Fortitude International Reinsurance Ltd.

Financial Condition Report

For the year ended December 31, 2022

Contents

i. Executive Summary

This financial condition report (“FCR”) for Fortitude International Reinsurance Ltd. (the “Company” or “FIRL”) is produced in accordance with the Insurance (Public Disclosure) Rules 2015 (the “Rules”) under the Bermuda Insurance Act 1978 (the “Act”). This report outlines the financial condition of FIRL as of December 31, 2022. The FCR contains qualitative and quantitative information about FIRL’s business and performance, governance structure, risk profile, solvency valuation and capital management.

ii. Declaration

Declaration on the Financial Condition Report

We, the undersigned, declare that to the best of our knowledge and belief, this financial condition report fairly represents the financial condition of Fortitude International Reinsurance Ltd. in all material respects as at December 31, 2022.

DocuSigned by:
Charles Kasmer
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Charles Kasmer
Chief Executive Officer
Fortitude International Reinsurance Ltd.

DocuSigned by:
Esther Polevoy
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Esther Polevoy
Chief Risk Officer
Fortitude International Reinsurance Ltd.

iii. Company Background Information

Fortitude International Reinsurance Ltd. ("FIRL" or the "Company") is a Bermuda exempted company, which was incorporated on November 18, 2021. FIRL was registered with effect from January 1, 2022 under the Insurance Act 1978 and related regulations, as amended (the "Bermuda Insurance Act") as a Class 4 and Class E composite reinsurance company. The Company is primarily a reinsurer of general insurance and life insurance run-off and flow business. FIRL is a direct subsidiary of Fortitude International Group Holdings ("FIGH" or the “Parent”), a holding company domiciled in the United Kingdom, and an indirect subsidiary of the ultimate parent, FGH Parent, L.P. ("FGP"), a Bermuda limited partnership.

iv. Business and Performance

a. Name of Insurer

Fortitude International Reinsurance Ltd.

b. Supervisors

Insurance Supervisor
The Bermuda Monetary Authority ("BMA")
BMA House
43 Victoria Street
Hamilton HM12 Bermuda

c. Approved Auditor

Statutory Reporting	GAAP Reporting
PricewaterhouseCoopers Ltd.	PricewaterhouseCoopers LLP
Washington House, 4th Floor	150 3rd Avenue South, Suite 1400
16 Church Street, Hamilton	Nashville, Tennessee
Bermuda	United States of America

d. Ownership Details

FIRL is a wholly-owned subsidiary of Fortitude International Group Holdings Ltd., a holding company domiciled in the United Kingdom, which is a wholly owned subsidiary of Fortitude International Ltd. (“FIL”), a Bermuda holding company. FGH Parent, L.P. ("FGP"), a Bermuda limited partnership, is the sole direct shareholder of FIL.

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 Tokyo Stock Exchange 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.

e. Group Structure

The group structure chart as of December 31, 2022 is attached as Appendix One.

f. Insurance Business Written by Business Segment and by Geographical Region

The Company is a reinsurer of general insurance and long-term business, including property and casualty, life, annuity and accident and health lines of business. Our long-term business is comprised of policyholder contract deposits which includes single premium whole life ("SPWL") contracts which are structured akin to a deferred annuity.

The following tables in sub-section (g) through (h) are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The Company did not record any written or earned premiums during the year ended December 31, 2022.

g. Performance of Investments and Material Income and Expenses

Performance of Investments

The table below summarizes our total investments as of December 31:

	December 31, 2022	
(in thousands, except percentage data)	**Carrying Value**	**Percent of Total**
Fixed maturity securities, at fair value	422,782	99.9 %
Derivative assets, at fair value	558	0.1 %
Total investments	**$ 423,340**	**100.0 %**

The fixed maturity securities portfolio includes corporate debt, non-U.S. government debt, residential mortgage-backed securities ("RMBS") and other collateralized asset-backed securities ("CDO/ABS"). 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.

Total investment income is comprised of net investment income and net investment gains (losses), as summarized below in Figure 2.

Figure 2. Total Investment Income:

	Year ended December 31, 2022		
(in thousands)	**Cash and cash equivalents**	**Fixed maturity securities, at fair value**	**Total**
Net investment income	$ 439	$ 2,272	$ 2,711
Net investment gains (losses)	—	(865)	(865)
Total investment income	**$ 439**	**$ 1,407**	**$ 1,846**

Net investment income by asset class is summarized below in Figure 3.

Figure 3. Net Investment Income:

(in thousands)		Year Ended December, 31, 2022
Fixed maturity securities, at fair value	$	2,272
Cash and cash equivalents		439
Gross investment income	**$**	**2,711**
Investment expenses		—
Net investment income	**$**	**2,711**

Figure 3.1 Net investment gains (losses):

(in thousands)		Year ended December 31, 2022
Fixed maturity securities, at fair value:		
Realized losses	$	(1,032)
Unrealized gains under the fair value option (FVO)		167
Net investment gains (losses)	**$**	**(865)**

Material Income & Expenses for the Reporting Period

The Company's main source of revenue is income from investments. The Company's main expenses arise from interest on policyholder contract deposits, commission expense and the cost of operations. The statement of (loss)/income for the Company is shown in Figure 4 below for the applicable periods:

Figure 4. Material Income & Expenses:

(in thousands)		Year ended December 31, 2022
Revenues:		
Net investment income	$	2,711
Net investment losses		(865)
Net foreign exchange losses		(362)
Total revenues		**1,484**
Benefits, losses and expenses:		
Interest credited to policyholder account balances		2,811
Commission expense		1,085
General operating expenses		1,890
Total benefits, losses and expenses		**5,786**
Net loss	**$**	**(4,302)**

The net loss incurred for the year ended December 31, 2022 is primarily due to realized investment losses, foreign exchange losses on the Company's Australian dollar ("AUD") denominated assets and liabilities and the cost of operations.

h. Any Other Material Information

The Company received capital contributions from Fortitude International Group Holdings ("FIGH"), the Company's parent, of $21,000 thousand and $234,000 thousand on September 30, 2022 and December 20, 2022, respectively. The Company received capital contributions from FIGH of $2,000 thousand on December 22, 2021.

