Fortitude Reinsurance Company Ltd.

Financial Condition Report

For the year ended December 31, 2021

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 (the "Act"). This report outlines the financial condition of FRL as of December 31, 2021. The FCR contains qualitative and quantitative information of FRL's business and performance, governance structure, risk profile, solvency valuation and capital management.

FORTITUDE RE

ii. Declaration

Declaration on the Financial Condition Report

We, the undersigned, declare that to the best of our knowledge and belief, the financial condition report fairly represents the financial condition of Fortitude Reinsurance Company Ltd. in all material respects as at December 31, 2021.

DocuSigned by:
Andrew Sooboodoo
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Andrew Sooboodoo
Chief Risk Officer
Fortitude Reinsurance Company Ltd.

DocuSigned by:
James Bracken
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James Bracken
Chief Executive Officer
Fortitude Reinsurance Company Ltd.

iii. Company Background Information

The Company was incorporated under the laws of Bermuda on January 1, 2017. The Company is licensed and registered as a Class 4 and Class E reinsurance company in Bermuda and is a reinsurer of general insurance and life and annuity insurance run-off business.

Since inception, the Company has acquired a number of legacy portfolios ceded or novated by a number of American International Group Inc. ("AIG") companies, including American General Life Insurance Company and other AIG life and annuity companies and certain blocks of property and casualty business issued by National Union Fire Insurance Company of Pittsburgh, Pa. and other AIG property and casualty companies.

Effective October 28, 2021, we entered into a reinsurance agreement (the “USAA Reinsurance Agreement”) with USAA Life Insurance Company ("USAA"), pursuant to which we agreed to reinsure certain of USAA’s deferred annuity policies on a funds withheld basis.

As further detailed within Section iv. Business and Performance, effective October 1, 2021, we completed a corporate restructuring (the “Restructuring”), allowing for greater operational efficiency and better positioning us to execute on our growth strategy. The Restructuring triggered the application of "pushdown" accounting which creates a new basis of accounting for all assets and liabilities based on fair value. As a result, the Company's results of operations and cash flows subsequent to the Restructuring are not comparable with those prior to June 2, 2020, and therefore have been segregated to indicate pre-acquisition and post-acquisition periods. The pre-acquisition period from January 1, 2020 to June 1, 2020 is referred to as the "Predecessor Company". The post-acquisition period, June 2, 2020 and forward, includes the impact of "pushdown" accounting and is referred to as the "Successor Company".

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 wholly-owned subsidiary of Fortitude Group Holdings, LLC ("FGH"), formed under the laws of the State of Delaware, United States of America on June 19, 2018.

Effective October 1, 2021, we completed a corporate restructuring (the “Restructuring”), allowing for greater operational efficiency and better positioning us to execute on our growth strategy. The Restructuring involved the insertion of FGH Parent, L.P., a newly formed Bermuda limited partnership, directly above FGH in the corporate structure. To effectuate the Restructuring, The Carlyle Group Inc. ("Carlyle"), AIG and T&D United Capital Co., Ltd. ("T&D"), a wholly-owned subsidiary of T&D Holdings, Inc., a listed Japanese insurance group, each contributed their respective membership interests in FGH in exchange for an equivalent interest in FGH Parent, L.P. As a result of the contribution, FGH is now a direct, wholly-owned subsidiary of FGH Parent, L.P.

As of December 31, 2021, FGH Parent, L.P. was owned by Carlyle FRL, L.P. ("Carlyle FRL"), an investment fund advised by an affiliate of Carlyle, an SEC-registered global investment firm, T&D United Capital Co., Ltd. ("T&D"), a wholly-owned subsidiary of T&D Holdings, Inc., a listed Japanese insurance group, and AIG, an SEC-registered company, with interests of 71.5%, 25% and 3.5% respectively.

The Company is the parent company of Fortitude Re Investments, LLC ("FRI"), an investment holding company, which is incorporated and organized in the State of Delaware, United States of America.

e. Group Structure

The group structure chart as of December 31, 2021 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 comprises excess workers compensation, pollution liability products, environmental losses from incidental liability, healthcare (including physicians and surgeons, pharmaceutical equipment, product recall and other health care coverages), commercial auto (buffer trucking) and other casualty (including primarily certain occupational accident and public entity excess liability and exposures from run-off divisions).

Our long-term business is comprised of both future policy benefits and policyholder contract deposits. Future policy benefits include structured settlements with life contingencies, single premium immediate annuities with life contingencies, pension risk transfer annuities, traditional life insurance products such as whole life, return of premium term, accident & health and long term care. 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 (which are all outside their surrender charge period) and the fund values of universal life 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			
	Successor Company		Predecessor Company		Successor Company		Predecessor Company	
(in millions)	Year Ended December 31,	Period from June 2, to December 31,	Period from January 1, to June 1,	Year Ended December 31,	Year Ended December 31	Period from June 2, to December 31,	Period from January 1, to June 1,	Year Ended December 31,
	2021	2020	2020	2019	2021	2020	2020	2019
Assumed - short duration	$ —	$ 1	$ —	$ 5	$ —	$ —	$ 8	$ 41
Assumed - long duration	280	169	118	292	280	169	118	292
Total net premium	**$ 280**	**$ 170**	**$ 118**	**$ 297**	**$ 280**	**$ 169**	**$ 126**	**$ 333**

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, 2021 and 2020:

(in millions, except percentage data)	Successor Company December 31, 2021 Carrying Value	Percent of Total	December 31, 2020 Carrying Value	Percent of Total
Funds withheld by ceding companies	$ 43,948	93.4 %	$ 42,968	91.7 %
Fixed maturity securities available for sale, at fair value	2,233	4.7 %	3,549	7.6 %
Other invested assets, at fair value	679	1.4 %	313	0.7 %
Short term investments	222	0.5 %	10	— %
Total investments	**$ 47,082**	**100.0 %**	**$ 46,840**	**100.0 %**

As of December 31, 2021, 93% (2020: 92%) of the total investment portfolio of the Company is comprised of funds withheld by ceding companies which represents a reinsurance receivable collateralized by a portfolio of investments maintained by the ceding companies.

