—	213	213	188

Information regarding the estimation of fair value for financial instruments not carried at fair value is discussed below:

Policyholder contract deposits associated with investment-type contracts

Policyholder contract deposits associated with investment-type contracts are estimated using discounted cash flow calculations based on interest rates currently being offered in the industry for similar contracts with maturities consistent with those of the contracts being valued. When no similar contracts are being offered, the discount rate is the US Treasury spot rate or current risk-free interest rate. Other factors considered in the estimation process include current policyholder account values and related surrender charges, expectations about policyholder behavior and risk margin adjustments.

Collateral deposit liability

The fair value is estimated using a discounted cash flow calculation based on interest rates currently being offered in the industry for similar contracts with maturities consistent with those of the contracts being valued and the addition of a risk margin.

## 8. Reinsurance

The following table shows the effects of assumed reinsurance on the consolidated statements of income (loss) for the years ended December 31, (in millions):

	2022	2021
Premiums	\$ 225	\$ 280
Policy charges and fee income	84	76
Policyholder benefits and losses incurred	898	1,060
Interest credited to policyholder account balances <sup>(1)</sup>	318	194

<sup>(1)</sup> Includes related party balances of \$29 million for the year ended December 31, 2022.

The following table shows the effects of assumed reinsurance on the consolidated balance sheets as of December 31, (in millions):

	2022	2021
Future policy benefits for life insurance and annuity contracts	\$ 26,940	\$ 27,771
Policyholder contract deposits <sup>(1)</sup>	11,518	7,055
Liability for unpaid losses and loss adjustment expenses	3,613	3,310
Reinsurance payables <sup>(1)</sup>	752	609

<sup>(1)</sup> Includes related party balances of \$3.5 billion and \$144 million within policyholder contract deposits and reinsurance payables, respectively, as of December 31, 2022.

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**9. Insurance Liabilities**

**Long Duration Lines of Business**

Liabilities for long-duration contracts are classified as future policy benefits or policyholder contract deposits. Future policy benefits include retirement products whose payments depend on contract holder's survival such as structured settlements with life contingencies, immediate annuities with life contingencies, pension risk transfer annuities and traditional life insurance products such as WL and RoP term, A&H and LTC. Policyholder contract deposits apply to investment contracts such as structured settlements and SPIA with non-life contingent benefits, deferred annuity contracts in the accumulation phase and the fund values of universal life-type insurance contracts.

*Future Policy Benefits*

Future policy benefits include liability cash flows that are long-duration and relatively stable. Reserves for traditional life, accident and health and life-contingent annuity payout contracts represent an estimate of the present value of future benefits less the present value of future net premiums. Future policy benefits also include liabilities for annuities issued in structured settlement arrangements whereby a claimant has agreed to settle a general insurance claim in exchange for fixed payments over a fixed determinable period of time with a life contingency feature.

Life, annuity and accident and health reserves are established using assumptions for investment yields, mortality, morbidity, lapses and expenses, including a provision for adverse deviation where applicable. We review the adequacy of the life reserves regularly using best estimate assumptions for mortality, morbidity, lapse, expenses and investment yield. If financial performance significantly deteriorates to the point where a premium deficiency exists, then we would record additional liabilities.

The following table presents future policy benefits by product line at December 31, (in millions):

	<b>2022</b>	<b>2021</b>
Structured settlements	\$ 16,163	\$ 16,472
Traditional whole life	3,286	3,356
Pension risk transfer annuities	3,210	3,498
Term life insurance	2,079	2,023
Single premium immediate annuities	1,422	1,593
Long term care	428	450
Accident and health	352	379
<b>Total</b>	<b>\$ 26,940</b>	<b>\$ 27,771</b>

*Policyholder Contract Deposits*

Policyholder contract deposits investment contracts include SPIA and structured settlement contracts with period certain payment streams (i.e. not depending on longevity), deferred annuity contracts in the accumulation phase and the fund values of universal life-type insurance contracts.

- Deferred annuities cash flows are designed to collect premiums and accrue credited interest over an extended period for payout at a later date;
- Non-life contingent SPIA cash flows also consist of certain level payments over a specified duration with a range from five to thirty years or more;
- Non-life contingent structured settlement cash flows consist of certain payments with set payment patterns such as level payment, compound increase, fixed amount increase or one-time lump sum payments. The non-life contingent cash flows are thus highly predictable;
- Universal life-type products are interest sensitive and provide permanent coverage for life insurance with the potential to accumulate cash value.

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The following table presents policyholder contract deposits by product line at December 31, (in millions):

	<u>2022</u>	<u>2021</u>
Deferred annuities	\$ 4,337	\$ 3,148
Single premium immediate annuities – non-life contingent	3,590	107
Structured settlements – non-life contingent	2,115	2,267
Interest sensitive universal life	1,476	1,533
<b>Total</b>	<b>\$ 11,518</b>	<b>\$ 7,055</b>

Interest crediting rates for the Company's policyholder contract deposits range from 1.0% to 5.0%.

**Short Duration Lines of Business**

Our loss reserves cover excess workers' compensation, environmental impairment liabilities, legacy environmental and all other lines which consists of other casualty run-off exposures, including primary workers' compensation, general liability, professional liability medical malpractice, product liability, and accident and health exposures. In establishing retroactive reinsurance claim liabilities, we analyze historical aggregate paid and reported loss patterns and project losses into the future under various actuarial methodologies. We expect to pay claims for several decades for many lines of business. We monitor paid and reported claim activity and review ceding company reports and other information concerning the underlying losses. We reassess and revise the expected timing and amounts of ultimate losses periodically or when significant events are revealed through our monitoring and actuarial review processes.