Effective October 1, 2022, the Company entered into a flow reinsurance transaction with an affiliated Japanese life insurance company in which the Company assumed a quota share basis of United States dollar ("USD") and AUD denominated single premium whole life products issued to the Japanese market.

v. Governance Structure

a. Board and Senior Executives

i. Board and Senior Executive Structure, Roles, Responsibilities and Segregation of Responsibilities

The Board of Directors of FIRL ("Board") is the focal point of the Company's corporate governance and is accountable for the oversight of management, performance and conduct of the Company's business. The Board meets at a minimum on a quarterly basis. Board meetings include standing agenda and other items. The Board receives reports from senior executives, management and the FGP's general counsel. Reports are also received from each of the following FGP board committees:

- Audit Committee
- Risk and Capital Committee
- Life & Annuity Operations & Claims Committee
- Property & Casualty Operations & Claims Committee
- Regulatory, Compliance & ESG Committee
- Compensation Committee

Each of the above mentioned committees has its own charter.

At December 31, 2022, the Board consisted of eight directors:

- Brian T. Schreiber
- Alon Neches
- Ciara Burnham
- Kai Talarek
- Brian O'Hara
- Richard Patching
- Andrew Sooboodoo
- Charles Kasmer

Biographies of the directors are provided in section v. (b) ii. of this document. The Company's constitutional documents, committee charters, the Bermuda Insurance Code of Conduct and applicable law (such as the Bermuda Companies Act 1981, as amended) include guidance and/or details of the Board's role and responsibilities. In addition, the Company has developed a suite of Policies, Standards and Procedures tailored to its business which, among other things, detail certain requirements in connection with Board composition, training and standards for the Company's Board and Committees.

ii. Description of Remuneration Policy

The Company's remuneration policy for senior executives is established by FGP's Compensation Committee and the Board. The compensation policy provides for a fixed base salary along with a short term incentive ("STI") of an annual bonus which is calculated based on both the group's and the individual employee's performance. The Company also offers long-term incentive ("LTI") payment to certain senior level employees. The group's Human Resources Department participates in annual surveys designed to review local compensation practices and standards to ensure FIRL's compensation packages are in keeping with industry and market standards.

Independent directors on the board receive a fixed annual fee, paid quarterly.

The Company is committed to remunerating people to behave in a manner that aligns incentives with prudent risk-taking. The Company's incentive compensation framework is therefore included in the Company's approach to risk management and supported by Board oversight. The Group Chief Risk Officer reviews the planned compensation framework to ensure incentives are aligned with appropriate risk taking. The Compensation Committee assists the Board in its oversight of the compensation and benefits programs.

iii. Supplementary Pension or Early Retirement Schemes for Members, Board and Senior Executives

FIRL does not currently provide supplementary pension or early retirement schemes for Board Members or senior executives.

iv. Any Material Transactions with Shareholder Controllers, Persons who Exercise Significant Influence, the Board or Senior Executive

The below details the material related party transactions during the reporting period.

Carlyle Affiliated Entities

During the year ended December 31, 2022, the Company entered into investment management and advisory 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.

T&D Affiliated Entities

On October 1, 2022, the Company entered into a reinsurance agreement with an affiliate of T&D, whereby the Company assumed a quota share of USD and AUD denominated single premium whole life products issued to the Japanese market under a coinsurance basis. The Company reported assumed reinsurance receivables, deferred acquisition costs and policyholder contract deposits in the balance sheet and recorded assumed interest credited to policyholder account balances and commission expense in the statements of income (loss) in connection with these reinsurance agreements 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 FGP, and Fortitude International Group Services ("FIGS"), a direct wholly-owned subsidiary of FIGH. These expenses primarily relate to general and administrative expenses which include accounting, actuarial, risk management and data processing services. As of December 31, 2022, the Company recorded payables for invoices not yet settled within payable to related parties on the balance sheet. The Company did not incur any related party expenses during the period from November 18, 2021 to December 31, 2021.

Intercompany Liquidity Agreement

The Company entered into an intercompany liquidity agreement that allows the Company and other affiliates to lend or borrow funds to meet short-term liquidity and other capital needs. The Company did not lend or borrow any funds during the year ended December 31, 2022 or the period from November 18, 2021 to December 31, 2021.

b. Fitness and Propriety Requirements

i. Fit and Proper Process in Assessing the Board and Senior Executives

FIRL has adopted a policy that sets forth corporate governance such as board fit and proper process including: meetings, committees, training, conflicts of interest, non-employee directors, delegations and authorities, and records management.

FIRL's Code of Conduct seeks to prevent and manage conflicts of interest in order to ensure that all FIRL employees perform their work in an objective and unbiased manner.

The Company appoints members of the Board based on the individual's skill set, expertise, knowledge and work experience as well as professional judgment and recommendations from those individuals who are professionally familiar with the proposed Board member.

Senior Management work with the Human Resources Department to hire senior and middle management and other staff to ensure there is sufficient expertise to achieve their respective area goals. The Human Resources Department arranges background screening and other support for all hires to ensure appropriate organizational alignment.

ii. Board and Senior Executives, Professional Qualifications, Skills and Expertise

The following table sets forth certain information concerning our executive officers and directors as of December 31, 2022:

Name	Position
Brian T. Schreiber	Chairman and Director
Charles Kasmer	Chief Executive Officer, Chief Property and Casualty Underwriting Officer and Director
Ciara A. Burnham	Independent Director
Brian O'Hara	Independent Director
Richard Patching	Independent Director
Alon Neches	Director
Kai Talarek	Director
Andrew Sooboodoo	Group Chief Risk Officer and Director
Mick Scott	Chief Information Security Officer (resigned on February 23, 2023)
Denise Nichols	Chief Human Resources Officer
James West	Chief Actuary
Jamie Schmerer	Director of Internal Audit
Steve Brown	Chief Financial Officer
Stewart Richie	Chief Operating Officer
Esther Polevoy	Chief Risk Officer