The Restructuring and the application of "pushdown accounting", permitted the Successor Company to elect the fair value option for eligible financial assets and liabilities with effect from June 2, 2020. The Successor Company made an irrevocable election to apply the fair value option to the funds withheld by ceding companies portfolio with effect from June 2, 2020.

The investment portfolio underlying both the funds withheld by ceding companies 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 along with RMBS, 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. The assets are managed by external asset managers including affiliates of Carlyle, AIG and Blackrock, Inc., a multinational investment management corporation. Our internal investment function oversees the asset managers and directs asset allocation. The asset management arrangement with AIG may not necessarily be representative of how future funds withheld arrangements are managed as our business evolves to bring on new (re)insurance transactions.

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:

(in millions)	Successor Company Year Ended December 31, 2021 Funds withheld by ceding companies	Fixed maturities available for sale, other investments and short-term investments	Total	Period from June 2, to December 31, 2020 Funds withheld by ceding companies	Fixed maturity securities available for sale, other investments and short-term	Total
Net investment income	$ 1,880	$ 166	$ 2,046	$ 903	$ 63	$ 966
Change in value of funds withheld	(1,262)	—	(1,262)	1,633	—	1,633
Net investment gains (losses)	64	(19)	45	63	23	86
Total investment income	**$ 682**	**$ 147**	**$ 829**	**$ 2,599**	**$ 86**	**$ 2,685**

	Predecessor Company					
	Period from January 1, to June 1, 2020			Year Ended December 31, 2019		
(in millions)	**Funds withheld by ceding companies**	**Fixed maturity securities available for sale, other investments and short-term investments**	**Total**	**Funds withheld by ceding companies**	**Fixed maturity securities available for sale, other investments and short-term investments**	**Total**
Net investment income	$ 459	$ (143)	$ 316	$ 1,695	$ 269	$ 1,964
Change in value of funds withheld	1,461	—	1,461	3,876	—	3,876
Net investment gains (losses)	36	27	63	236	10	246
Total investment income	**$ 1,956**	**$ (116)**	**$ 1,840**	**$ 5,807**	**$ 279**	**$ 6,086**

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

Figure 3. Net Investment Income:

	Successor Company		Predecessor Company	
	Year Ended December, 31,	**Period from June 2, to December 31,**	**Period from January 1, to June 1,**	**Year Ended December 31,**
(in millions)	**2021**	**2020**	**2020**	**2019**
Available for sale fixed maturity securities				
U.S. government and government sponsored entities	$ 13	1	$ 2	$ —
Obligations of states, municipalities and political subdivisions	4	1	2	7
Non-U.S. governments	1	1	1	1
Corporate debt	40	37	23	45
RMBS	4	2	2	6
CMBS	10	5	—	3
CDO / ABS	4	2	1	1
Total investment income for available for sale fixed maturity securities	**$ 76**	**49**	**$ 31**	**$ 63**
Other invested assets	89	14	(173)	201
Short term investments and other investments	3	2	1	12
Funds withheld by ceding companies	1,920	923	484	1,753
Total investment income	**$ 2,088**	**988**	**$ 343**	**$ 2,029**
Investment expenses	(42)	(22)	(27)	(65)
Net investment income	**$ 2,046**	**966**	**$ 316**	**$ 1,964**

Figure 3.1 Net investment gains (losses):

	Successor Company		Predecessor Company	
(in millions)	Year ended December 31, 2021	Period from June 2, to December 31, 2020	Period from January 1, to June 1, 2020	Year Ended December 31, 2019
Available for sale fixed maturity securities				
U.S. government and government sponsored entities	$ (51)	$ 3	$ —	$ —
Obligations of states, municipalities and political subdivisions	1	1	—	7
Non-U.S. governments	2	—	1	—
Corporate debt	37	27	26	2
RMBS	—	—	—	1
CMBS	(2)	1	—	—
CDO/ABS	(2)	—	$ —	$ —
Total available for sale fixed maturity securities	**$ (15)**	**32**	**$ 27**	**$ 10**
Derivative instruments	(4)	(9)	—	—
Funds withheld by ceding companies	64	63	36	236
Net investment gains (losses)	**$ 45**	**86**	**$ 63**	**$ 246**

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 insurance claims 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:

	Successor Company		Predecessor Company	
(in millions)	Year ended December 31, 2021	Period from June 2, to December 31, 2020	Period from January 1, to June 1, 2020	Year ended December 31, 2019
Revenues:				
Premiums	$ 280	$ 169	$ 126	$ 333
Policy fees	76	48	31	92
Net investment income	2,046	966	316	1,964
Change in fair value of funds withheld	(1,262)	1,633	1,461	3,876
Net investment gains	45	86	63	246
Net foreign exchange gains	4	17	—	—
Total revenues	**1,189**	**2,919**	**1,997**	**6,511**
Benefits, losses and expenses:				
Policyholder benefits and losses incurred	1,060	609	1,579	1,511
Interest credited to policyholder account balances	194	124	84	206
General operating expenses	156	82	62	176
Total benefits, losses and expenses	**1,410**	**815**	**1,725**	**1,893**
(Loss) Income before income tax (benefit) expense	**(221)**	**2,104**	**272**	**4,618**
Income tax (benefit) expense:				
Current	299	(8)	191	78
Deferred	(350)	451	(135)	893
Income tax (benefit) expense	**(51)**	**443**	**56**	**971**
Net (loss) income	**$ (170)**	**1,661**	**216**	**$ 3,647**

