FORTITUDE RE

Fortitude Reinsurance Company Ltd.

Financial Condition Report

For the year ended December 31, 2023

FORTITUDE RE

Contents

i. Executive Summary

This financial condition report ("FCR") for Fortitude Reinsurance Company Ltd. (the "Company" or "FRL") is produced in accordance with the Insurance (Public Disclosure) Rules 2015 (the "Rules") under the Bermuda Insurance Act 1978 and related regulations, as amended (the "Insurance Act"). This report outlines the financial condition of FRL as of December 31, 2023. The FCR contains qualitative and quantitative information about FRL'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 Reinsurance Company Ltd. in all material respects as at December 31, 2023.

DocuSigned by:
Alon Neches
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Alon Neches
Chief Executive Officer
Fortitude Reinsurance Company Ltd.

DocuSigned by:
Ming Zhang
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Ming Zhang
Chief Risk Officer
Fortitude Reinsurance Company Ltd.

iii. Company Background Information

Fortitude Reinsurance Company Ltd. was incorporated under the laws of Bermuda on January 1, 2017. The Company is licensed and registered under the Insurance Act as a Class 4 and Class E reinsurance company. The Company is primarily a reinsurer of general insurance and life and annuity 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.

iv. Business and Performance

a. Name of Insurer

Fortitude Reinsurance Company 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

FRL is a direct wholly owned 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 exempted and limited partnership.

FGP, together with its subsidiaries (collectively, "Fortitude Re"), is owned by Carlyle FRL, L.P. ("Carlyle FRL"), an affiliate investment fund 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 insurance group; Corebridge Financial, Inc. ("Corebridge") following its initial public offering, an SEC-registered company and an affiliate of American International Group, Inc. ("AIG"); and a sovereign wealth fund ("SWF"). As of December 31, 2023, Carlyle FRL, T&D, Corebridge and SWF owned interests in the Company of 38.53%, 26.37%, 2.46% and 32.64% respectively.

e. Group Structure

The group structure chart as of December 31, 2023 is attached as Appendix One.

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

The Company is a reinsurer of run-off general insurance and long-term business, including property and casualty, life, annuity and accident and health lines of business.

Our general insurance business is comprised of 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 & health exposure.

Our long-term business is comprised of both future policy benefits and 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 whole life, return of premium term, accident & health, long term care and the additional insurance liability associated with universal life-type contracts with secondary guarantees. Policyholder contract deposits include investment contracts such as structured settlements and single premium immediate annuities with non-life contingent benefits, deferred annuity contracts in the accumulation phase and the fund values of universal life-type insurance contracts.

Premium written and earned in our general insurance lines of business relate to certain multi-year environmental liability exposures. Premium written and earned in our life and annuity lines of business relate to non-paid up policies and new supplemental contracts on the policies in run-off.

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

Figure 1. Premiums assumed by line of business on a written and earned basis:

	Premiums Written		**Premiums Earned**	
	Year Ended December 31,		**Year Ended December 31**	
(in millions)	**2023**	**2022**	**2023**	**2022**
Assumed - short duration	$ —	$ —	$ —	$ —
Assumed - long duration	217	225	217	225
Total net premium	**$ 217**	**$ 225**	**$ 217**	**$ 225**

Virtually all premium assumed originates from within the United States of America.

g. Performance of Investments and Material Income and Expenses

Performance of Investments

The table below summarizes our total investments as of December 31, 2023 and December 31, 2022:

(in millions, except percentage data)	December 31, 2023 Carrying Value	December 31, 2023 Percent of Total	December 31, 2022 Carrying Value	December 31, 2022 Percent of Total
Funds withheld - directly managed, at fair value	$ 41,673	63.3 %	$ 33,003	83.4 %
Fixed maturity securities available for sale, at fair value	19,208	29.1 %	1,687	4.3 %
Fixed maturity securities, at fair value	2,396	3.6 %	3,481	8.8 %
Mortgage loans, at fair value	882	1.3 %	138	0.3 %
Other invested assets	1,740	2.6 %	1,228	3.1 %
Short term investments	49	0.1 %	23	0.1 %
Total investments	**$ 65,948**	**100.0 %**	**$ 39,560**	**100.0 %**

As of December 31, 2023, 63.3% (2022: 83.4%) of the total investment portfolio of the Company is comprised of funds withheld - directly managed which represents a reinsurance receivable collateralized by a portfolio of investments directly managed by the Company and held for our benefit by the ceding companies.