Director Biographies

Brian T. Schreiber, Chairman and Director. Mr. Schreiber is a Managing Director and Co-head of Carlyle Global Financial Services Partners. Prior to joining Carlyle, Mr. Schreiber spent 20 years at AIG in a variety of senior executive roles, including: Chief Strategy Officer, Deputy Chief Investment Officer, and Global Treasurer, and was a member of AIG's Operating Committee, Group Risk Committee and Investment Committee. He served as a board member of United Guaranty, AIG's mortgage insurance subsidiary, and Varagon Capital, AIG's middle market direct lending joint venture. Mr. Schreiber was a key member of AIG's executive leadership team that engineered and executed AIG's successful restructuring and recapitalization. He led AIG's divestiture, hedging and capital markets activities coming out of the financial crisis, executing 120+ transactions (debt, equity, M&A) and raising over $200 billion. Prior to the crisis, Mr. Schreiber was responsible for leading approximately $60 billion of acquisitions and strategic investments for AIG including: SunAmerica, American General, and Edison Insurance Japan. Prior to AIG, Mr. Schreiber invested in financial services companies for the Bass Brothers, was an investment banker in Lehman Brothers' Financial Institutions Group, and started his career as a research associate for Booz Allen & Hamilton. He earned a BS, from New York University's Stern School of Business, an MBA from Columbia Business School, and is a member of the Council on Foreign Relations.

Charles Kasmer, Chief Executive Officer, Chief Property and Casualty Underwriting Officer and Director. Mr. Kasmer is responsible for sourcing and pricing new P&C run-off transactions, the design and implementation of new products and structures, and expanding Fortitude Re's P&C presence and capabilities worldwide. Mr. Kasmer has more than 33 years of experience in the reinsurance and insurance industry, with extensive experience in the analysis and structuring of deals involving long tail lines of business, pricing, capital model building and reserving. He has held positions in Zurich Reinsurance Centre, Risk Capital Reinsurance Company, Aon, Employers Reinsurance Corporation, and Quanta Capital Holdings. Prior to Fortitude Re, Mr. Kasmer spent 13 years at Catalina Group, most recently as the Group Chief Actuary. Mr Kasmer holds a Bachelor's degree in mathematics from the University of Maine where he attended under an athletic scholarship to play football. He is a Fellow of the Casualty Actuarial Society and a member of the American Academy of Actuaries.

Ciara A. Burnham, Independent Director. Ciara Burnham is a financial services executive, board director and investor with three decades of experience across the industry. Ms. Burnham serves on the boards of several financial services and fintech companies, and also works with non-profit organizations focused on ESG, social impact and education. Ms. Burnham spent two decades as a Senior Managing Director with Evercore, the global investment bank, where she worked across both the investment banking and investment management businesses. Ms. Burnham joined Evercore shortly after its inception and played a significant leadership role in the build-out of the firm's presence on a global basis. She has worked with early stage fintech companies as a senior advisor and partner with QED, a leading venture capital firm. Earlier in her career, Ms. Burnham was an equity research analyst with Sanford Bernstein and a consultant with McKinsey. Ms. Burnham received an AB *cum laude* from Princeton University and an MBA with honors from Columbia Business School. She serves as Chair of the Board of Trustees for EDC, a leading non-profit working globally in education, healthcare and economic opportunity. Ms. Burnham is a member of the Advisory Boards of the Tamer Center for Social Enterprise and the Program for Financial Studies at Columbia Business School, and the Dean's Advisory Council of Princeton University.

Brian O'Hara, Independent Director. Mr. O'Hara is the former Chairman of XL Capital Ltd, now known as XL Group plc. He served as Chairman of XL's Board of Directors from 2008 to 2009 and was President and Chief Executive Officer of XL from 1994 to 2008. In 1986, Mr. O'Hara joined XL Insurance (Bermuda) Ltd as its founding President and Chief Operating Officer. Mr. O'Hara began his insurance career in San Francisco with The Royal Insurance Company and Employers' Reinsurance Company in 1970. He joined General Reinsurance Corporation in 1975 and in 1978 assumed responsibility for the newly developing captive reinsurance underwriting group. From 1979 to 1986, Mr. O'Hara was a founder and Chief Underwriting Officer of reinsurer Trenwick Group, Inc. in Bermuda. Mr. O'Hara has a BS in Economics from Santa Clara University and a CPCU designation. He also has an Honorary Doctorate in Commercial Science from St. John's University. Mr. O'Hara is a resident of Bermuda.

Richard Patching, Independent Director. Mr. Patching is a Chartered Accountant and member of both the Bermuda and England & Wales Institutes. For almost 25 years, Mr. Patching was a partner with PricewaterhouseCoopers (PwC) providing audit and advisory services to Bermuda's insurance and reinsurance industry, including several of its largest companies. In addition to conducting audits of statutory and regulatory filings Mr. Patching led a wide range of assignments focused on, among other things, analyzing enterprise risk and providing internal audit services to a number of insurance entities. Mr. Patching was also appointed Territory Assurance Leader and subsequently acted as Managing Partner of the firm. For several years, he represented the Bermuda firm as a member of PwC's Global Insurance Leadership Team. Mr. Patching retired from PwC Bermuda in June 2014. He resides in Bermuda.

Alon Neches, Director. Mr. Neches is an insurance industry veteran with over 20 years of experience as an operator, investor and advisor in regulated industries. Prior to joining Fortitude Re, Mr. Neches was a Managing Director and Partner in the Insurance Solutions business of global investment firm Carlyle. Previously, Mr. Neches held various senior executive roles at AIG, including Global Treasurer and Head of Corporate Development, Chief Investment Officer of the North American Property Casualty Portfolio and Senior Managing Director in Global Capital Markets. He was also a Senior Restructuring Specialist Officer at the Federal Reserve Bank of New York and focused on managing the Fed's investment in AIG. Mr. Neches began his career as an investment banker at Merrill Lynch & Co. He earned a JD from Harvard Law School and a BS from Duke University.