The following table details our liabilities for unpaid loss and loss adjustment expenses at December 31, (in millions):

	<u>2022</u>			
	<u>Case Reserves</u>	<u>IBNR</u>	<u>LAE</u>	<u>Total</u>
Excess workers' compensation	\$ 658	\$ 1,003	\$ 96	\$ 1,757
Environmental impairment liabilities	349	254	81	684
Legacy environmental	202	130	159	491
All other lines	388	537	222	1,147
Liabilities for unpaid loss and allocated LAE, net of reinsurance	1,597	1,924	558	4,079
Discount for workers' compensation	(198)	(268)	—	(466)
<b>Total liability for unpaid loss and loss adjustment expenses</b>	<b>\$ 1,399</b>	<b>\$ 1,656</b>	<b>\$ 558</b>	<b>\$ 3,613</b>

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	2021			
	Case Reserves	IBNR	LAE	Total
Excess workers' compensation	\$ 723	\$ 1,028	\$ 118	\$ 1,869
Environmental impairment liabilities	416	296	90	802
Legacy environmental	237	116	166	519
All other lines	272	286	87	645
<b>Liabilities for unpaid loss and allocated LAE, net of reinsurance</b>	<b>1,648</b>	<b>1,726</b>	<b>461</b>	<b>3,835</b>
Discount for workers' compensation	(217)	(308)	—	(525)
<b>Total liability for unpaid loss and loss adjustment expenses</b>	<b>\$ 1,431</b>	<b>\$ 1,418</b>	<b>\$ 461</b>	<b>\$ 3,310</b>

The following table provides a roll forward of loss and loss adjustment expense reserves, excluding premium deficiency reserves, including detail on paid incurred losses from prior accident years and the current accident year for the years ended December 31, (in millions):

Liability for unpaid losses and loss adjustment expenses	2022	2021
<b>Balance at beginning of period</b>	<b>\$ 3,310</b>	<b>\$ 3,593</b>
<b>Assumed business<sup>(1)</sup></b>	<b>541</b>	<b>—</b>
<b>Net losses incurred:</b>		
Current period	3	5
Prior period <sup>(2)</sup>	72	(111)
<b>Total net losses incurred</b>	<b>75</b>	<b>(106)</b>
Effect of change in discount	59	106
<b>Net paid losses:</b>		
Current period	—	—
Prior period	(372)	(283)
<b>Total net paid losses</b>	<b>(372)</b>	<b>(283)</b>
<b>Balance at end of period</b>	<b>\$ 3,613</b>	<b>\$ 3,310</b>

<sup>(1)</sup> Assumed business in 2022 includes \$2 million unallocated loss adjustment expenses (ULAE).

<sup>(2)</sup> The (favorable) and unfavorable developments for the applicable periods were added to the basis of the respective deferred gain and deferred charge within the consolidated balance sheets consistent with our accounting policy described in Note 3.

The following table details our prior accident year loss development for the years ended December 31, (in millions):

(Favorable) / Unfavorable prior year development	2022	2021
Excess workers' compensation	\$ (56)	\$ (70)
Environmental impairment liabilities	—	(81)
Legacy environmental	12	25
All other lines	116	15
<b>Total prior year development</b>	<b>\$ 72</b>	<b>\$ (111)</b>

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The significant drivers of the prior year loss development are discussed below. Prior year loss development is recorded after taking into consideration the results from actuarial analyses that are performed for each reserving line of business as well as on-going review of actual vs. expected results performed during the course of each calendar year. See Note 10 for additional information on the amortization of deferred gain.

Prior Year Loss Development - year ended December 31, 2022

During 2022, the Company recognized unfavorable prior year loss reserve development of \$72 million. This unfavorable development was comprised of \$56 million favorable development relating to excess workers' compensation, \$12 million unfavorable development within legacy environmental, \$2 million favorable development in all other lines assumed prior to 2022 and \$118 million unfavorable development from new deals assumed in 2022. In general, the prior year development was booked after taking into consideration the results from the actuarial analyses we performed for each line of business over the course of calendar year 2022, as well as a review of actual versus expected results during the calendar year.

With respect to individual lines of business detailed in the table above:

- Excess Workers' Compensation: The Company booked \$56 million in favorable prior year development. This favorable development was spread throughout a number of historical accident years, which we believe was a result of our continuing loss mitigation efforts for this line of business.
- Legacy Environmental: The Company booked \$12 million in unfavorable prior year development. This unfavorable development was a result of an increase in the Excess segment due to higher average severity assumptions offset by a lower frequency assumption for the Primary segment combined with a favorable settlement for the small party accounts associated with the Lower Passaic River site.
- All Other Lines: The Company booked \$2 million of favorable prior year development attributable to the Runoff Divisions loss portfolio. \$118 million of adverse development was recognized on business assumed in 2022 due to adverse development since the deals were originally priced.

Prior Year Loss Development - year ended December 31, 2021

With respect to individual lines of business detailed in the table above:

- Excess Workers' Compensation: The \$70 million favorable development was spread throughout a number of historical accident years, which we believe was a result of our continuing loss mitigation efforts for this line of business and is consistent with sector-wide trends for such coverage.
- Environmental Impairment Liability: The \$81 million favorable prior year development included \$77 million favorable development for the Pollution Legal Liability products, \$10 million favorable development from the PROPAC product (a combined professional liability and package policy for environmental contractors), \$8 million unfavorable development from the Cleanup Cost Cap product and \$2 million of favorable development from all other exposures. Such favorable development resulted from less than expected claim development and refined assumptions.
- Legacy Environmental: The \$25 million unfavorable prior year development was the result of an increase in our Primary policy segment and a decrease in expected inuring reinsurance from recoveries from the cedant's external reinsurers.
- All Other Lines: The \$15 million unfavorable prior year development was allocated amongst different products and included \$15 million unfavorable development for Physicians & Surgeons professional liability, \$5 million unfavorable development for Lexington Commercial Automobile liability, and \$5 million favorable development for extra contractual obligations.