The net loss incurred for the year ended December 31, 2021 is primarily due to a decrease in the value of funds withheld due to increased interest rates during the year.

h. <u>Any Other Material Information</u>

Restructuring and Application of "Pushdown" Accounting

As detailed in the notes to the audited consolidated financial statements of FGH Parent, L.P., the Restructuring necessitated the application of "pushdown" accounting of the accounting basis of Carlyle FRL as of June 2, 2020 to FGH Parent, L.P., which was fair value. Concurrent with the application of "pushdown" accounting at FGH Parent, L.P., the Company elected to apply "pushdown" accounting within its separate financial statements on the basis that the application of "pushdown" was a preferable accounting change; a permitted election under the principles of U.S. GAAP as further detailed in the Company Background Information section.

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, management and the Company’s general counsel. Reports are also received from each of the following 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, 2021, the Board consisted of thirteen directors:

- Brian T. Schreiber
- James Bracken
- Ciara Burnham
- Sihong Chan
- Doug French
- Takayuki Hanao
- Brian O'Hara
- Richard Patching
- Christopher Schaper
- Jane Tutoki
- Reginald Van Lee
- Samuel J. Weinhoff
- Ichiro Yamamura

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 its Compensation Committee and Board. FRL’s 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 FRL’s and the individual employee’s performance. The Company also offers long-term incentive (“LTI”) payment to certain senior level employees that is a fixed amount granted annually and vests on a three-year schedule. The Company’s Human Resources Department participates in annual surveys designed to review local compensation practices/standards to ensure FRL’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 Chief Risk Officer reviews the planned compensation framework to ensure incentives are aligned with appropriate risk taking. The Company also has a Compensation Committee to assist the Board in its oversight of the compensation and benefits programs.

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

FRL 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.

<u>AIG Affiliated Entities:</u>

For the year ended December 31, 2021, the Company no longer considers AIG to be an affiliated entity. Further, while AIG holds a 3.5% ownership interest in us and has the right to appoint one director to the Board of Directors of FGH, we consider the ability of AIG to influence our management or operating policies to be extremely limited. Accordingly, we no longer consider AIG or its affiliated entities to meet the requirement to be classified as a related party under the provisions of ASC 850, *Related Party Disclosures*.

<u>Carlyle Affiliated Entities:</u>

The Company has entered into (1) investment management agreements between FRL and Carlyle Investment Management LLC ("Investment Manager"), an affiliate of Carlyle, dated November 13, 2018, and as amended from time to time, and between Fortitude Investments and the Investment Manager, dated May 12, 2020, pursuant to which the Investment Manager provides certain investment management and advisory services with respect to certain asset classes and (2) an exclusivity agreement, dated June 2, 2020, among FRL and the Investment Manager pursuant to which the Investment Manager is the exclusive provider of investment management and advisory services with respect to certain asset classes and certain new business acquired by the Company.

b. <u>Fitness and Propriety Requirements</u>

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

FRL 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.

FRL's Code of Conduct seeks to prevent and manage conflicts of interest in order to ensure that all FRL 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 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, 2021:

Name	Position
Brian T. Schreiber	Chairman and Director
James Bracken	Chief Executive Officer and Director
Kai Talarek	Chief Financial Officer
Jeffrey Mauro	Chief Investment Officer
Jeff Burman	General Counsel
Sean Coyle	Chief Operating Officer
Andrew Sooboodoo	Chief Risk Officer
Jack McGregor	Chief Property and Casualty Reinsurance Officer
Amanda Stewart	Chief Human Resources Officer
Ciara A. Burnham	Independent Director
Sihong Chan	Director
Douglas A. French	Independent Director
Takayuki Hanao	Director
Brian O'Hara	Independent Director
Richard Patching	Independent Director
Christopher T. Schaper	Director
Jane Tutoki	Independent Director
Reggie Van Lee	Director
Samuel J. Weinhoff	Independent Director
Ichiro Yamamura	Director

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.

James Bracken, Chief Executive Officer and Director. Prior to joining FRL, Mr. Bracken spent nearly 20 years in finance related positions in the insurance industry in both Europe and the United States. He most recently was the Chief Financial Officer of General Insurance at AIG. Before joining AIG, Mr. Bracken spent eight years at General Electric where he held finance positions at Employers Reinsurance Corporation, GE Frankona and GE Capital in Kansas, Munich and Stamford. Prior to that, he worked for 10 years in the audit and business advisory practice of Arthur Andersen, both in the UK and Chicago. Mr. Bracken has served as member of the board of directors of various U.S., Canadian, European and Asian insurance companies. He is a graduate of Durham University, United Kingdom and qualified as a chartered accountant in the UK.

Kai Talarek, Chief Financial Officer. 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.

Jeffrey Mauro, Chief Investment Officer. Mr. Mauro previously served as head of the Cross Asset Initiatives team in the Asset Management Group at AIG, where he developed and implemented processes to facilitate asset allocation decisions for AIG's investment portfolio. In 2013, Mr. Mauro began his tenure at AIG in the Investments Business Strategy team where he worked to execute the divestiture of certain holdings that were deemed no longer core to AIG's overall business. Prior to that, Mr. Mauro worked in Investment Banking, helping financial institutions to execute capital raising and M&A transactions at Macquarie Capital (USA) Inc. and FBR & Co. Mr. Mauro earned his Bachelors of Science in Finance and Accounting from Georgetown University. He is a Chartered Financial Analyst (CFA) Charterholder.