Kai Talarek, Director. Prior to joining FIRL, Mr. Talarek spent more than 20 years in the financial services sector in the United States. He most recently was a partner in the insurance practice of management consultant Oliver Wyman in New York where he spent 14 years focusing on complex risk, finance and strategy issues for insurers. Before joining Oliver Wyman, Mr. Talarek was a Vice President in the Treasury department of American Express, Vice President of Strategy at Zurich Re, and an engagement manager at Mitchell Madison Group in New York and San Francisco, CA. Mr. Talarek holds an MS in Mechanical Engineering from RWTH Aachen, Germany, and an MBA from UC Berkeley in California.

Andrew Sooboodoo, Group Chief Risk Officer and Director. Mr. Sooboodoo has experience across the (re)insurance industry including pricing, capital and valuation across a broad range of products. Prior to his role at FIRL, Mr. Sooboodoo worked at Legal & General Reinsurance Company as the Chief Risk Officer, during an 11 year tenure in various positions across the group. He has worked in Bermuda, the United Kingdom and the United States. Mr. Sooboodoo is a Fellow of the Institute of Actuaries and holds a bachelor’s degree in Actuarial Science from the University of Southampton.

c. Risk Management and Solvency Self-Assessment

i. Risk Management Process and Procedures to Identify, Measure, Manage and Report on Risk Exposures

FIRL believes that a strong, effective and embedded risk management framework is crucial to maintaining successful business operations and delivering sustainable, long-term profitability. This is achieved through a strong risk culture which is articulated by our senior leadership and embodied by management at all levels through our governance structure and risk management processes.

The risk framework at FIRL is organized around four key aspects:

- Risk Governance;
- Risk Appetite and Limits;
- Risk Culture and Policy; and
- Risk Management Processes.

Risk Identification and Measurement:

FIRL has developed a risk register to identify, assess and document material risks of the Company. This catalog of risks is used as the first step of stress scenario design and forecasting methodology. FIRL's risk identification processes are intended to inform risk measurement and identify key areas of focus for follow-up risk management actions.

In addition to the Risk Register, FIRL has identified top risks that Enterprise Risk Management ("ERM") monitors and provides periodic updates to the Risk and Capital Committee ("RCC").

ERM’s analytics are the foundation of its risk measurement capabilities across the categories of risks that have been identified. ERM’s goal is to evaluate all of FIRL's material risks, decisions, and financial strength using an economic view. An economic view is preferred over U.S. GAAP since it is based on fundamental economic risk analysis that is independent of any particular accounting regime. This view enables the assessment of key drivers on risk and probability metrics to arrive at an optimal risk return trade-off that is aligned with the Board approved risk appetite.

Risk Management:

The Company’s Risk Appetite Framework integrates stakeholder interests, strategic business goals and available financial resources. It balances these by seeking to take measured risks that are expected to generate repeatable, sustainable earnings and create long-term value for shareholders. The framework includes the Risk Appetite Statement ("RAS") and a set of supporting tools, including risk tolerances, risk limits and policies, which it uses to manage its risk profile and financial resources.

The Company articulates its aggregate risk-taking by setting risk tolerances and thresholds on capital and liquidity measures. It must comply with standards for capital adequacy and maintain sufficient liquidity to meet all obligations as they come due in accordance with its internal capital management.

Risk Monitoring and Reporting:

The FIRL Board approves risk policies, appetites and tolerances. Risk management reports are provided to the RCC to assist it in fulfilling its delegated oversight and decision making responsibilities. The business implements a control environment which describes how the business should operate to remain within risk appetites and assigns individual accountability for identified risks and key business controls, as documented in the risk register.

ii. Risk Management and Solvency Self-Assessment

The Company's "Statement of Risk Appetite" aligns the strategic business goals against the risks and volatility faced in executing that plan, ensuring that these risks are maintained at levels consistent with the Company's financial resources. This ensures it continues to manage the business in an environment of controlled risk-taking to generate earnings and in turn deliver long-term value for FIRL's shareholders and stability for policyholders.

In addition to the Risk Policies and Procedures, the Company Capital Management policy is set at the operating company level and its local implementation is supported by ERM. This policy formalizes FIRL's capital management framework, including capital adequacy and resource assessment and monitoring, at its insurance subsidiary level.

iii. Relationship Between Solvency Self-Assessment, Solvency Needs & Capital, and Risk Management

FIRL's risk appetite is predicated on the basic tenet that the Company shall take risks only to the extent that it has available capital resources to execute its business strategy and remain solvent, under both baseline and stressed conditions.

Risk Capital and Prospective Solvency assessment is a key aspect of FIRL's risk management, and a major consideration in FIRL's capital planning process. FIRL uses a projection model to project the Bermuda Statutory Balance Sheet, Income Statement and Statement of Capital and Surplus (the "CSR forms") forward to the end of the planning horizon. This framework measures risk over multiple time horizons and under different levels of stress.

The output of this assessment in a key input to FIRL's capital management decisions, and is communicated to FIRL's Board of Directors in conjunction with capital management recommendations.

If applicable, the Company will consider a range of management actions in the event of a solvency need.

iv. Solvency Self-Assessment Approval Process

The Company's Commercial Insurer Solvency Self-Assessment ("CISSA") Report is prepared by the ERM team, in consultation with relevant functions and business units, and reviewed by the Chief Risk Officer. The CISSA and BSCR model results are presented to the RCC for review and then approved by the Company's Board of Directors.

d. <u>Internal Controls</u>

i. Internal Control System

The Company's internal control system is designed to provide reasonable assurance that its operations are effectively controlled, it is compliant with applicable laws and regulations, and its financial reporting is reliable. In practice, the oversight and management of the internal control system involves participation from the Committees of the Board of Directors, the Executive Committee, Operations, Finance, Risk Management, Legal, Compliance, Financial Controls and Internal Audit.

Primary responsibility for overseeing the day-to-day internal control system lies with the Company's Executive Committee and Management (i.e., control owners). The Company promotes the importance of appropriate controls by:

a. Reasonably assuring staff members are aware of their role in the internal control system, through communication and training;
b. Reasonably assuring the consistent and adequate implementation of the internal control system across the Company;
c. Monitoring the adequacy of the internal control system; and
d. Establishing, monitoring, and reporting for decision-making processes.