Disclosures of Incurred and Paid Loss Development, IBNR, Claims Counts and Payout Percentages

With respect to the cumulative incurred and cumulative paid information presented below, all information for retroactive reinsurance agreements is presented prospectively from the date at which the reserves were assumed. As the reserves are effectively re-underwritten at the date the reserves are assumed, we believe that the historical



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loss development prior to being assumed by us is not relevant to our own experience managing these reserves. In addition, the information required to prepare the loss development on a retrospective basis is not always available to us. We analyze the loss development tables on a prospective basis by the year in which we assume the reserves such that the impact of the assumed reserves from year to year does not distort the loss development tables.

The environmental impairment line of business is significant and therefore a further development table has been provided for this line of business. As described below, the excess workers' compensation and legacy environmental lines of business do not have any incurred or paid losses within the past 10 accident years and so no further loss development tables have been provided for these lines of business.

*Reserves assumed in the year ended December 31, 2018 - All lines of business assumed prior to 2022*

(in millions)	Incurred Loss and allocated LAE						As of December 31, 2022		
	Net reserves assumed (unaudited)	2018 (unaudited)	2019 (unaudited)	2020 (unaudited)	2021 (unaudited)	2022	Total of IBNR Liabilities Plus Expected Development on Reported Losses	Cumulative Number of Reported Claims	
Prior	\$ 4,386	\$ 4,511	\$ 4,496	\$ 4,482	\$ 4,392	\$ 4,341	\$ 1,851	14,379	
2013	159	149	169	171	155	148	35	228	
2014	206	156	147	141	135	134	33	318	
2015	368	268	257	244	242	244	49	454	
2016	146	140	155	138	140	147	36	425	
2017	123	158	150	107	116	122	13	415	
2018	9	49	68	57	49	52	10	349	
2019			26	33	33	29	5	147	
2020				22	23	20	11	224	
2021					5	6	6	17	
2022						3	5	4	
	<u>\$ 5,397</u>					<u>\$ 5,246</u>	<u>\$ 2,054</u>	<u>16,960</u>	
Cumulative Paid Losses and Allocated LAE during the above period						(1,748)			
Discount as of December 31, 2022						(466)			
<b>Liabilities for losses and LAE</b>						<u><u>\$ 3,032</u></u>			

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Cumulative Paid Losses and Allocated Loss Adjustment Expenses years ended December 31, (in millions):

Accident Year	Cumulative paid loss and allocated LAE				
	2018 (unaudited)	2019 (unaudited)	2020 (unaudited)	2021 (unaudited)	2022
Prior	\$ 274	\$ 581	\$ 742	\$ 973	\$ 1,199
2013	19	44	56	62	71
2014	25	38	64	69	80
2015	65	97	145	162	174
2016	18	46	64	70	94
2017	30	57	52	58	65
2018	9	22	31	37	38
2019		2	16	20	21
2020			2	4	6
2021				—	—
2022					—
				<b>\$ 1,748</b>	

Excess Workers' Compensation

Excess workers' compensation has a long tail and is one of the most challenging lines of business from an actuarial reserving perspective, particularly when the excess coverage is provided above a self-insured retention layer. The class is highly sensitive to small changes in assumptions (for example, the rate of medical inflation or the longevity of injured workers) which can have a significant effect on the ultimate reserve cost estimate. Excess workers' compensation business was written over qualified self-insurance from the 1970's through 2012. In this book of business, the claims are not handled (or administered) by the ceding company personnel, but are administered by the client's designated third party administrators ("TPAs"). However, claims personnel affiliated with FRL maintain an oversight role over these TPAs and claims.

Loss and loss adjustment expense liability estimates for excess workers' compensation exposures are subject to additional uncertainties, due to the following:

- Claim settlement time is longer than most other casualty lines, due to the lifetime benefits that can be expected to pay out on certain claims;
- Coverage statutes that vary by state; and
- Future medical inflation costs are difficult to estimate.

A combination of traditional methods (paid and incurred loss development) and non-traditional methods (individual claim annuity model, report year incurred loss development, and IBNR count/severity methods) are used to estimate loss and loss expense liability estimates. Loss data is segmented so as to reflect the anomalies in the historical data due to the various loss mitigation initiatives employed over the last several years.

The last material claim related to this business occurred more than 10 years ago and there were no incurred losses and allocated loss adjustment expenses related to the last 10 accident years. The total actual paid losses were \$56 million and \$64 million for the years ending December 31, 2022 and 2021, respectively.

Environmental Impairment Liability

Environmental impairment includes pollution legal liability, contractor's pollution liability, errors and omissions, and underground storage tank policies written prior to 2016. The process of establishing reserves for environmental impairment claims is subject to greater uncertainty than the establishment of reserves for liabilities relating to other types of insurance claims. As a result of the significant uncertainty inherent in determining environmental impairment liabilities and establishing related reserves, the use of conventional reserving methodologies frequently has to be supplemented by reviewing each of the outstanding claims on a claim-by-claim basis in establishing the reserves. Additional consideration is given by evaluating the exposure presented by each policyholder, the

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anticipated cost of resolution, if any, for each policyholder, available coverage, and the relevant judicial interpretations and historical value of similar exposures in establishing the reserves. Prior to June 2, 2020, the environmental impairment liability line of business included unearned premium relating to multi-year policies written prior to June 1, 2016. Therefore, for calendar years ended December 31, 2017, 2018 and 2019, losses incurred for accident years subsequent to June 1, 2016 were attributable to incurred losses as these multi-year policy premiums earned out over the life of the contract. As further discussed in Note 10, a substantial modification occurred which resulted in incurred loss activity for all accident years being classified as retroactive reinsurance.