The investment portfolio underlying both the funds withheld - directly managed and fixed maturities available for sale portfolio is substantially allocated to fixed maturity securities, including corporate debt, U.S. and non-U.S. government debt; obligations of states, municipalities and political subdivisions, along with residential mortgage backed securities ("RMBS"), commercial mortgage backed securities ("CMBS") and other collateralized asset-backed securities ("CDO/ABS"). Whilst the substantial majority of our investment portfolio has been allocated to fixed maturity securities, a key component of our investment strategy is to invest in alternative investments to provide diversification against our fixed income investments and an opportunity for improved-risk adjusted returns. Our internal investment function oversees the asset managers and directs asset allocation.

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

Figure 2. Total Investment Income:

	Year Ended December 31,					
	2023			2022		
(in millions)	Funds withheld - directly managed	Fixed maturity securities, other investments and short-term investments	Total	Funds withheld - directly managed	Fixed maturity securities, other investments and short-term investments	Total
Net investment income	$ 1,449	$ 532	$ 1,981	$ 1,637	$ 184	$ 1,821
Change in value of funds withheld	1,996	—	1,996	(8,688)	—	(8,688)
Net investment gains (losses)	(615)	(50)	(665)	(995)	(206)	(1,201)
Total investment income	**$ 2,830**	**$ 482**	**$ 3,312**	**$ (8,046)**	**$ (22)**	**$ (8,068)**

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

Figure 3. Net Investment Income:

(in millions)	Year Ended December 31, 2023	Year Ended December 31, 2022
Fixed maturity securities	$ 362	$ 128
Mortgage loans	34	—
Other invested assets	125	50
Short term investments and other investments	31	15
Funds withheld - directly managed	1,502	1,677
Gross investment income	2,054	1,870
Investment expenses	(73)	(49)
Net investment income	**$ 1,981**	**$ 1,821**

Figure 3.1 Net investment Gains (Losses):

(in millions)	Year Ended December 31, 2023	Year Ended December 31, 2022
Realized gains (losses) on fixed maturity securities	$ (39)	$ (88)
Unrealized gains (losses) on fixed maturity securities under the FVO	90	(118)
Realized gains (losses) on funds withheld - directly managed	(615)	(995)
Net gains (losses) on derivative instruments	(110)	—
Net gains (losses) on FIA embedded derivative	8	—
Other realized gains (losses)	1	—
Investment gains (losses)	**$ (665)**	**$ (1,201)**

Material Income & Expenses for the Reporting Period

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

Figure 4. Material Income & Expenses:

(in millions)	Year Ended December 31, 2023	Year Ended December 31, 2022
Revenues:		
Premiums	$ 217	$ 225
Policy charges and fee income	251	84
Net investment income	1,981	1,821
Change in fair value of funds withheld - directly managed	1,996	(8,688)
Investment gains (losses)	(665)	(1,201)
Foreign exchange gains (losses)	(71)	26
Total revenues	3,709	(7,733)
Benefits and expenses:		
Policyholder benefits	1,807	898
Interest credited to policyholder account balances	391	318
General operating and other expenses	161	157
Total benefits and expenses	2,359	1,373
Income (loss) before income tax expense (benefit)	1,350	(9,106)
Income tax expense (benefit)	243	(1,912)
Net income (loss)	**$ 1,107**	**$ (7,194)**

The net income for the year ended December 31, 2023 is primarily due to an increase in the value of funds withheld driven primarily by movements in the U.S. treasury yields and volatility in the interest rate market.

h. Any Other Material Information

The Company has commitments to purchase or fund investments, mostly private fixed maturity securities, mortgage loans and alternative investments, managed by unaffiliated counterparties and affiliates of Carlyle.