For U.S. GAAP reporting purposes, the Company has established internal controls over financial reporting ("ICFR"), effected by the Chief Executive Officer and Chief Financial Officer, which are designed to provide reasonable assurance regarding the reliability, timeliness and transparency of the Company's financial reporting.

The Company has adopted the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") 2013 framework as the criteria for assessing the Company's internal control over financial reporting. The COSO 2013 framework includes the following components:

- Control Environment;
- Risk Assessment;
- Control Activities;
- Information and Communications; and
- Monitoring Activities.

The design of the Company's system of internal controls over U.S. GAAP financial reporting is assessed by business process owners on at least an annual basis and is supported by periodic internal control certifications.

As applicable, control deficiencies in the Company's internal controls over U.S. GAAP reporting deemed to be material weaknesses or significant deficiencies, either individually or in the aggregate, are reported on a quarterly basis to the Board and the Audit Committee.

ii. Compliance Function

The overall responsibility for the Compliance function within FIRL resides primarily with the group's Legal and Compliance Department and ultimately with the Regulatory, Compliance & ESG Committee. The purpose of the committee is to assist the Board (i) to ensure the Company satisfies its regulatory obligations and commitments upon which its licenses were conditioned; (ii) in its oversight of the Company's handling of legal, regulatory and compliance matters; and (iii) in its oversight of the Company's positions and policies that relate to current and emerging corporate social responsibility, environmental, political and public policy issues of significance to the Company, including those that may affect the Company's business operations, performance or corporate reputations.

e. <u>Internal Audit</u>

The Internal Audit function operates in accordance with its charter, which outlines the mission, scope, responsibilities and structure of the function.

FIRL has a dedicated Director of Internal Audit and an Internal Audit function who reports functionally to the Chair of the Audit Committee and administratively to the Group Chief Risk Officer. Additionally, Internal Audit makes use of co-sourcing partners from both 'Big 4' and regional consulting firms, to leverage the subject matter expertise of these firms.

The Internal Audit function assists the Board and the committees in discharging their governance responsibilities. Internal Audit's mission is to enhance and protect enterprise value by providing stakeholders with objective assurance, advice, and insight. Internal Audit assists FIRL in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the control environment, including risk management, governance, internal control, and operational processes. A dynamic and continuous risk assessment process is followed and documented as part of the development of each year's Audit Plan.

The independence of the Internal Audit function is maintained by the function's direct reporting line to the Audit Committee. The Audit Committee is responsible for:

- Assessing the performance of the Head of Internal Audit and the Internal Audit function as a whole;
- Approving the hiring and remuneration of the Head of Internal Audit; and
- Reviewing and approving the annual Internal Audit plan, budget and resource plan.

Internal Audit provides reporting to the Audit Committee and the Senior Management to support transparent and timely communication of its findings. Written reports are addressed to the Senior Management following the conclusion of various audit activities. In addition, Internal Audit reports quarterly to the Audit Committee. This reporting includes:

- Progress against the audit plan;
- Reports issued during the quarter;
- Progress against open audit observations;
- Proposed changes to the plan, if necessary;
- Progress against budget; and
- Any other relevant matters.

f. <u>Actuarial Function</u>

The actuarial function is performed by individuals with experience commensurate with the complexity and scope of the reserves assumed by the Company.

<u>General Insurance</u>

The primary duty of the FIRL Loss Reserve Specialist is to oversee the estimation of liabilities, setting of appropriate actuarial methodologies and assumptions used to estimate reserves to meet the requirements of the insurance laws of Bermuda and the oversight of actuarial staff. When required, the Loss Reserve Specialist also provides input and assistance regarding the underwriting process, including reviews of the profitability of the business on individual transactions. Pursuant to section 6C of the Insurance Act 1978, as amended, and the Rules, the BMA provided exemption to the Company from filing with the Authority an opinion of its Loss Reserve Specialist for the year ended 31 December 2022.

<u>Long-Term Business</u>

The Approved Actuary ensures that benefit reserves are calculated to meet the requirements of the insurance laws of Bermuda, are computed in accordance with accepted actuarial reserving practices, make an adequate provision for the total long-term business liabilities of FIRL under the terms of its contracts and agreements, and make sure that the assumptions are appropriate to the circumstances of the company and the policies in force. The Approved Actuary also reviews asset liability matching, capital requirements, analysis of finance results and proposals to reinsure additional business.

g. <u>Outsourcing</u>

i. Outsourcing Policy and Key Functions That Have Been Outsourced

FIRL utilizes external vendors to support parts of its operations. These vendors are contracted by Fortitude International Group Services Ltd., an affiliate of the Company, which recharges FIRL for the services provided by these vendors. No key functions are outsourced by FIRL. In addition, FIRL also maintains a Third Party

Risk Management Standard that outlines the vetting, suitability and contracting process for outsourced relationships and the due diligence procedures to be undertaken to monitor performance and provide oversight of such arrangements.

ii. Description of Material Intra-group Outsourcing

FIRL is a regulated reinsurance entity which has limited direct employees. Rather, employees are predominantly employed by Fortitude International Group Services Ltd., which also provides functional support services such as information technology, operations, actuarial, risk management and legal services. The Company also receives support from individuals employed by Fortitude Group Services, Inc., an affiliate.

h. Any Other Material Information

An Oversight Committee comprised of representatives from T&D, Carlyle and FIRL investors other than Carlyle has disapproval rights over certain material transactions and other items.

vi. Risk Profile

a. Material Risks to which the Company is Exposed During the Reporting Period

The risks facing the Company include those related to mortality risk, liquidity risk, interest rate risk, credit spread risk, credit risk and operational risk. A summary of these risks is outlined below:

Mortality Risks

Base Mortality risk is the risk of loss arising from actual base mortality rates being higher or lower than expected. This risk is present in contracts where benefits are based upon the death/survival of the insured. Mortality Improvement risk is the risk of loss arising from actual mortality improvement rates being lower or higher than expected. This risk is present in contracts where benefits are based upon the death/survival of the insured. This risk could arise from changes in medical treatments and effectiveness, societal health changes, and other factors. Mortality Calamity risk is the risk of loss arising from actual mortality rates being higher than expected due to a calamity. This risk is present in contracts where benefits are based upon the death of the insured. This risk could arise from pandemics.