Reported claim counts, on a cumulative basis, are provided as supplemental information to the incurred loss table below by accident year. The claim frequency is determined at the claimant level for the relevant exposures and our claims system identifies a unique claim identifier to each reported claim that we receive.

(in millions)	Incurred Loss and allocated LAE						As of December 31, 2022	
	For the years ended December 31,							
Accident Year	Net reserves assumed (unaudited)	2018 (unaudited)	2019 (unaudited)	2020 (unaudited)	2021 (unaudited)	2022	Total of IBNR Liabilities Plus Expected Development on Reported Losses	Cumulative Number of Reported Claims
Prior	\$ 823	\$ 822	\$801	\$ 813	\$ 773	\$ 768	\$ 182	1,305
2013	115	106	131	134	115	111	26	162
2014	137	93	89	85	77	79	24	193
2015	186	154	149	137	123	121	31	227
2016	89	91	95	86	83	88	25	324
2017	122	157	149	107	116	122	13	415
2018	9	48	67	56	49	52	9	349
2019			26	33	33	29	5	147
2020				22	23	20	11	224
2021					5	6	6	17
2022						3	3	4
	<u>\$ 1,481</u>					<u>\$ 1,399</u>	<u>\$ 335</u>	<u>3,367</u>
Cumulative Paid Losses and Allocated LAE during the above period						(715)		
<b>Liabilities for losses and LAE</b>						<u><u>\$ 684</u></u>		

Cumulative Paid Losses and Allocated Loss Adjustment Expenses for the years ended December 31, (in millions) :

Accident Year	Cumulative paid loss and allocated LAE				
	2018 (unaudited)	2019 (unaudited)	2020 (unaudited)	2021 (unaudited)	2022
Prior	\$ 106	\$ 198	\$ 217	\$ 283	\$ 370
2013	8	27	35	39	46
2014	8	11	32	35	39
2015	24	35	73	77	78
2016	14	25	38	42	52
2017	30	57	52	58	65
2018	9	22	31	37	38
2019		2	16	20	21
2020			2	4	6
2021				—	—
2022					—
					<u><u>\$ 715</u></u>

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Legacy Environmental

Legacy Environmental exposure consists of indemnity claims asserting property damage from toxic waste, hazardous substances, and other environmental pollutants, and claims to cover the cleanup costs of hazardous waste and pollution sites. The vast majority of these Legacy Environmental claims emanate from policies written in 1985 and prior years. Commencing in 1985, standard general liability policies contained an absolute exclusion for pollution-related damage. Environmental Impairment Liability exposures underwritten on a claims-made basis, which were written generally starting 1986, are not included in this line of business.

Loss and loss adjustment expense liability estimates for mass torts, such as Legacy Environmental exposures, are subject to additional uncertainties, due to the following:

- Case law is not fully developed;
- Coverage interpretation varies by state;
- The pool of plaintiffs and defendants is expanding significantly;
- The process of estimating provisions for premises and operations coverage is highly judgmental;
- “State of the art” analysis is a moving target; and
- Environmental reform could have a significant effect on ultimate liabilities.

To estimate loss and loss adjustment expenses reserve liability estimates, traditional methods (paid and incurred loss development, paid and incurred Cape Cod methods) are used to project historical report years to estimate incurred but not enough reported (“IBNER”) reserves, and count/severity methods are used to project future report years to estimate “pure” incurred but not reported reserves. For some large accounts and sites, reserves are based on claim department estimates and analysis. After this ground-up analysis is completed, we review the reasonability of our estimates by calculating certain ratios, such as survival ratios (defined as the ratio of indicated/carried reserves to a three year average payment) and IBNR-to-case ratios, and compare these ratios against industry benchmarks. In addition, we perform a market share analysis as another measure to assess the reasonableness of our indicated/carried loss reserves.

The last claim related to this business occurred more than 10 years ago and there were no incurred losses and allocated loss adjustment expenses related to the last 10 accident years. The total actual paid losses were \$39 million and \$45 million for the years ending December 31, 2022 and 2021.

All Other Lines

All Other Lines consist of various primary workers’ compensation, general liability, professional liability, medical malpractice, products liability, commercial automobile liability, and accident and health exposures from business units that have been put into run-off. In general, loss and loss adjustment expense liabilities are estimated separately. Traditional loss estimation methods include paid and incurred loss development methods and generalized paid and incurred Cape Cod methods. We also look at an IBNR-to-Case ratio method for certain segments, a survival ratio method for some general liability segments, and an annuity model approach for some of the larger workers’ compensation claims. Loss adjustment expense methods include both standard development methods and also the calendar year paid to paid method, which applies the paid to paid ratio to the loss reserves.

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*All Other Lines business assumed in 2022*

The loss development tables below reflect general liability and professional liability exposures assumed by the Company during 2022. Individual claim level data required to create the cumulative number of reported claims is not available for these exposures.