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 FRL ("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 and management. 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.

The Company's constitutional documents, committee charters, the Bermuda Insurance Code of Conduct and applicable law (such as the Insurance Act and the Bermuda Companies Act 1981, as amended) include guidance and/or details of the Board's role and responsibilities. In addition, Fortitude Re 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 Compensation Practices

Fortitude Re's compensation practices for senior executives are established in partnership with the Compensation Committee of FGP's Board of Directors. The compensation practices provide a compensation package inclusive of a base salary along with eligibility for a short-term incentive ("STI") award which is calculated determined based on company and individual employee performance. The Company also offers long-term incentive ("LTI") award eligibility to certain senior level employees.

Fortitude Re participates in annual compensation surveys designed to review job specific and regionally relevant compensation practices and standards to ensure Fortitude Re's compensation packages are competitive with industry and market standards. Fortitude Re is committed to providing fair and equitable compensation opportunities in alignment with our pay for performance culture. Fortitude Re is committed to incentivizing employees to perform responsibilities in a manner that aligns incentives with our risk management framework. Fortitude Re's incentive compensation framework is therefore included in the Company's approach to risk management and supported by Board oversight. 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

Fortitude Re 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

The Company maintains 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.

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 primarily of private credit fixed income assets and limited partnership interests.

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.

For the year ended December 31, 2023, the Company paid a one-time advisory fee to an affiliate of T&D for assistance with opportunities in the Japanese insurance sector.

Expense Charges and Allocations

A portion of the Company's expenses are allocations or charges from Fortitude Group Services, Inc. ("FGS") and Fortitude International Group Services Ltd. ("FIGS") which are affiliates of the Company. These expenses primarily relate to general and administrative expenses which include accounting, actuarial, risk management and data processing services.

Affiliate Securities Transfers

The Company may participate in asset transfers with affiliates. During 2023, the Company purchased and sold certain private fund interests from and to its affiliates, in support of a transaction.

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.

b. Fitness and Propriety Requirements

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

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

Fortitude Re’s Code of Conduct provides guidance to help prevent and manage conflicts of interest in order to ensure that all Fortitude Re 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 Company's People and Culture Department to hire senior and middle management and other staff to ensure there is sufficient expertise to achieve their respective area goals. The People and Culture 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 FRL's executive officers and directors as of December 31, 2023:

Name	Position
Brian T. Schreiber	Chairman and Director
Alon Neches	Chief Executive Officer and Director
Ciara A. Burnham	Independent Director
Brian O'Hara	Independent Director
Richard Patching	Independent Director
Kai Talarek	Group Chief Financial Officer and Director
Andrew Sooboodoo*	Chief Regulatory Officer and Director
Charles Kasmer	Chief Property and Casualty Underwriting Officer and Director
Jeffrey Mauro	Chief Investment Officer
Jeffrey Burman	General Counsel
Sean Coyle	Chief Operating Officer
Elliott Franklin	Chief Information Security Officer and Security Officer
Jack McGregor	Chief Property and Casualty Reinsurance Officer
Denise Nichols	Chief People Officer
James West	Chief Actuary
Stewart Richie	Chief Financial Officer
Alan Stewart	Treasurer
Brian P. Orndorff	Director of Tax
Ming Zhang	Chief Risk Officer
Nelson Lee	Loss Reserve Specialist

* Andrew Sooboodoo resigned from Fortitude Re effective March 29, 2024

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.

Alon Neches, Chief Executive Officer and 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.

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. 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 Bachelor of Science 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.

Kai Talarek, Group Chief Financial Officer and Director. Prior to joining FRL, 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.

Charles Kasmer, Chief Property and Casualty Underwriting Officer and Director. Mr. Kasmer is responsible for sourcing and pricing new P&C run-off transactions for Fortitude Re, 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.

