

Fortitude Reinsurance Company Ltd.

Consolidated Financial Statements

**As of December 31, 2025 and 2024 and for the years ended December 31,
2025, 2024 and 2023**

Fortitude Reinsurance Company Ltd.
Consolidated Financial Statements
Table of Contents

Consolidated Financial Statements

Report of Independent Auditors	<u>1</u>
Consolidated Balance Sheets	<u>3</u>
Consolidated Statements of Income (Loss)	<u>5</u>
Consolidated Statements of Comprehensive Income (Loss)	<u>6</u>
Consolidated Statements of Changes in Shareholder's Equity	<u>7</u>
Consolidated Statements of Cash Flows	<u>8</u>

Notes to Consolidated Financial Statements

Note 1	Nature of Operations, Basis of Presentation and Summary of Significant Accounting Policies	<u>10</u>
Note 2	Transition Impact of ASU 2018-12	<u>20</u>
Note 3	Fair Value Measurements	<u>25</u>
Note 4	Investments	<u>34</u>
Note 5	Derivatives and Offsetting	<u>40</u>
Note 6	Reinsurance	<u>45</u>
Note 7	Future Policy Benefits	<u>45</u>
Note 8	Policyholder Contract Deposits	<u>51</u>
Note 9	Short Duration Contracts	<u>55</u>
Note 10	Value of Business Acquired, Deferred Cost of Reinsurance Contracts and Deferred Acquisition Costs, and Deferred Gain from Reinsurance Contracts	<u>59</u>
Note 11	Credit Facilities and Liquidity Agreements	<u>60</u>
Note 12	Contingencies and Commitments	<u>61</u>
Note 13	Income Taxes	<u>61</u>
Note 14	Related Party Transactions	<u>64</u>
Note 15	Shareholder's Equity	<u>68</u>
Note 16	Statutory Requirements	<u>68</u>
Note 17	Subsequent Events	<u>69</u>



Report of Independent Auditors

To the Board of Directors of Fortitude Reinsurance Company Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Fortitude Reinsurance Company Ltd. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2025 and 2024, and the related consolidated statements of income (loss), of comprehensive income (loss), of changes in shareholder's equity and of cash flows for each of the three years in the period ended December 31, 2025, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2025 and 2024, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2025 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for long-duration insurance contracts in 2025. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

Required Supplemental Information:

Accounting principles generally accepted in the United States of America require that the incurred and paid claims development information for the years ended December 31, 2018 to December 31, 2024, and the average annual percentage payout of incurred losses by age, net of reinsurance, as of December 31, 2025, on pages 57-58 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers LLP

Nashville, Tennessee
April 27, 2026

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

	December 31,	
	2025	2024
Assets:		
Investments:		
Fixed maturity securities:		
Available for sale, at fair value (amortized cost: \$17,948 and \$17,014 as of December 31, 2025 and 2024, respectively) (allowance for credit losses of \$62 and \$106 as of December 31, 2025 and 2024, respectively)	\$ 18,004	\$ 16,756
Fair value option	2,266	2,191
Mortgage loans, at fair value	4,191	2,942
Funds withheld - directly managed, at fair value	37,645	38,649
Other invested assets (includes \$1,609 and \$2 of assets measured at fair value as of December 31, 2025 and 2024, respectively)	3,158	1,490
Short term investments	71	170
Total investments	65,335	62,198
Cash and cash equivalents	737	749
Deferred cost of reinsurance contracts and deferred acquisition costs ⁽¹⁾	3,318	3,482
Deferred income taxes, net ⁽¹⁾	1,677	1,596
Other assets	652	572
Total assets	\$ 71,719	\$ 68,597

⁽¹⁾ Prior period amounts have been restated for the adoption of ASU 2018-12. See Note 2 for further information.

See accompanying Notes to Consolidated Financial Statements.