(in millions)	<b>Incurred Loss and allocated LAE</b>		<b>As of December 31, 2022</b>	
	<b>For the years ended December 31,</b>		<b>As of December 31, 2022</b>	
<b>Accident Year</b>	<b>Net reserves assumed (unaudited)</b>	<b>2022</b>	<b>Total of IBNR Liabilities Plus Expected Development on Reported Losses</b>	<b>Cumulative Number of Reported Claims</b>
Prior	\$ 3	\$ 4	\$ 3	
2013	11	17	10	
2014	30	41	22	
2015	47	62	30	
2016	63	80	43	
2017	88	108	60	
2018	94	111	70	
2019	99	113	83	
2020	77	86	73	
2021	27	30	28	
2022	—	—	—	
	<b>\$ 539</b>	<b>\$ 652</b>	<b>\$ 422</b>	<b>\$ —</b>
Cumulative Paid Losses and Allocated LAE during the above period		(78)		
Unallocated Loss Adjustment Expenses as of the above period		7		
<b>Liabilities for losses and LAE</b>		<b>\$ 581</b>		

Cumulative Paid Losses and Allocated Loss Adjustment Expenses for the year ended December 31, (in millions):

<b>Accident Year</b>	<b>Cumulative paid loss and allocated LAE</b>	
	<b>2022</b>	
Prior	\$	1
2013		3
2014		6
2015		8
2016		13
2017		16
2018		14
2019		11
2020		5
2021		1
2022		—
	<b>\$</b>	<b>78</b>

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Claims Payout Patterns

The following table presents unaudited supplementary information detailing the historical average annual percentage claims payout on an accident year basis at the same level of disaggregation as presented above for the year ended December 31, 2022.

<b>Average Annual Percentage Payout of Incurred Losses by Age, Net of Reinsurance (Unaudited)</b>										
<b>Year</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>
Environmental impairment liabilities	6.3%	14.4%	14.4%	10.8%	6.7%	6.9%	6.1%	4.1%	3.8%	2.6%
All Other Lines business assumed in 2022	0.2%	3.6%	8.0%	11.2%	13.3%	12.5%	10.2%	8.0%	6.4%	5.1%

Given the significant amount of loss and loss adjustment expense reserves in the 2012 and prior accident years, and different distributions among lines of business and accident year, we do not believe a total claim payout pattern is meaningful information.

Collateral Deposit Liability

For the year ended December 31, 2022 we incurred \$18 million of paid losses and \$11 million of interest credited to policyholders in relation to the collateral deposit liability. For the year ended December 31, 2021 we incurred \$26 million of paid losses and \$6 million of interest was credited to policyholders.

**10. VOBA, Deferred Gains on Reinsurance and Deferred Charge Assets**

**VOBA liability**

The following table presents the balances and changes in the VOBA liability for the years ended December 31, (in millions):

	<b>2022</b>	<b>2021</b>
<b>Balance, beginning of period</b>	\$ 4,053	\$ 4,291
Amortization	(229)	(238)
<b>Balance, end of period</b>	<b>\$ 3,824</b>	<b>\$ 4,053</b>

The following table provides the estimated future amortization for the 5 years indicated below for the years ended December 31, (in millions):

	<b>Estimated future VOBA liability amortization</b>
2023	\$ 184
2024	175
2025	170
2026	166
2027	155

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**Deferred gains and Deferred charges**

*Long Duration Business*

The table below shows the calculation of the deferred charges and related amortization on the policyholder contract deposits for the year ended December 31, (in millions):

	<u>2022</u>	<u>2021</u>
<b>Beginning Carrying Value</b>	\$ —	\$ —
Assumed business	215	—
Amortization	(2)	—
<b>Ending Carrying Value</b>	<u>\$ 213</u>	<u>\$ —</u>

The table below shows the calculation of the deferred gain and related amortization on the future policy benefits and policyholder contract deposits for the years ended December 31, (in millions):

	<u>Future Policy Benefits</u>		<u>Policyholder Contract Deposits</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
<b>Beginning Carrying Value</b>	\$ 5	\$ 5	\$ 466	\$ 35
Assumed business	—	—	—	438
Amortization	(1)	—	(29)	(7)
<b>Ending Carrying Value</b>	<u>\$ 4</u>	<u>\$ 5</u>	<u>\$ 437</u>	<u>\$ 466</u>

*Short Duration Business*

The table below presents a roll forward of the deferred charges for the short-duration reinsurance agreements for the year ended December 31, (in millions):

	<u>2022</u>	<u>2021</u>
<b>Beginning Carrying Value</b>	\$ —	\$ —
Contract issuance	8	—
Amortization	(13)	—
Impairment of deferred charge	(47)	—
Net incurred losses deferred under retroactive accounting	118	—
<b>Ending Carrying Value</b>	<u>\$ 66</u>	<u>\$ —</u>

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The table below presents a roll forward of the deferred gains for the short-duration reinsurance agreements for the years ended December 31, (in millions):

	2022	2021 <sup>(1)</sup>
<b>Beginning Carrying Value</b>	\$ 260	\$ 162
Contract extinguishment	—	(157)
Contract replacement	—	234
Amortization	17	21
Effect of change in discount	(59)	(106)
Net incurred losses deferred under retroactive accounting	43	106
Other	(3)	—
<b>Ending Carrying Value</b>	<b>\$ 258</b>	<b>\$ 260</b>

<sup>(1)</sup> The beginning carrying value reflects an increase of \$160 million related to a change in accounting principle. Refer to further discussion in Note 3.

AIG had previously agreed to pay us for certain adverse development in property casualty related reserves, based on an agreed methodology, that may occur on or prior to December 31, 2023, up to a maximum payment of \$500 million (the "Adverse Development Cover" or "ADC"). The ADC was determined to represent contingent consideration as the cover is providing a contingent right to receive a return of a portion of the consideration paid.