Andrew Sooboodoo, Chief Regulatory 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 FRL, 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

Fortitude Re 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 FRL is organized around four key aspects:

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

Risk Identification and Measurement:

FRL 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. FRL's risk identification processes is intended to inform risk measurement and identify key areas of focus for follow-up risk management actions.

In addition to the risk register, FRL 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 FRL's material risks, decisions, and financial strength using an economic view. An economic view is preferred over 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 FRL 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 RAS 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 FRL's shareholders and stability for policyholders.

In addition to the risk policies and procedures, the Company's capital management policy is set at the operating company level and its local implementation is supported by ERM. This policy formalizes FRL'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

FRL'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 FRL's risk management, and a major consideration in FRL's capital planning process. FRL 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 is a key input to FRL's capital management decisions, and is communicated to the Board 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 Bermuda Solvency and Capital Reporting ("BSCR") model results are presented to the RCC for review and then approved by the Board.

d. Internal Controls

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 FRL resides primarily with our Legal and Compliance Department and ultimately with the Regulatory, Compliance & ESG Committee ("RCE Committee") which is a committee of the Board. The purpose of the RCE Committee is to assist the Board of the Directors (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. The charter is reviewed and approved by the Board annually.

FRL has a dedicated Head of Internal Audit and an Internal Audit function who reports functionally to the Chair of the Audit Committee of the Board of Directors and administratively to the 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 its 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 FRL 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. Actuarial Function

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

General Insurance

The primary duty of the FRL 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.

Long-Term Business

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 FRL 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. Outsourcing

i. Outsourcing Policy and Key Functions That Have Been Outsourced

FRL utilizes external vendors to support parts of its operations. These vendors are contracted by FGS, an affiliate of the Company, which recharges FRL for the services provided by these vendors. No key functions are outsourced by FRL. In addition, FRL 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

FRL is a regulated reinsurance entity which has limited direct employees. Rather, employees are predominantly employed by FGS, 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 FIGS.

h. Any Other Material Information

An Oversight Committee comprised of representatives from certain of the Company's investors 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 reserving risk, mortality risk, morbidity risk, liquidity risk, interest rate risk, alternative asset risk, credit spread risk, credit risk and operational risk. A summary of these risks is outlined below:

Property and Casualty Reserve Risk

Property and casualty reserve risk represents the variability in the timing or amount (size/severity and count/ frequency) of loss costs including indemnity, medical, and loss adjustment expenses. Depending on the product line, the development of the reserve from the initial loss estimate to the subsequent loss estimates and ultimate claims paid may vary meaningfully and emerge over multiple years. FRL manages this uncertainty through internal controls and oversight of the loss reserve setting process.

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.

Morbidity Risk

Morbidity risk is the risk arising from actual morbidity (i.e. illness, disability or disease) differing adversely from expected. This risk encompasses incidence, termination, and utilization risks. This risk is present in contracts where benefits are based upon the health of the insured.

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.

Alternative Asset Risk

Alternative Asset risk arises from market fluctuations, which can affect the valuation of alternatives and other equity investments. Such volatility may result in earnings volatility since equity-like investments are held at fair value. Adverse equity market declines may also make it more difficult to sell alternatives, giving rise to liquidity risk.

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/Asset-Liability Management ("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, FRL 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 FRL charges for taking on the risk. Across its asset and liability portfolios FRL 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:

- Regular reviews of the adequacy of the established liability for future claims and loss adjustment expense and extensive review and challenge of reserves during the year;
- Active claims management of property & casualty insurance risk;
- 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. <u>Material Risk Concentrations</u>

FRL aims to diversify its retained risk concentrations. FRL 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, FRL reviews the impact to risk profile and to risk diversification as part of the transaction diligence process.

d. <u>Investment in Assets in Accordance With the Prudent Person Principles of the Code of Conduct</u>

The Company's investment portfolio is managed by the 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. <u>Stress Testing and Sensitivity Analysis to Assess Material Risks</u>

In developing an assessment of capital adequacy, FRL 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. The insurance-related stresses include an increase to FRL's property and casualty reserves. This scenario targets FRL's unique vulnerabilities.