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

	December 31,	
	2025	2024
Liabilities and Equity		
Liabilities:		
Future policy benefits ⁽¹⁾	\$ 41,204	\$ 36,160
Policyholder contract deposits (includes \$154 and \$182 of liabilities measured at fair value as of December 31, 2025 and 2024, respectively)	20,654	22,142
Value of business acquired ⁽¹⁾	3,169	3,406
Unpaid losses and loss adjustment expenses	2,370	2,639
Deferred gain from reinsurance contracts ⁽¹⁾	668	685
Accrued and other liabilities (includes \$190 and \$125 of liabilities measured at fair value as of December 31, 2025 and 2024, respectively) ⁽¹⁾	1,748	1,791
Total liabilities	69,813	66,823
Contingencies and commitments (Note 12)		
Equity:		
Common stock - \$1.00 par value; 1,250,000 units authorized, issued and outstanding as of December 31, 2025 and 2024, respectively	1	1
Additional paid-in-capital	5,882	5,882
Retained deficit ⁽¹⁾	(7,105)	(7,493)
Accumulated other comprehensive income ⁽¹⁾	3,128	3,384
Total equity	1,906	1,774
Total liabilities and equity	\$ 71,719	\$ 68,597

⁽¹⁾ Prior period amounts have been restated for the adoption of ASU 2018-12. See Note 2 for further information.

See accompanying Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2025	2024	2023
Revenues:			
Premiums	\$ (6)	\$ 207	\$ 217
Policy charges and fee income	816	852	251
Net investment income	3,518	3,550	1,981
Change in fair value of funds withheld agreements	876	(1,228)	1,996
Investment losses	(723)	(983)	(665)
Foreign exchange losses ⁽¹⁾	(53)	(88)	(73)
Total revenues	4,428	2,310	3,707
Benefits and expenses:			
Policyholder benefits ⁽¹⁾	2,535	2,221	1,809
Policyholder liability remeasurement (gain) loss ⁽¹⁾	(80)	102	21
Interest credited to policyholder account balances	712	762	391
Amortization of deferred cost of reinsurance contracts and deferred acquisition costs	189	172	59
General operating and other expenses	200	223	161
Total benefits and expenses	3,556	3,480	2,441
Income (loss) before income tax expense (benefit)	872	(1,170)	1,266
Income tax expense (benefit) ⁽¹⁾	184	(265)	225
Net income (loss)	\$ 688	\$ (905)	\$ 1,041

⁽¹⁾ Prior period amounts have been restated for the adoption of ASU 2018-12. See Note 2 for further information.

See accompanying Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2025	2024	2023
Net income (loss)	\$ 688	\$ (905)	\$ 1,041
Other comprehensive income (loss), before income taxes:			
Change in unrealized investment gains (losses) on fixed maturity securities available-for-sale	330	(651)	850
Change in additional insurance liability ⁽¹⁾	(39)	251	(301)
Change in discount rate assumption on future policy benefits ⁽¹⁾	(615)	1,553	(868)
Total other comprehensive income (loss), before income taxes	(324)	1,153	(319)
Income tax (expense) benefit related to other comprehensive income (loss) ⁽¹⁾	68	(243)	67
Total other comprehensive income (loss), net of income taxes	(256)	910	(252)
Comprehensive income	\$ 432	\$ 5	\$ 789

⁽¹⁾ Prior period amounts have been restated for the adoption of ASU 2018-12. See Note 2 for further information.

See accompanying Notes to Consolidated Financial Statements.

Fortitude Reinsurance Company Ltd.
Consolidated Statements of Changes in Shareholder's Equity
(in millions)

	Common Stock	Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholder's Equity (Deficit)
Balance, December 31, 2022	\$ 1	\$ 3,441	\$ (7,561)	\$ (459)	\$ (4,578)
Cumulative effect of adoption of ASU 2016-13, <i>Current Expected Credit Loss</i>	—	—	(35)	35	—
Cumulative effect of adoption of ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts ⁽¹⁾	—	—	(33)	3,150	3,117
Adjusted Balance, January 1, 2023	1	3,441	(7,629)	2,726	(1,461)
Contributed capital	—	2,446	—	—	2,446
Net income ⁽¹⁾	—	—	1,041	—	1,041
Other comprehensive loss ⁽¹⁾	—	—	—	(252)	(252)
Balance, December 31, 2023	1	5,887	(6,588)	2,474	1,774
Net loss ⁽¹⁾	—	—	(905)	—	(905)
Distribution to parent	—	(5)	—	—	(5)
Other comprehensive income ⁽¹⁾	—	—	—	910	910
Balance, December 31, 2024	1	5,882	(7,493)	3,384	1,774
Net income	—	—	688	—	688
Dividends	—	—	(300)	—	(300)
Other comprehensive loss	—	—	—	(256)	(256)
Balance, December 31, 2025	<u>\$ 1</u>	<u>\$ 5,882</u>	<u>\$ (7,105)</u>	<u>\$ 3,128</u>	<u>\$ 1,906</u>

⁽¹⁾ Prior period amounts have been restated for the adoption of ASU 2018-12. See Note 2 for further information.