Effective June 30, 2021, the Company entered into a Settlement, Release and Amendment Agreement with AIG whereby it was agreed that FGH would receive \$77 million as consideration for certain excess workers' compensation claim liabilities previously assumed under the LPT and the early termination of the ADC provided to the Company, as discussed above. The early termination of the ADC was accounted for as a substantial modification to the LPT agreements. Therefore, we derecognized the LPT with a \$157 million deferred gain and immediately recognized a replacement contract with a \$234 million deferred gain based on the excess of the fair value of the funds withheld assets over the sum of the Company's estimated loss reserves.

## 11. Contingencies and Commitments

### Litigation and Regulatory Matters

As of December 31, 2022 and 2021, the Company has no material contingent liabilities arising from litigation, income taxes, make-whole fee conditions or other matters, other than liabilities arising in the normal course of its business of reinsurance.

### Commitments

The Company has commitments to purchase or fund investments, mostly private fixed maturity securities, mortgage loans and alternative investments. The following amounts include unfunded commitments that are not unconditionally cancellable. As of December 31, 2022 and 2021, the outstanding balance on commitments for mortgage loans was \$392 million and \$0, respectively. As of December 31, 2022 and 2021, the outstanding balance on commitments for private fixed maturity securities and alternative investments was \$1,843 million and \$2,427 million, respectively.

As of December 31, 2022 and 2021, these commitments include unfunded commitments of \$1,620 million and \$2,427 million, respectively, associated with investments owned by affiliates of Carlyle. See Note 13 for further information regarding related party investments.

As of December 31, 2021, the Company's unfunded commitment included a \$1 billion commitment to Carlyle Structured Credit temporarily warehoused by the Company. Of this, \$900 million was transferred to funds withheld - directly managed and \$13 million was funded by the Company in 2022.



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**12. Income Taxes**

FRL elected to be treated as a U.S. domestic insurance company for U.S. tax purposes under section 953(d) of the U.S. Internal Revenue Code and is, subject to federal income taxation in the U.S. During 2021 and years prior, FRL was treated as a non-life insurance company for U.S. tax purposes. FRI, a Delaware limited liability company, elected to be treated as a corporation for U.S. tax purposes. During 2022, FRI formed Grove Funding II, a Delaware corporation, as an investment vehicle.

FRL and FRI were members of the FGH consolidated tax return group and subject to the FGH tax sharing agreement, for the year ended December 31, 2021. The agreement provided for an allocation of the consolidated tax liability based on separate return calculations, including any losses generated that are utilized in FGH's consolidated U.S. federal income tax return. As of December 31, 2022 and 2021, the Company had outstanding receivables from FGH associated with the tax sharing agreement of \$48 million and \$36 million, respectively, reported in income taxes on the consolidated balance sheets.

Effective for 2022, FRL became a life insurance company for U.S. tax purposes once the total amount of its life reserves exceeded the 50% threshold under U.S. tax law. Thereupon, FRL (and, consequently, FRI and Grove Funding II) deconsolidated from the FGH consolidated tax return group. FRL will be eligible to rejoin the consolidated return group no later than the 2027 tax year and the entity will file a separate tax return in the interim. FRI will also deconsolidate from the FGH consolidated tax return group, but form a new consolidated return group with Grove Funding II. FRI (and Grove Funding II) will rejoin the FGH consolidated tax return group once its immediate parent company, FRL, is eligible to rejoin.

**U.S. Tax Law Changes**

On November 15, 2021, the U.S. enacted the Infrastructure Investment and Jobs Act to improve infrastructure in the U.S. The tax provisions of the Infrastructure Investment and Jobs Act have not had and are currently not expected to have a material impact on the Company's U.S. federal tax liabilities.

On August 16, 2022, the U.S. enacted The Inflation Reduction Act of 2022, which provides among other provisions a new corporate alternative minimum tax ("CAMT"). The CAMT is effective for taxable years beginning after December 31, 2022 and generally applies to taxpayers with average annual financial statement income exceeding \$1 billion over a three-year period. The Company is still evaluating the implications of this new law for the 2023 tax year, but there are no implications for the year ended December 31, 2022.

**Effective Tax Rate**

The following table presents the income tax expense (benefit) for the years ended December 31, (in millions):

	2022	2021
<b>Income tax expense (benefit):</b>		
Current	\$ 118	\$ 300
Deferred	(2,030)	(350)
<b>Total income tax benefit</b>	<b>\$ (1,912)</b>	<b>\$ (50)</b>

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Our actual income tax expense (benefit) differs from the statutory U.S. federal amount computed by applying the U.S. federal income tax rate of 21% to income / (loss) before tax due to the following, as shown in the following reconciliation for the years ended December 31, (in millions):

	<u>2022</u>	<u>2021</u>
Loss before taxes	(9,106)	(221)
U.S. federal income tax benefit at statutory rate	(1,912)	(46)
Prior year tax return adjustments	—	(3)
Other permanent items	—	(1)
<b>Total income tax benefit</b>	<b>\$ (1,912)</b>	<b>\$ (50)</b>

**Deferred Taxes**

The following table presents the components of the net deferred tax assets (liabilities) as of December 31, (in millions):