- A scenario focusing on financial risks. The scenario is designed to test FRL'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. <u>Any Other Material Information</u>

No other material information to report.

vii. Solvency Valuation

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

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. FRL 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:

- Funds withheld - directly managed, at fair value: The fair value option was elected by the Company with respect to the funds withheld portfolio which results in the entirety of the funds withheld arrangement being carried at fair value within the balance sheet with the resulting changes in fair value also recorded in the income statement in each period.

- Fixed maturities, available for sale, at fair value: 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.

- Mortgage Loans, at fair value: 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 asset manager's internally developed methodology.

- Other investments: We utilize NAV as an estimate of the fair value for our private equity funds, which is a permitted practical expedient under the provisions of U.S. GAAP. 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 financial statements.

- 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.

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

FRL has obtained permission under Section 6C of the Insurance Act to value the funds withheld - directly managed 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, net of the impact of deferred taxation, for the year ended December 31, 2023. FRL has also obtained a permission under Section 6C of the Insurance Act to record the additional insurance liability and to perform Loss Recognition Testing ("LRT") on a book value basis pertaining to long-term business within the statutory financial statements, net of the impact of deferred taxation, for the year ended December 31, 2023. The permissions do 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 primary valuation method that was used to determine the best estimate technical provisions was the BMA's Scenario Based Approach. The best estimate cash flows have been discounted reflecting the projected performance of the Company's assets under the most severe interest rate stress scenario. The risk free interest rate scenarios were 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, 2023 and 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, 2023	
(in millions)	**Long-term**	**General**
Best Estimate	$ 57,502	$ 2,408
Risk Margin	1,009	376
Technical Provision	**$ 58,511**	**$ 2,784**

(in millions)	Year ended December 31, 2022 Long-term	General
Best Estimate	$ 32,640	$ 2,750
Risk Margin	579	395
Technical Provision	**$ 33,219**	**$ 3,145**

c. Description of Recoverables from Reinsurance Contracts

Not applicable. FRL does not have any ceded reinsurance.

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

Similar to the valuation principles for assets, the Company's liabilities follow the valuation principles outlined by the BMA's "Guidance Note for Statutory Reporting Regime" which values liabilities on a fair value basis. The following paragraphs detail how the liability classes are valued in accordance with U.S. GAAP and documents any differences between the valuation base in our financial statements under U.S. GAAP and the EBS.

- Future policy benefits, policyholder contract deposits and liability for loss and loss adjustment expenses: Refer to section vii (b) for further information on the valuation of the Company's technical provisions.

- Collateral deposit liability: Under U.S. GAAP principles, the deposit liability is recognized on the Company's balance sheet as a liability and interest expense is recognized using the effective yield method. Under EBS principles, the collateral deposit liability is discounted at an appropriate risk-adjusted discount rate.

- Deferred gain from reinsurance contracts: Under U.S. GAAP principles, 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, or over the settlement period of the assumed reserves, as applicable. Under EBS principles, the deferred gain is recognized immediately within equity.

- Deferred cost of reinsurance contracts ("Deferred Costs"): Under U.S. GAAP principles, for the reinsurance of existing in-force blocks that transfer significant insurance risk, the excess of the liabilities assumed that exceeds the fair value of assets received is recognized as Deferred Costs at the inception of the reinsurance agreement. Deferred Costs are amortized into income over the lives of the reinsured policies in relation to expected benefit payments or insurance in-force for life and annuity insurance contracts, or over the settlement period of the assumed reserves, as applicable. Under EBS principles, Deferred Costs are recognized immediately within equity.