Jeff Burman, General Counsel. Mr. Burman brings more than 20 years of broad legal experience in the areas of insurance and reinsurance-related transactions, regulatory matters and dispute resolution. He most recently served as Chief Reinsurance Legal Officer and Deputy General Counsel for General Insurance at AIG. In this position he led the legal function for various groups, including Reinsurance; Multinational; Insurance Company Governance; as well as the Canada, Bermuda and Latin America regions. Prior to joining AIG in 2008, Mr. Burman practiced at two leading New York law firms where he represented insurers and reinsurers, investment banks and investors in (re)insurance transactions, including mergers and acquisitions, insurance-linked securitizations and reinsurance contract drafting and dispute resolution. Mr. Burman is a graduate of Rutgers University School of Law, where he served on the Rutgers Law Journal, following which he served an appellate court clerkship in New Jersey. He is a member of the bars of New York and New Jersey.

Sean Coyle, Chief Operating Officer. Mr. Coyle brings approximately 20 years of operations and technology experience in the financial services industry, with deep knowledge in the insurance industry as both an operations and technology executive. Prior to his role in FRL, Sean was the Global Head of Finance Operations and Reengineering at AIG, where he was tasked with defining and implementing the vision, strategy, and plan for the global finance target operating model with a key focus on the use of shared services. Mr. Coyle was responsible for the creation and oversight of AIG's global Finance Centers in India as well as regional Finance Centers in Eastern Europe and South America. In addition to operational responsibilities, his team delivered strategic transformation capabilities across finance, including the oversight and management of change programs, reengineering and process automation, robotics, operating model strategy and strategic project execution. Prior to joining AIG in 2012, Mr. Coyle was Senior Vice President of Global Operations & Reengineering at ACE Group (now Chubb), where he was a member of the operations leadership team with global responsibility for the strategy, vision and execution of the operations function. Prior to joining ACE Group in 2006, Mr. Coyle was a Senior Manager with BearingPoint Inc. in the Financial Services practice and a Lead Application Developer and Architect with Proxicom, Inc. Mr. Coyle holds a bachelor's degree in Computer Science from Florida State University.

Andrew Sooboodoo, Chief Risk Officer. 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.

Jack McGregor, Chief Property and Casualty Reinsurance Officer. Mr. McGregor has spent his entire 25 year career within Property & Casualty insurance and related fields. Mr. McGregor began his professional career as a trial litigator with a large Chicago-based law firm, specializing in insurance coverage, insurance bad faith and appellate work. He joined AIG in 2012 as Head of Run-Off Transactions, where he managed all aspects of $7+ billion of gross multi-line legacy insurance liabilities. Prior to joining AIG, Mr. McGregor was Associate General Counsel, Chief Underwriting Counsel and ultimately Head of Disengagement Transactions at Lumbermens Mutual Group (Kemper Insurance Companies), where he was responsible for analysis and resolution of a wide spectrum of legal, regulatory and operational issues related to the solvent run-off of an $11 billion, 11,000 employee, century-old insurance organization. He holds B.S. and J.D. degrees, with distinctions, from the University of Illinois.

Amanda Stewart, Chief Human Resources Officer. Ms. Stewart leads all aspects of organizational effectiveness and human capital management. She provides strategic business leadership by identifying and executing on the human capital needs of the business in partnership and collaboration with the CEO and executive team. Ms. Stewart brings nearly 20 years of multi-national experience within human resources, working across Bermuda, Canada, United Kingdom, Australia, Switzerland and the United States. She most recently served as the Head of Global Talent Management and HR Projects for Renaissance Re, where she led talent management initiatives, global HR projects, and was a key member of the Company's diversity, equity, and inclusion team. Prior to joining Renaissance Re, Ms. Stewart was Vice President, Human Resources at Tokio Millennium Re, AG, where she had oversight for group learning and development, performance management, and compensation. Ms. Stewart holds the Canadian Human Resource Leader Designation (CHRL) and obtained her Bachelor of Arts degree in Psychology from the University of Western Ontario.

Ciara A. Burnham, Director. Ciara Burnham is a financial services executive, board director and investor with three decades of experience across the industry. Ciara 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. Ciara 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. Ciara 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, Ciara was an equity research analyst with Sanford Bernstein and a consultant with McKinsey. Ciara 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. Ciara 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.

Sihong Chan, Director. Sihong Chan joined GIC in 2006. He is a Senior Vice President and the Deputy Head of the Special Opportunities Group. During his tenure at GIC's private equity department, Mr. Chan has overseen numerous private equity and private credit fund investments, co-investments and direct investments. He has experience in a variety of sectors, including financial services, consumer & retail, media and natural resources. Among other roles at GIC, Mr. Chan has served as the Global Coordinator for Restructured & Opportunistic Credit, and the co- sector head of Emerging Markets Non-Asia Private Equity Funds & Co-investments. Mr. Chan has represented, and still represents, GIC as an advisory board member on several private equity fund committees. He has also been an observer on several private company boards, including those of Del Monte Foods and Igloo Coolers. Mr. Chan attended Stanford University on a GIC scholarship, and graduated Phi Beta Kappa with a M.A. in International Policy Studies and a B.A. in Economics, with distinction.