	<u>2022</u>	<u>2021</u>
<b>Deferred tax assets:</b>		
VOBA	\$ 803	\$ 851
Loss on funds withheld - directly managed	814	—
Reinsurance settlement	351	—
Life policy reserves	148	249
Basis difference on investments	139	—
Deferred gain on reinsurance	161	154
Deferred policy acquisition costs	39	28
Non-life reserves	31	23
Employee benefits	5	5
<b>Total deferred tax assets</b>	<b>2,491</b>	<b>1,310</b>
<b>Deferred tax liabilities:</b>		
Gain on funds withheld - directly managed	—	(697)
Reinsurance settlement	—	(274)
Reinsurance modification	(22)	(24)
Basis difference in investments	(17)	(12)
Other	—	(1)
<b>Total deferred tax liabilities</b>	<b>(39)</b>	<b>(1,008)</b>
<b>Net deferred tax asset before valuation allowance</b>	<b>2,452</b>	<b>302</b>
Valuation allowance	—	—
<b>Net deferred tax asset</b>	<b>\$ 2,452</b>	<b>\$ 302</b>

The difference between the increase in the net deferred tax asset balance of \$2.1 billion and the deferred tax benefit recognized for the year of \$2.0 billion, which totals approximately \$121 million, represents the current year deferred tax asset of \$121 million recorded in AOCI.

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**Valuation Allowance on Deferred Tax Assets**

The evaluation of the recoverability of our deferred tax asset and the need for a valuation allowance requires us to weigh all positive and negative evidence to reach a conclusion that it is more likely than not that all or some portion of the deferred tax asset will not be realized. The weight given to the evidence is commensurate with the extent to which it can be objectively verified. The more negative evidence that exists, the more positive evidence is necessary and the more difficult it is to support a conclusion that a valuation allowance is not needed.

In evaluating the need for a valuation allowance, the Company considers many factors, including:

- (1) the nature of the deferred tax assets and liabilities;
- (2) whether they are ordinary or capital;
- (3) the timing of their reversal;
- (4) taxable income in prior carryback years;
- (5) projected taxable earnings exclusive of reversing temporary differences and carryforwards;
- (6) the length of time that carryovers can be utilized;
- (7) any unique tax rules that would impact the utilization of the deferred tax assets; and
- (8) any tax planning strategies that the Company would employ to avoid a tax benefit from expiring unused.

Although realization is not assured, management believes it is more likely than not that the deferred tax assets, net of valuation allowances, will be realized.

For the years ended December 31, 2022 and 2021, based on all available evidence, management believed that it was more likely than not that its net deferred tax asset will be realized. Therefore, the Company did not record a valuation allowance against its net deferred tax asset for this period.

**Accounting for Uncertainty in Income Taxes**

The Company filed federal tax returns for the short year ended December 31, 2020 and the full year 2021 and both returns are open for examination. We also periodically evaluate uncertain tax positions to determine whether the tax positions are more likely than not to be realized as a tax benefit or expense in the current year. We recognize interest and penalties related to uncertain tax benefits in U.S. Federal income tax expense. For the years ended December 31, 2022 and 2021, there were no uncertain tax positions and no accrual for interest and penalties. The Company does not anticipate any significant changes within the next twelve months to its total unrecognized tax benefits related to tax years for which the statute of limitations has not expired.

**13. Related Party Transactions**

Carlyle Affiliated Entities

We maintain investment management agreements with Carlyle affiliates (collectively the "Investment Manager"), pursuant to which the Investment Manager provides certain investment management and advisory services with respect to certain asset classes. The Company recorded expenses related to these agreements of \$17 million and \$8 million for the years ended December 31, 2022 and 2021, respectively.

The Company invests in limited partnerships where a Carlyle affiliate is the general partner of the funds and other structured investments managed by Carlyle affiliates. The Company's investments in funds and other structured investments managed by Carlyle were valued at \$1,125 million and \$666 million as of December 31, 2022 and 2021, respectively, and were primarily of private credit fixed income assets and limited partnership interests or investments in limited partnerships. We recorded net investment income related to these investments of \$54 million and \$84 million for the years ended December 31, 2022 and 2021, respectively.

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Additionally, as of December 31, 2022 and 2021, we held investments originated by Carlyle of \$1,719 million and \$2,192 million, respectively, that are included within funds withheld - directly managed within the consolidated balance sheets.

*T&D Affiliated Entities*

On March 31, 2022, FRL entered into a reinsurance agreement with an affiliate of T&D, through which FRL assumed a legacy block of payout and deferred annuities on a coinsurance basis.

The Company reported assumed policyholder contract deposits and reinsurance payables of \$3,500 million and \$144 million, respectively, as of December 31, 2022 in the consolidated balance sheets in connection with this reinsurance agreement. The Company recorded assumed interest credited to policyholder account balances in the consolidated statements of income (loss) in connection with this reinsurance agreement of \$29 million for the year ended December 31, 2022.

*Expense Charges and Allocations*

A portion of the Company's expenses are allocations or charges from Fortitude Group Services ("FGS"), an indirect wholly-owned subsidiary of FGH, and Fortitude International Group Services ("FIGS"), an indirect wholly-owned subsidiary of FGP. These expenses primarily relate to general and administrative expenses which include accounting, actuarial, risk management and data processing services. During the year ended December 31, 2022, the Company was allocated \$43 million and \$11 million of costs for these services from FGS and FIGS, respectively. As of December 31, 2022, the Company recorded payables of \$5 million and \$1 million to FGS and FIGS, respectively, for invoices not yet settled within other liabilities on the consolidated balance sheet. During the year ended December 31, 2021, the Company was allocated \$56 million of costs for these services from FGS and recorded a payable of \$10 million to FGS for invoices not yet settled as of December 31, 2021. The Company did not incur any related party expenses with FIGS during the year ended December 31, 2021.