See accompanying Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2025	2024	2023
Cash flows provided by (used in) operating activities			
Net income (loss)	\$ 688	\$ (905)	\$ 1,041
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Amortization of value of business acquired ⁽¹⁾	(168)	(211)	(207)
Amortization of deferred gain from reinsurance contracts ⁽¹⁾	(53)	(38)	(32)
Amortization of deferred cost from reinsurance contracts and deferred acquisition costs ⁽¹⁾	189	172	59
Policyholder liability remeasurement (gain) loss ⁽¹⁾	(80)	102	21
Change in fair value, other invested assets	(69)	(162)	(97)
Change in fair value of funds withheld agreements	(876)	1,228	(1,996)
Investment losses	562	826	62
Deferred income tax expense (benefit) ⁽¹⁾	8	(328)	249
Foreign exchange losses ⁽¹⁾	53	88	73
Gain on recapture of reinsurance contract	(99)	—	—
Other, net	15	(48)	(25)
Changes in operating assets and liabilities:			
Funds withheld - directly managed, at fair value	2,135	1,673	2,210
Future policy benefits ⁽¹⁾	1,496	222	163
Policyholder contract deposits ⁽¹⁾	(1,363)	(1,622)	(537)
Unpaid losses and loss adjustment expenses	(258)	(522)	(408)
Deferred gain from reinsurance contracts ⁽¹⁾	25	4	7
Deferred cost of reinsurance contracts	(22)	11	344
Funds withheld by ceding companies	—	160	78
Derivatives, net	(390)	(744)	(300)
Other, net ⁽¹⁾	(8)	(89)	(145)
Net cash provided by (used in) operating activities	1,785	(183)	560
Cash flows provided by (used in) investing activities			
Proceeds from the sale, maturities, and prepayments of:			
Fixed maturity securities, available for sale	7,708	10,624	1,333
Fixed maturity securities, fair value option	516	734	1,403
Mortgage loans	1,273	652	109
Other invested assets	396	672	311
Short term investments	320	50	89
Short-term loan to affiliates with maturities greater than three months	20	—	—
Payments for the purchase/origination of:			
Fixed maturity securities, available for sale	(6,324)	(8,709)	(1,899)
Fixed maturity securities, fair value option	(581)	(538)	(409)
Mortgage loans	(2,496)	(2,726)	(867)
Other invested assets	(1,115)	(303)	(802)
Short term investments	(60)	(182)	(47)
Short-term loan to affiliates with maturities greater than three months	(70)	(51)	—
Derivatives, net	(319)	(158)	—
Other, net	—	(5)	—
Net cash provided by (used in) investing activities	(732)	60	(779)

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

	Year Ended December 31,		
	2025	2024	2023
Cash flows provided by (used in) financing activities			
Capital contributions (distributions)	—	(5)	1,774
Dividend to parent	(300)	—	—
Deposits received for investment-type policyholder contract deposits	620	646	120
Withdrawals from investment-type policyholder contract deposits	(1,291)	(1,755)	(608)
Net proceeds related to secured borrowing arrangements - repurchase agreements with maturities three months or less	(1)	249	—
Net Proceeds from other secured borrowings	(92)	380	—
Net cash provided by (used in) financing activities	(1,064)	(485)	1,286
Effect of foreign exchange rate changes on cash and cash equivalents	(1)	(3)	(2)
Net increase (decrease) in cash and cash equivalents during the year	(12)	(611)	1,065
Cash and cash equivalents at the beginning of the year	749	1,360	295
Cash and cash equivalents at the end of the year	\$ 737	\$ 749	\$ 1,360