- Value of Business Acquired ("VOBA"): In conjunction with "pushdown" accounting, a VOBA liability balance was established to reflect the difference between the fair value of reserves and their carried amount. Under U.S. GAAP principles, the VOBA liability balance is amortized over an estimated settlement period in relation to expected benefit payments or insurance in-force amounts for the reinsured insurance policies. The amortization is included within "Policyholder benefits and losses incurred" within the Statement of (Loss) / Income. Under EBS principles, the VOBA is recognized immediately within equity.

- Reinsurance payable, deferred income tax liability and other liabilities: The valuation methodology for these liabilities under U.S. GAAP is consistent with the valuation approach for EBS purposes.

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.

FRL's assessment of capital adequacy links the current and projected capital position of FRL, 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 FRL 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. FRL'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 FRL'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, 2023 and 2022, the Company's eligible capital was categorized as shown in Figure 7 below.

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

	Year ended December 31,	
(in millions)	**2023**	**2022**
Tier 1	$ 6,925	$ 3,467
Tier 2	4	11
Tier 3	—	—
Total Eligible Capital	**$ 6,929**	**$ 3,478**

At December 31, 2023, there was $6,925 million of Tier 1 capital and $4 million of Tier 2 capital, consisting of common stock, contributed surplus and economic surplus.

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

As of December 31, 2023 and 2022, FRL'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, 2023	
(in millions)	**Applied to ECR**	**Applied to MSM**
Tier 1	$ 6,925	$ 6,925
Tier 2	4	4
Tier 3	—	—
Total Eligible Capital	**$ 6,929**	**$ 6,929**

	Year ended December 31, 2022	
(in millions)	**Applied to ECR**	**Applied to MSM**
Tier 1	$ 3,467	$ 3,467
Tier 2	11	11
Tier 3	—	—
Total Eligible Capital	**$ 3,478**	**$ 3,478**

As of December 31, 2023 and 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

As of December 31, 2023, $932 million (2022: $399 million) of Tier 1 capital relates to a long-term investment credit approved by the BMA as ancillary capital.

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 millions)	**2023**	**2022**
Total GAAP Shareholders' Equity	$ (592)	$ (4,578)
Section 6C Exemption[1]	4,557	6,174
Total Statutory Capital and Surplus	**$ 3,965**	**$ 1,596**

[1] FRL has obtained permission under Section 6C of the Insurance Act to value the funds withheld - directly managed and fixed maturity securities available for sale investment portfolios pertaining to long-term business at amortized cost rather than fair value and to record the additional insurance liability and perform LRT pertaining to long-term business on a book value basis within the statutory financial statements, net of the impact of deferred taxation, for the year ended December 31, 2023.

b. Regulatory Capital Requirements

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

ECR Requirements		
(in millions, except ratio)	**2023**	**2022**
Eligible Capital	$ 6,929	$ 3,478
Required Economic Capital and Surplus	3,163	2,002
Ratio	**219 %**	**174 %**

MSM Requirements		
(in millions)	**2023**	**2022**
Actual Statutory Capital and Surplus	$ 3,965	$ 1,597
Required Capital and Surplus	1,558	1,199

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, 2023.