*Intercompany Liquidity Agreement*

The Company entered into an intercompany liquidity agreement with FGH that allows the Company and other affiliates to lend or borrow funds to meet short-term liquidity and other capital needs. During the year ended December 31, 2021, the Company loaned \$15 million to FGS to provide short-term liquidity which is recorded in other assets on the consolidated balance sheet. FGS repaid the total balance during the third quarter of 2022. During the fourth quarter of 2022, the Company loaned \$75 million to Fortitude Life Insurance & Annuity Company ("FLIAC"), a wholly owned subsidiary of FGH. FLIAC subsequently repaid this loan during the fourth quarter of 2022. During the years ended December 31, 2022 and 2021, the Company recorded interest income associated with these loans of \$1 million and \$1 million, respectively, within net investment income on the consolidated statement of operations.

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**14. Shareholders' Equity**

As of December 31, 2022 and 2021, the Company has issued 1,250,000 shares, of which, 100% are owned by FGH.

The following table shows the balance and changes in each component of AOCI for the years ended December 31, 2022 and 2021 (in millions):

	Unrealized gains (losses) of fixed maturity securities, available for sale	Total Accumulated Other Comprehensive Income (Loss)
<b>Balance, December 31, 2020</b>	\$ 93	\$ 93
Change in OCI before reclassifications	(124)	(124)
Income tax benefit	26	26
<b>Balance, December 31, 2021</b>	(5)	(5)
Change in OCI before reclassifications	(575)	(575)
Income tax benefit	121	121
<b>Balance, December 31, 2022</b>	<u>\$ (459)</u>	<u>\$ (459)</u>

**15. Statutory Requirements**

Under the Bermuda Insurance Act, the Company is registered as a Class 4 and Class E composite reinsurance company. The Company is subject to the following statutory reporting requirements:

1. Statutory financial statements ("SFS"): The SFS framework is consistent with U.S. GAAP reporting requirements adjusted for prudential filters. These adjustments include the elimination of non-admitted assets not considered admissible for solvency purposes, the inclusion of certain assets and liabilities that are generally off-balance sheet under U.S. GAAP and adjustments for directions or permitted practices by the BMA. The Company has obtained permission under Section 6C of the Bermuda Insurance Act to value the funds withheld - directly managed, where applicable, and fixed maturity securities available for sale investment portfolios pertaining to long-term business at amortized cost rather than fair value within the statutory financial statements for the years ended December 31, 2022 and 2021.
2. Economic Balance Sheet ("EBS"): Under the EBS framework, assets and liabilities are mainly assessed and included at fair value, with the insurer's U.S. GAAP balance sheet serving as a starting point. The EBS also requires insurers to estimate insurance technical provisions, which consist of the insurer's insurance related balances valued based on a best estimate liability plus a risk margin. The best estimate liability may be calculated by applying the standard approach or the scenario approach. Under the standard approach the discount rate for insurance reserves is a rate prescribed by the BMA. Under the scenario approach the discount rate for insurance reserves is based on the yield on eligible assets owned by the insurer as determined under the worst result of eight prescribed stressed conditions.

The Company is subject to capital requirements calculated using the Bermuda Solvency and Capital Requirement ("BSCR") model, which is a standardized statutory risk-based capital model used to measure the risk associated with the Company's assets, liabilities and premiums as valued under EBS. Required statutory economic capital and surplus under the BSCR model is referred to as the enhanced capital requirement ("ECR"), which is the greater of the BSCR and minimum margin of solvency ("MSM"). The Company is required to calculate and submit a quarterly financial return, inclusive of the ECR, on a quarterly basis and a statutory financial return and capital and solvency return, inclusive of the ECR, on an annual basis. Following receipt of the submission of these returns, the BMA has

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the authority to impose additional capital requirements (capital add-ons) if it deems necessary. The BMA has not imposed any additional capital requirements on the Company for the years ended December 31, 2022 and 2021. At December 31, 2022 and 2021, the Company met the minimum statutory reporting and capital requirements.

While not specifically referred to in the Bermuda Insurance Act, the target capital level (“TCL”) is also an important threshold for statutory economic capital and surplus. The TCL is equal to 120% of ECR as calculated pursuant to the BSCR formula. The TCL serves as an early warning tool for the BMA. If the Company fails to maintain statutory economic capital and surplus at least equal to their respective TCL, such failure will likely result in increased regulatory oversight by the BMA.

The statutory capital and surplus reported in the Company's SFS at December 31, (in thousands) is detailed below.

	<u>2022</u>	<u>2021</u>
Statutory capital and surplus	\$ 1,597	\$ 3,366

Under the Bermuda Insurance Act, the Company is prohibited from declaring or paying a dividend if it were in breach of their respective minimum solvency margin or liquidity ratio or if the declaration or payment of such dividends would cause the Company to fail to meet such margin or ratio. The Company is prohibited from declaring or paying in any fiscal period, dividends of more than 25% of its total statutory capital and surplus, as set out in its previous year’s statutory financial statements, unless the Company files with the BMA a signed affidavit by at least two members of its Board of Directors attesting that a dividend would not cause the Company to fail to meet its relevant requirements. The Bermuda Insurance Act further prohibits the Company from reducing its prior period statutory capital by 15% or more without prior approval of the BMA. As the Company reinsures run-off business, we are required to seek BMA approval for any dividends or distributions.

The Company declared and paid dividends of \$750 million and \$1,107 million to FGH during the years ended December 31, 2022 and 2021, respectively.

## **16. Subsequent Events**

We have evaluated the impact of subsequent events through April 26, 2023, the date at which the consolidated financial statements were available to be issued and determined there are no items to disclose.