Policyholder Behavior Risk

Policyholder behavior risk is the risk of loss arising from actual policyholder behavior differing adversely from expected. Said differently, it is the risk of loss arising from more efficient utilization of policy options throughout the life of the contract. This risk is present in contracts where policyholders have options, such as surrender, premium payment pattern, term conversion, withdrawal, and form of annuity election.

Liquidity Risk

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 financial obligations. Failure to appropriately manage liquidity risk can result in insolvency, reduced operating flexibility, increased costs, reputational harm and regulatory action.

Interest Rate Risk

Interest Rate risk can arise from a mismatch in the interest rate exposure of assets versus liabilities. Changes in interest rates can affect the valuation of fixed maturity securities, financial liabilities, insurance contracts and derivative contracts.

Credit Spread Risk

Credit Spread risk arises when changes in credit spreads affect the valuation of fixed maturity securities, including but not limited to corporate bonds, asset-backed securities, mortgage-backed securities, and derivatives. Wider credit spreads with unchanged default losses result in more investment income in the long term. In the short term, quickly rising spreads cause a loss in the value of existing fixed maturity securities. A precipitous widening of credit spreads may also signal a fundamental weakness in the creditworthiness of bond obligors, potentially resulting in default losses.

Credit Risk

Credit risk is the risk of idiosyncratic or systematic default within the investment portfolio which results in credit losses and impairments. It occurs when there is deterioration in the financial condition of a single obligor (idiosyncratic) or credit migration related to a change in the credit performance of a geographical region, sovereign, sector, or asset class (systematic).

Foreign Exchange Risk

Foreign Exchange risk is the risk of loss arising from movements in the value of currencies relative to the U.S. dollar. The risk can manifest when translating financial statements or reporting results under different regimes or from mismatched asset and liabilities currencies giving rise to non—matched fluctuation and impacts on surplus/ALM.

Strategic Risk

Strategic risk represents the inability to implement appropriate business strategies, make decisions, or adapt to changes in the business environment.

Legal & Regulatory Risk

Legal & Regulatory risk is the risk of a change in legislation or regulator expectations that will materially impact business operations, financial performance, and/or capital requirements. The risk drivers include changes in legal or regulatory environment and changes or added complexity of accounting / tax standards.

Operational Risk

Operational risk the risk of loss, or other adverse consequences, resulting from inadequate or failed internal processes, people, systems, or from external events.

b. Risk Mitigation in the Company

Across the business, FIRL manages insurance risks by monitoring and controlling the nature of and accumulation by geographic location of the risks in each line of business underwritten, the terms and conditions of the underwriting and the premiums FIRL charges for taking on the risk. Across its asset and liability portfolios FIRL manages its various risks by monitoring and controlling the nature and accumulation of the risks. This is achieved through a number of procedures and processes, the most significant of which are summarized below:

- Experience studies performed at least annually and reviewed as part of a governed update process;
- Investment guidelines which specify asset types, asset quality, target duration and concentration limits;
- Asset liability matching approach that matches liability cash flows with asset portfolios as closely as possible (subject to reasonable mismatch tolerances);
- Setting and applying of underwriting approval processes and authorities;
- A set of risk tolerances and limits to quantitatively monitor, measure, and control risks; and

- Monitoring the utilization of approved exposure limits.

c. Material Risk Concentrations

FIRL aims to diversify its retained risk concentrations. FIRL has a clearly articulated appetite identifying risks sought, accepted, and avoided and a business strategy to pursue a diverse range of products consistent with both this appetite and the objective of risk diversification. Additionally, FIRL reviews the impact to risk profile and to risk diversification as part of the transaction diligence process.

d. Investment in Assets in Accordance With the Prudent Person Principles of the Code of Conduct

The Company's investment portfolio is managed by the Group Chief Investment Officer in accordance with the Company's investment policy guidelines. These guidelines delineate the Company's investment objectives, which include preservation of invested capital, prudent diversification of portfolio assets, controlling income, diversifying risks, and maintaining adequate liquidity. The guidelines contain customary limits with respect to issuer concentrations, ratings composition, and asset class limitations, among others, that are consistent with accomplishing the Company's investment objectives. These guidelines are reviewed on an annual or ad hoc basis if any significant deviations have occurred that affect the financial markets, or if company-specific considerations warrant a reconsideration of one or more of the investment limitations. Regular reporting is provided to the Company's management and Board with respect to portfolio composition and performance.

e. Stress Testing and Sensitivity Analysis to Assess Material Risks

In developing an assessment of capital adequacy, FIRL utilizes two scenarios:

- A comprehensive scenario where major risks are stressed at the same time. This scenario includes financial market stresses coupled with Property & Casualty insurance-related stresses. The macroeconomic scenario is defined as a credit default driven recession.

- A scenario focusing on financial risks. The scenario is designed to test FIRL's financial performance and capital position under severe macroeconomic and financial conditions. This scenario provides a different perspective relative to the comprehensive scenario.

Both stresses are developed by ERM and approved by the RCC.

f. Any Other Material Information

No other material information to report.

vii. Solvency Valuation

a. Valuation Bases, Assumptions and Methods to Derive the Value of Each Asset Class

The Company has considered the valuation principles outlined by the BMA's "*Guidance Note for Statutory Reporting Regime*" for the reporting period's statutory filing. The Company's economic valuation principles are to measure assets on a fair value basis.

Fair value is the price that a party would receive to sell an asset or pay to transfer a liability (exit price) in an orderly transaction between market participants. FIRL determines fair value based on the following fair value hierarchy:

- Level 1: Fair value measurements based on quoted prices (unadjusted) 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. We do not adjust the quoted price for such instruments.

- 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, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.