Douglas A. French, Director. Doug French is the recent Managing Principal of the Insurance and Actuarial Advisory Services practice of Ernst & Young LLP's Financial Services Organization. Doug has spent more than 35 years in actuarial consulting. Before joining Ernst & Young LLP in 1999, he was a principal and global practice director of a major actuarial consulting firm. As a senior consultant, Doug has drawn on his global experiences to assist life, health and property/casualty clients in mergers and acquisitions, strategic planning, enterprise risk and capital management, financial reporting and management, financial projections and modeling and distribution economics and effectiveness. Throughout his career, he has not only maintained his technical actuarial skills, but has also strived to understand the broader strategic implications and drivers for the insurance industry and its participants. His deep understanding of the industry allows him to translate concepts and business models into active strategies and tactics for his clients. Doug is a frequent speaker at industry seminars and author in industry publications. He is also an Ex- Corporate Advisory Council member of the International Association of Black Actuaries, a College of Natural Sciences Advisory Council participant at the University of Texas at Austin and an Emeritus Trustee of The Actuarial Foundation. In 2018, Doug received the Society of Actuaries Distinguished Service Award for significant contributions to the actuarial profession.

Takayuki Hanao, Director. Mr. Hanao is a Board Director and COO of T&D United Capital North America Inc., a New York based subsidiary of T&D Holdings, Inc. His main responsibility is to oversee and monitor strategic investments made by the T&D Insurance Group in insurance closed book (run-off) businesses in North America. He joined Daido Life Insurance Company (Daido Life), a core life insurance arm of T&D Insurance Group in 2000. He started his career in Daido Life's Investment Planning Department and has focused primarily on the investment and asset management activities. His experience includes a 5 year stint at T&D Asset Management Co., Ltd. as a Fund Manager responsible for managing investment trusts and pension schemes. He has also been heavily involved in a number of strategic transactions for T&D Insurance Group since 2013. He earned a LLB from Keio University. He is a Certificate-holder Member of the Securities Analysts Association of Japan.

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 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.

Christopher T. Schaper, Director. Chris Schaper is the group CEO for AIG RE, the global reinsurance business of American International Group (AIG), which brings together the organizations of Validus Re, Alphacat and Talbot Treaty under one entity. He is responsible for the implementation and execution of the firm's global assumed reinsurance strategy, including a focus on new capital markets initiatives. He also is a member of the AIG General Insurance Executive Committee. Mr. Schaper joined AIG in 2019 and has over 30 years of insurance and reinsurance industry experience serving in both executive leadership and board roles during his career. He joins AIG from Marsh & McLennan Companies, where he was CEO of Victor Insurance Holdings, Marsh's global managing general agent business. He joined Marsh in 2016 and was also a member of the Marsh Operating Committee. Prior to that, Mr. Schaper served as President of Montpelier Re Ltd. and Underwriting Chairman of Blue Capital, Montpelier's capital markets entity. Previously, Mr. Schaper held several leadership positions at Endurance Specialty Insurance Ltd., including Chief Underwriting Officer and Head of Reinsurance. Earlier in his career, Mr. Schaper held roles at several firms including Gerling Global Financial Products, Employers Reinsurance Corporation (a division of GE Capital) and CIGNA Group. Mr. Schaper is based in Bermuda and has been granted his Permanent Resident's Certificate (PRC).

Jane Tutoki, Director. Jane Tutoki currently serves on the Board of Directors for Sedgwick. Prior to that, Jane spent 4 years as the Global CEO of Cunningham Lindsey, a provider of independent loss adjusting and claims management services in more than 60 countries. Before joining Cunningham Lindsey, Jane served as Global Head of Claims Operations for AIG Property and Casualty and worked as both Head of Americas Region and Executive Director of Global Insurance for Xchanging PLC. Jane held several senior positions at Zurich Financial Services, including Global Chief Claims Officer and Chief Claims Officer, North America Commercial Division. She began her career as a litigation attorney, working for numerous insurance companies, and later serving as in-house counsel at Hartford Financial Services. Jane holds a Juris Doctor degree and is a Chartered Property Casualty Underwriter. She was a Director for 6 years on the Board of Electricidad de Caracas, the electric company serving most of Venezuela. She is active in the insurance industry and is a past Chancellor of the CLM College of Insurance.

Reggie Van Lee, Director. Reggie Van Lee is the Chief Transformation Officer at the Carlyle Group, helping ensure that the firm is maximizing its market competitiveness and operating most effectively and efficiently as an institution. Before joining Carlyle, he retired (after 32 years with the firm) as Executive Vice President from Booz Allen Hamilton, Inc. where he led numerous businesses, including the Commercial Solutions business in which the firm's Commercial Financial Services practice resided. Reggie brings decades of experience creating technology based strategies and driving growth and best-in-class performance. Prior to Booz Allen, he served as a research engineer with the Exxon Production Research Company. Reggie is a member of the board of directors of ProKarma, Gallup Inc, and several not for profit organizations. He was named one of the top 25 consultants in the world by Consulting Magazine. He holds both Bachelor of Science and a Master of Science degrees in Civil Engineering from MIT and an MBA from Harvard University.

Samuel J. Weinhoff, Director. Mr. Weinhoff has been an independent consultant to the insurance industry since 2000. Mr. Weinhoff began his insurance career at the Home Insurance Company in 1976 as a corporate planning analyst. He rose to the head of the corporate planning, reporting and analysis department and later became an excess casualty treaty reinsurance underwriter. Mr. Weinhoff joined the investment department of the Reliance Insurance Company in 1980. While there, he had responsibility for investing in financial institution equities. Mr. Weinhoff joined Lehman Brothers in 1985, first as an equity research analyst covering the insurance industry and later as an Investment Banker focused on insurance. In 1997, he joined Schroders & Co. as head of their U.S. financial institutions effort. Mr. Weinhoff has served on the Board of Directors of Infinity Property Casualty, one of the largest U.S. Hispanic auto insurers. He became head of their Audit Committee in 2008 and Lead Director in 2015. Mr. Weinhoff joined the Board of Directors of Allied World in 2006 where he has served as Chair of the Compensation Committee and a member of the Risk, Audit, Investment and Executive Committee. Mr. Weinhoff received a BA in Economics from the University of Illinois and an MBA from the Wharton School.