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

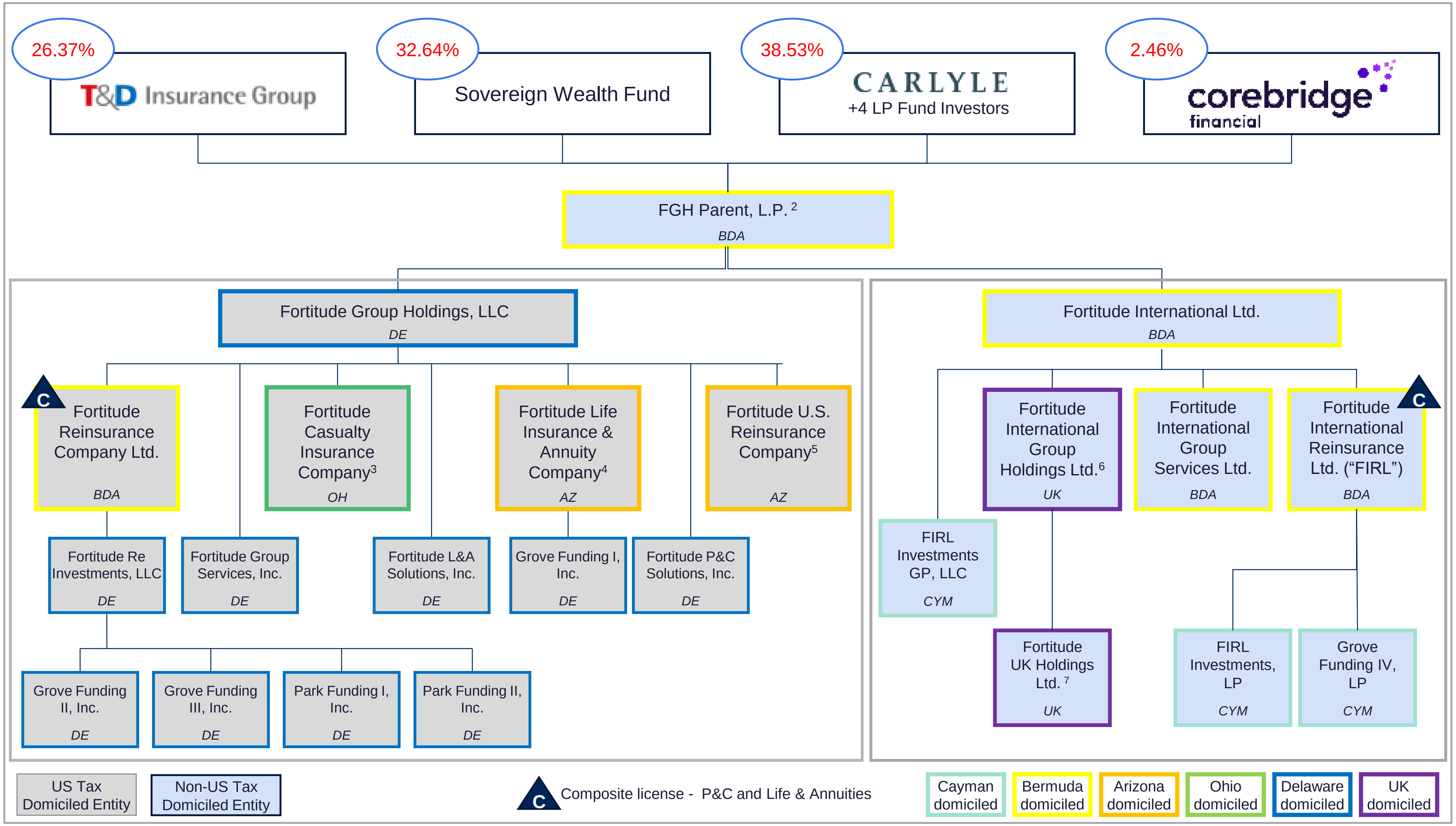
Effective January 1, 2024, the Company entered into a credit default swap with Fortitude International Ltd. ("FIL"), a direct wholly-owned subsidiary of FGP, whereby FIL provides the Company with protection from economic exposure to credit losses on the outstanding principal of a specific portion of the Company's investment portfolio over a defined period of time.

Effective March 11, 2024, the Company entered into a securitization transaction whereby a portfolio of residential mortgage loans were sold to a special purpose entity in exchange for residential mortgage backed securities of an equal fair value.

b. Any Other Material Information

No other material information to report.

Appendix One: Fortitude Group Legal Structure[1]



Footnote: **[1]** As of December 31, 2023 **[2]** Excludes investment subsidiaries that are not 100% owned by FGH Parent **[3]** f/k/a Plans’ Liability Insurance Company **[4]** f/k/a Prudential Annuities Life Assurance Corporation **[5]** f/k/a Rx Life Insurance Company **[6]** Dissolution expected 2Q2024 **[7]** Dissolution expected 1Q2024