- Level 3: Fair value measurements based on valuation techniques that use significant inputs that are unobservable. Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3. 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 addition, certain of our other invested assets are measured at fair value using net asset value ("NAV") per share (or its equivalent) as a practical expedient and have not been classified within the fair value hierarchy above.

We use the following valuation methods and assumptions to estimate the fair value of assets on the economic balance sheet of the Company:

- Fixed maturities, fair value option: The Company obtains quoted prices in active markets for identical or similar assets at the balance sheet date to measure bonds at fair value. Market price is generally obtained from dealer markets. The Company employs independent third-party valuation service providers to gather, analyze, and interpret market information to derive fair value estimates for individual investments, based upon market-accepted methodologies and assumptions.

- 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.

- Cash and cash equivalents: These 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.

- Other assets: The valuation methodology for these assets under U.S. GAAP is consistent with the valuation approach for EBS purposes.

FIRL has obtained permission under Section 6C of the Act to value the fixed maturity securities investment portfolios pertaining to long-term business at amortized cost rather than fair value within the statutory financial statements, for the year ended December 31, 2022. This permission does not have any impact on the valuation basis under the economic balance sheet.

b. Valuation Bases, Assumptions and Methods to Derive the Value of Technical Provisions

The Company has considered valuation principles outlined by the BMA's "*Guidance Note for Statutory Reporting Regime*" when determining insurance technical provisions. The Company believes that the techniques it uses in developing the insurance technical provisions are consistent with BMA guidance.

The valuation method that was used to determine the best estimate technical provisions was the BMA's Standard Based Approach. The best estimate cash flows have been discounted based on the standard discount curves supplied by the BMA. In addition, the Company also holds a risk margin to reflect the cost of holding the non-hedgeable capital requirement in all future time periods, which is calculated using the cost of capital approach and a risk-free discount rate term structure. The discount rate term structures are prescribed by the BMA for each reporting period.

As of December 31, 2022, the Technical Provisions and Risk Margin for Long-Term and General Business were as follows:

Figure 6. Technical Provision and Risk Margin (EBS Basis):

Year ended December 31, 2022 *(in thousands)*	**Long-term**	**General**
Best Estimate	$ 581,281	$ —
Risk Margin	1,673	—
Technical Provision	**$ 582,954**	**$ —**

c. Description of Recoverables from Reinsurance Contracts

Not applicable. FIRL does not have any ceded reinsurance.

d. Valuation Bases, Assumptions and Methods to Derive the Value of Other Liabilities

Not applicable.

e. Any Other Material Information

No additional material information to report.

viii. Capital Management

a. Eligible Capital

i. Capital Management Policy and Process for Capital Needs, How Capital is Managed and Material Changes During the Reporting Period

The Company's capital management objective is to maintain sufficient capital at all times to meet regulatory requirements, provide stability to policyholders, and to support future business development needs.

FIRL's assessment of capital adequacy links the current and projected capital position of FIRL, based on its business strategy and plans, to the standards and guidance set forth in its capital management policies and guidelines. The capital adequacy assessment process involves significant collaboration between the ERM, Actuarial, Capital Management and Treasury functions.

The capital adequacy assessment process is reliant upon baseline and stressed financial projections. The baseline is derived mainly from the FIRL budget plans which are prepared by business finance teams, then submitted and approved by the Chief Financial Officer, and reviewed by the Chief Risk Officer. FIRL's risk profile is stressed to ensure internal, and regulatory capital targets are not breached in a stress scenario.

Under the Risk Appetite Framework implemented by the RCC, no capital or strategic transactions are submitted to the Board for approval without due consideration being given to the impact on FIRL's capital adequacy. Dividend recommendations and strategic transactions are only made to the Board should the testing show that, after payment of the dividend or strategic transaction, the Company would remain above its stress capital adequacy threshold as specified in the RAS.

ii. Eligible Capital Categorized by Tiers in Accordance with the Eligible Capital Rules

As of December 31, 2022, the Company's eligible capital was categorized as shown in Figure 7 below.

Figure 7. Eligible Capital Categorized by Tier (EBS Basis):

(in thousands)	**Year ended December 31,**
	2022
Tier 1	$ 219,933
Tier 2	—
Tier 3	—
Total Eligible Capital	**$ 219,933**

The capital is Tier 1, consisting of common stock, contributed surplus and economic surplus. On September 30, 2022 and December 20, 2022, FIGH contributed capital of $21,000 thousand and $234,000 thousand, respectively, to FIRL. This capital contribution qualified as Tier 1 capital.

iii. Eligible Capital Categorized by Tiers to Meet Enhanced Capital Requirement (ECR) and Minimum Margin of Solvency (MSM)

As of December 31, 2022, FIRL's eligible capital for its ECR and MSM was categorized as shown below in Figure 8.

Figure 8. Eligible Capital Categorized by Tier used to meet the ECR and the MSM:

Year ended December 31, 2022 *(in thousands)*	**Applied to ECR**	**Applied to MSM**
Tier 1	$ 219,933	$ 219,933
Tier 2	—	—
Tier 3	—	—
Total Eligible Capital	**$ 219,933**	**$ 219,933**

As of December 31, 2022, all capital is within the eligible regulatory limits and can be used to meet the ECR and MSM.

iv. Confirmation of Eligible Capital is Subject to Transitional Arrangements

Not applicable.

v. Identification of Any Factors Affecting Encumbrances Affecting the Availability and Transferability of Capital to Meet the ECR

There are no factors affecting encumbrances which affect the availability and transferability of capital to meet the ECR.

vi. Identification of Ancillary Capital Instruments Approved by the Authority

Not applicable.

vii. Identification of Differences in Shareholder's Equity as Stated in the Financial Statements Versus Available Statutory Capital and Surplus

A reconciliation between the total statutory capital and surplus and the total equity balance as per the insurer's general purpose financial statements is shown below in Figure 9.