Ichiro Yamamura, Director. Mr. Yamamura is a Board Director and President/CEO of T&D United Capital North America Inc., a New York based subsidiary of T&D Holdings, Inc. and oversees strategic investments made by the T&D Insurance Group in insurance closed book (run-off) businesses in North America. Prior to that, he was a General Manager of the Market & Alternative Investment Department at Daido Life Insurance Company ("Daido Life"), a core life insurance arm in the T&D Insurance Group. He is responsible for all of the investment activities for Daido Life (except ALM investments) including "public equity investments", "private equity investments", "hedge fund investments", "infrastructure/real-estate fund investments" and other alternative investments. He joined Daido Life in 1989 and engaged in personal and corporate finance-related activities for 11 years. Since 2000, Mr. Yamamura has been primarily focused on private equity-related investments. During 2003-2008, he served as an Executive Director of Alternative Investment Capital Ltd, an investment advisory firm established in October 2002 by Mitsubishi Corporation and Daido Life Insurance Company. He earned a bachelor's degree of law from Kwansei Gakuin University.

c. Risk Management and Solvency Self-Assessment

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

FRL 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 five key aspects:

- Corporate Governance
- Risk Culture and Risk Organization
- Risk Identification and Measurement
- Risk Appetite and Limits
- Regulation and Supervision

<u>Risk Identification and Measurement:</u>

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 the 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's desired risk appetite.

<u>Risk Management:</u>

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") approved by the FRL Board of Directors 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.

<u>Risk Monitoring and Reporting:</u>

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 'Statement of Risk Appetite' which 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 Capital Management policy is set at the FRL Group 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 that was internally built with support from external consultants 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 FRL's capital management decisions, and is communicated to FRL's Board of Directors in conjunction with capital management recommendations.

If applicable, the Company has the potential to raise incremental capital in the event of a solvency need from its long-term institutional investors.

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 has processes, effected by the Board of Directors (the "Board"), management, and other personnel, designed to provide reasonable assurance regarding the reliability, timeliness and transparency of the Company's internal, external financial and non-financial reporting.

The Company has adopted the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") 2013 framework as the criteria for evaluating the effectiveness of the Company's internal controls. The COSO 2013 framework includes the following components:

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

The Company's assessment of its internal controls framework takes into consideration all the components of the COSO 2013 framework and includes an evaluation of the design effectiveness of all five components. The Control Environment component applies broadly across the Company, while the Control Activity component is specific to processes and/or functions. The other COSO 2013 components, namely Risk Assessment, Information and Communication, and Monitoring Activities, apply at both the entity level as well as the process and/or function level.

Our internal control framework is designed to provide reasonable assurance regarding the reliability of financial; reporting. Such internal controls are assessed by control owners on at least an annual basis in terms of design effectiveness. The responsibility for compliance with internal control rests with the Chief Executive Officer and Chief Financial Officer with responsibilities appropriately assigned to other members of management.

The Board oversees the internal control system and is supported in the first instance by the Audit Committee and secondly by the Internal Controls over Financial Reporting ("ICFR") Committee. The ICFR Committee, chaired by the Deputy Chief Financial Officer, is responsible for the development, maintenance, and governance of a system of ICFR which supports reliable financial reporting and meets the expectations and needs of investors, regulators, and other key stakeholders. In addition, the Company's compliance function, accounting policy and financial controls function, finance function, actuarial function, risk management function, and internal audit function are all key contributors to the governance and oversight of the Company's internal control system.

In addition, if applicable, control deficiencies deemed to be material weaknesses or significant deficiencies are reported on a quarterly basis to the Board and the Audit Committee and, where relevant, an assessment of the aggregated impact these deficiencies could have on the financial statements of the Company.

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 which is a committee of the Board of Directors. The purpose of the 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. Internal Audit

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. An annual risk assessment process is performed 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 FRL's Senior Management to support transparent and timely communication of its findings. Written reports are addressed to FRL's 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 Fortitude Group Services, Inc., 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 Fortitude International Group Services Ltd.., an affiliate of the Company. Through intra-group service agreements, FRL receives functional support services from Fortitude Group Services, Inc., an affiliate of the Company, such as information technology, operations, actuarial, risk management and legal services.

h. Any Other Material Information

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

vi. Risk Profile

a. <u>Material Risks to which the Company is Exposed During the Reporting Period</u>

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:

<u>Property and Casualty Reserve Risk</u>
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.

<u>Mortality Risks</u>
Base Mortality risk is the risk of loss arising from actual base mortality rates being higher / 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 / 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.

<u>Morbidity Risk</u>
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.

<u>Liquidity Risk</u>
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.

<u>Interest Rate Risk</u>
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.

<u>Alternative Asset Risk</u>
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.

<u>Credit Spread Risk</u>
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.

<u>Credit Risk</u>

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).

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. Material Risk Concentrations

FRL aims to diversify its retained risk concentrations. Risk concentration tolerances are put in place to monitor and manage the concentration of any single risk type. Different tolerances apply to each risk type where risk consumption is measured by FRL's stand-alone Economic Capital risk capital for each risk factor.