Figure 9. Reconciliation of shareholders' equity to statutory capital and surplus:

Reconciliation of Statutory Capital and Surplus		
(in thousands)		**2022**
Total GAAP Shareholders' Equity	$	252,698
Section 6C exemption[(1)]		(167)
Total Statutory Capital and Surplus	**$**	**252,531**

[(1)] FIRL has obtained permission under Section 6C of the Act to value the funds withheld by ceding companies (when applicable in the future) and fixed maturity securities investment portfolios pertaining to long-term business at amortized cost rather than fair value within the statutory financial statements.

b. Regulatory Capital Requirements

i. ECR and MSM requirements as the end of the Reporting Period

ECR Requirements		
(in thousands, except ratio)		**2022**
Eligible Capital	$	219,933
Required economic capital and surplus		28,222
Ratio		**779 %**

MSM Requirements		
(in thousands)		**2022**
Actual statutory capital and surplus	$	252,531
Required capital and surplus		15,832

The Company was compliant with the ECR and MSM requirements during the reporting period.

ii. Identification of Any Non-Compliance with the MSM and the ECR

Not applicable. The Company was compliant with the MSM and the ECR as of December 31, 2022.

iii. A description of the Amount and Circumstances Surrounding the Non- Compliance, the Remedial Measures and their Effectiveness

Not applicable.

iv. Where the Non-Compliance has not been Resolved, a Description of the Amount of the Non-Compliance

Not applicable.

c. Approved Internal Capital Model

Not applicable.

ix. **Subsequent Events**

a. Description, Date and Impact of Significant Events on Most Recent Financial Condition Report

On February 8, 2023, February 24, 2023 and March 7, 2023, the Company borrowed $19,741 thousand, $13,108 thousand and $11,231 thousand, respectively, from Fortitude Group Holdings, LLC, a direct subsidiary of FGP, under the intercompany liquidity agreement. The Company repaid these loans during the second quarter of 2023.

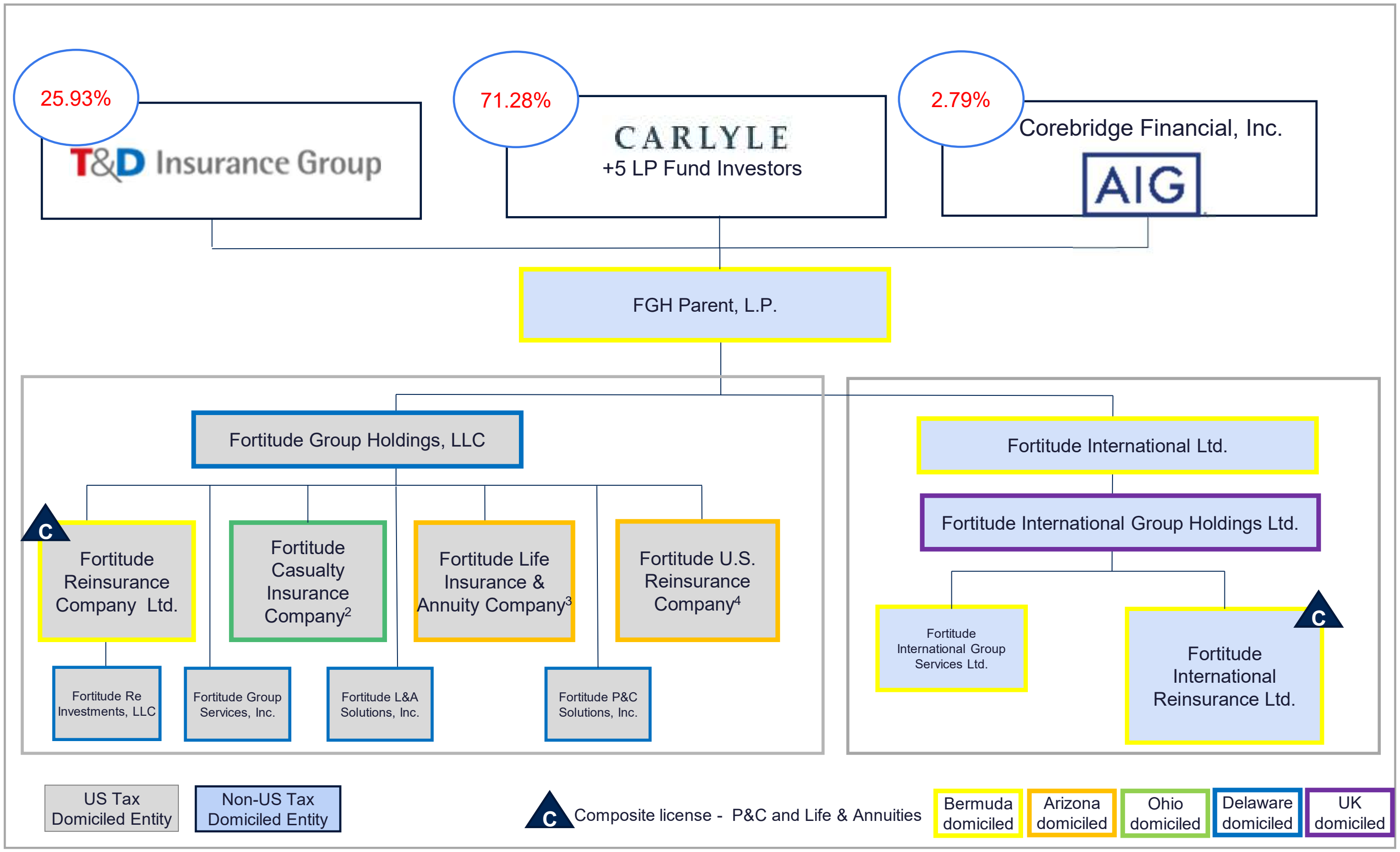
On March 28, 2023, the Company received a $365,000 thousand capital contribution from FIGH.

The Company entered into reinsurance transactions with an affiliated life insurance company for which definitive agreements have been established and all customary closing conditions have been completed subsequent to December 31, 2022.

b. Any Other Material Information

No other material information to report.

Appendix 1- Fortitude Group Legal Structure



Footnote: **[1]** As of September 30, 2022 **[2]** f/k/a Plans' Liability Insurance Company **[3]** f/k/a Prudential Annuities Life Assurance Corporation **[4]** f/k/a Rx Life Insurance Company