The risk concentration tolerances are monitored at minimum on a quarterly basis. The tolerances are reviewed and recalibrated by the RCC on an annual basis. To the extent any of these tolerances are breached, FRL senior management discuss any potential mitigating actions at the quarterly RCC meeting.

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 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, 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. 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. 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 used the following valuation methods and assumptions to estimate the fair value of assets on the economic balance sheet of the Company:

- Funds withheld by ceding companies: The fair value option was elected by the Successor Company with respect to the funds withheld portfolio with effect from June 2, 2020 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: 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.

- 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: This consists of highly liquid securities with remaining maturities of one year or less, but greater than three months, at the time of purchase and short-term bank loan securities. These securities are stated at amortized cost which approximates fair value.

- Cash: This consists of cash on hand, demand deposits and highly liquid debt instruments with an original maturity of three months or less. These are carried at amortized cost which approximates fair value.

- 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 Act to value the funds withheld by ceding companies 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, 2021. This permitted practice 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 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, 2021 and 2020, the Technical Provisions and Risk Margin for Long-Term and General Business were as follows:

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

Successor Company		
Year Ended December 31, 2021 (in millions)	**Long-term**	**General**
Best Estimate[1]	$ 38,679	$ 2,954
Risk Margin	972	623
Technical Provision	**$ 39,651**	**$ 3,577**

(1) Best estimate for General reflects both the best estimate loss and loss expense provision and best estimate premium provision.

Successor Company		
Year Ended December 31, 2020 (in millions)	**Long-term**	**General**
Best Estimate	$ 37,653	$ 3,420
Risk Margin	1,072	711
Technical Provision	**$ 38,725**	**$ 4,131**

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 gain arising from retroactive reinsurance contracts is deferred on the balance sheet within liabilities and amortized into income over the settlement period of the assumed reserves. Under EBS principles, the deferred gain is recognized immediately within equity.

- Value of Business Acquired ("VOBA"): In conjunction with "pushdown" accounting, a VOBA 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 capital management objective of the Company 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.

As of December 31, 2021, FRL had declared cumulative dividends payable to FGH of $1.1 billion, of which $1,030 million were paid and $77 million was a non-cash dividend.

Based on FRL's assessment of capital adequacy under each of the stress scenarios defined by ERM, FRL's forecasted capital position is in compliance with FRL's RAS.

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

As of December 31, 2021 and 2020, the Company's eligible capital was categorized as shown in Figure 7 below.

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

	Successor Company	
(in millions)	Year ended December 31,	
	2021	2020
Tier 1	$ 3,983	$ 4,268
Tier 2	—	—
Tier 3	—	—
Total Eligible Capital	**$ 3,983**	**$ 4,268**

The majority of the capital is Tier 1, consisting of common stock, contributed surplus and economic surplus. On June 2, 2020, FGH entered into a syndicated bank facility. Of the $250 million term loan principal, $245 million of the proceeds were contributed as capital on June 2, 2020 by FGH to FRL. 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, 2021 and 2020, 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:

	Successor Company	
Year Ended December 31, 2021 (in millions)	**Applied to ECR**	**Applied to MSM**
Tier 1	$ 3,983	$ 3,983
Tier 2	—	—
Tier 3	—	—
Total Eligible Capital	**$ 3,983**	**$ 3,983**

	Successor Company	
Year Ended December 31, 2020 (in millions)	**Applied to ECR**	**Applied to MSM**
Tier 1	$ 4,268	$ 4,268
Tier 2	—	—
Tier 3	—	—
Total Eligible Capital	**$ 4,268**	**$ 4,268**

As of December 31, 2021 and 2020, 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, 2021, $660 million (2020: $809 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	**Successor Company**	
(in millions)	**2021**	**2020**
Total GAAP Shareholders' Equity	$ 3,821	$ 5,196
Section 6C exemption(1)	(455)	—
Total Statutory Capital and Surplus	**$ 3,366**	**$ 5,196**

(1) FRL has obtained permission under Section 6C of the Act to value the funds withheld by ceding companies 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, 2021.

b. Regulatory Capital Requirements

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

ECR Requirements	**Successor Company**	
(in millions, except ratio)	**2021**	**2020**
Eligible Capital	$ 3,983	$ 4,268
Required economic capital and surplus	1,758	1,871
Ratio	**226 %**	**228 %**

MSM Requirements	**Successor Company**	
(in millions)	**2021**	**2020**
Actual statutory capital and surplus	$ 3,366	$ 5,196
Required capital and surplus	1,119	1,178

The Company was compliant with the ECR and MSM requirements during the reporting period. The Company maintained the ECR over 200% throughout 2021 and 2020 despite the challenging market conditions caused by COVID-19, largely due to the strict asset-liability management practices the Company has implemented. A sizable portion of decline in the capital and surplus resulting from interest rate movements was offset by gains from interest rate hedging.

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, 2021.

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 January 1, 2022, FRL received Reciprocal Jurisdiction Reinsurer status from Texas (as our lead state) making it the first life insurer to receive this status. We are now using the “passporting” procedure to apply for this reciprocal status in other states. “Passporting” refers to the process under which a state has the discretion to defer to the certification of a reinsurer (and the rating assigned to that certified reinsurer) by another state. This means that reinsurers licensed and domiciled in Bermuda will not be required to post reinsurance collateral when transacting in the US. This puts Bermuda reinsurers on an equal footing with E.U., the U.K., and U.S. reinsurers as U.S. cedants will now be able to claim balance sheet credit for new reinsurance ceded to reciprocal jurisdiction approved Bermuda reinsurers.

On February 17, 2022, FRL entered into a loss portfolio transfer reinsurance agreement with a subsidiary of a major international insurance and reinsurance group, with the initial estimate of liabilities assumed of $230 million. The nature of this transaction includes reinsurance of small-business primary general liability policies for underwriting years 2013 through 2019, net of inuring reinsurance, with an effective date of February 25, 2021.

On March 1, 2022, FRL entered into a $335 million loss portfolio transfer retrocession agreement with JRG Reinsurance Company Ltd. ("JRG Re"), a primary operating subsidiary of James River Group Holdings, Ltd. Under the terms of the agreement, FRL will reinsure the majority of the reserves from the firm’s casualty reinsurance business. In total, JRG Re is to cede approximately $335 million of liabilities for certain business written in the years 2011-2020, subject to an aggregate limit of $400 million.

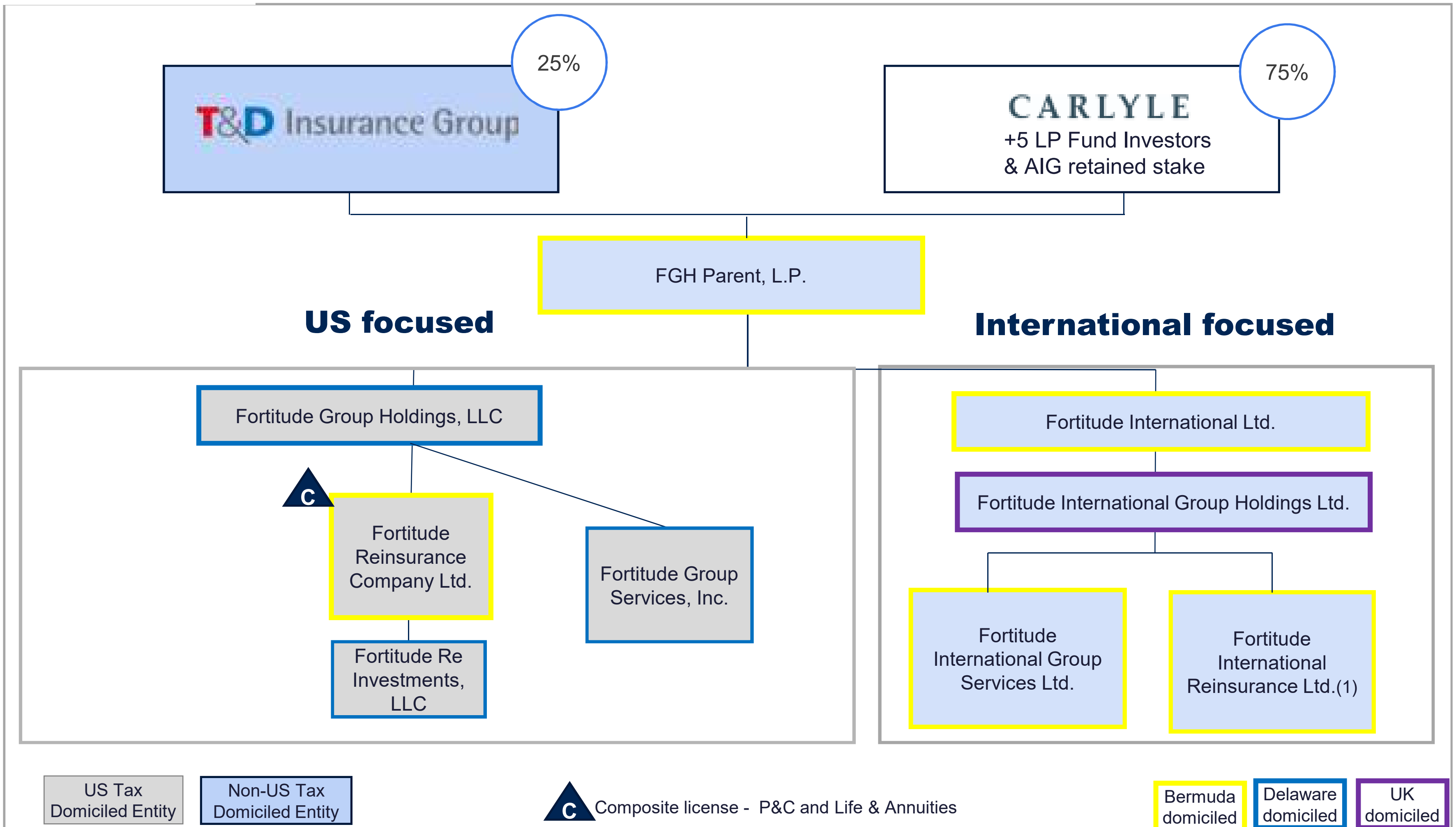
On March 31, 2022, FRL entered into a $4 billion reinsurance transaction with Taiyo Life Insurance Company (“Taiyo Life”), a wholly owned subsidiary of T&D. Under the transaction, which is effective as of March 31, 2022, Taiyo Life has reinsured a significant portion of its in-force individual annuity business to FRL. Taiyo Life will continue to service and administer the reinsured policies.

On March 31, 2022, FGH Parent, L.P. raised $2.1 billion in equity capital from Carlyle and other existing investors, including T&D. In connection with the capital raise, FGH Parent, L.P. entered into a new strategic advisory agreement with Carlyle Insurance Solutions Management LLC (“CISM”). CISM will provide FRL and its affiliates with mergers and acquisition, transaction origination and execution, and capital management services as well as source new growth opportunities.

b. *Any Other Material Information*

No other material information to report.

Appendix 1 - Fortitude Group Legal Structure (December 31, 2021)



(1) Composite license granted with effect from January 1, 2022.