	Year Ended December 31,		
	2025	2024	2023
Supplemental Disclosures of Cash Flow Information			
Cash paid during the year for:			
Taxes, net of refunds	\$ 189	\$ 52	\$ 40
Non-cash transactions:			
Premiums and deposits on policies reinsured through funds withheld arrangements	\$ 705	\$ 290	\$ 364
Claims, withdrawals and surrenders on policies reinsured through funds withheld arrangements	(2,658)	(3,010)	(2,874)
Funds withheld assets received at inception of reinsurance agreements	—	—	(8,860)
Investments including accrued interest income received at inception of reinsurance agreements	(3,272)	—	(15,537)
Deferred cost of reinsurance at inception of reinsurance agreements ⁽¹⁾	—	—	(3,766)
Insurance and other liabilities assumed at inception of reinsurance agreements ⁽¹⁾	3,272	—	28,164
Reduction in investments including accrued interest income relating to recapture of reinsurance agreement on a funds withheld basis	346	—	—
Reduction in insurance and other liabilities relating to recapture of reinsurance agreement on a funds withheld basis ⁽²⁾	(387)	—	—
Reduction in investments including accrued interest income at inception of ceded reinsurance agreement	(95)	—	—
Net transfer of securities from (to) funds withheld arrangements ⁽³⁾	—	97	131
Capital contribution (distribution) in the form of securities	—	(7)	679
Capital contribution in the form of a deferred tax asset (liability)	—	2	(7)

⁽¹⁾ Prior period amounts have been restated for the adoption of ASU 2018-12. See Note 2 for further information.

⁽²⁾ See Notes 7 and 10 for further information regarding the recapture of a reinsurance agreement by a U.S. based life insurance company.

⁽³⁾ Balance includes \$619 million of other invested assets transferred into funds withheld arrangements at inception of reinsurance agreements for the year ended December 31, 2023.

See accompanying Notes to Consolidated Financial Statements.

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

1. Nature of Operations, Basis of Presentation and Summary of Significant Accounting Policies

Fortitude Reinsurance Company Ltd., a Bermuda domiciled company, (together with its subsidiaries, "FRL" or the "Company") is primarily a reinsurer of general insurance and life insurance run-off business. FRL is a wholly-owned subsidiary of Fortitude Group Holdings, LLC ("FGH" or the "Parent") and an indirect wholly-owned subsidiary of FGH Parent, L.P. ("FGP" or the "Ultimate Parent").

As of December 31, 2025, 2024 and 2023, Carlyle FRL, L.P. ("Carlyle FRL"), an investment fund advised by an affiliate of The Carlyle Group Inc. ("Carlyle"), an SEC-registered global investment firm, a sovereign wealth fund ("SWF"), T&D United Capital Co., Ltd. ("T&D"), a wholly-owned subsidiary of T&D Holdings, Inc., a listed Japanese insurance group, and Corebridge Financial, Inc. ("Corebridge") an SEC-registered company, owned undiluted interests in FGP of 38.53%, 32.64%, 26.37% and 2.46% respectively.

Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S.") ("GAAP"). The accompanying consolidated statements include entities over which the Company exercises control, including majority-owned subsidiaries, in which the Company has a controlling financial interest and variable interest entities ("VIEs") for which the Company is considered the primary beneficiary. See Note 4 for additional information regarding the Company's VIEs. All intercompany transactions have been eliminated. All amounts are presented in U.S. dollars ("USD").

Use of Estimates

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

- Fair value measurements of investments, including derivatives and the Company's interest in funds withheld and the measurement of the allowance for credit losses;
- Valuation of future policy benefits liabilities, including additional insurance liabilities ("AIL") for universal life-type contracts, extent of loss recognition, if applicable;
- Estimates of unpaid losses and loss adjustment expenses; and
- Estimates with respect to income taxes, including the valuation and recoverability of deferred income tax assets.

To the extent actual experience differs from the assumptions used, the Company's consolidated financial condition, results of operations and cash flows could be materially affected.

Business Risks and Uncertainties

The Company's operations are affected by a range of factors, including general economic conditions, regulatory developments, market risks, the financial condition of cedants, and risks related to insurance liabilities. The Company is subject to oversight by various state, federal, and international regulators, and changes in regulatory requirements could have unforeseen effects on its business.

Key market risks include liquidity, interest rate, foreign exchange, and credit spread risks, all of which arise from mismatches between assets and liabilities and can influence the valuation of investments and insurance-related obligations. The Company manages these exposures through an asset-liability management framework that measures sensitivities and conducts stress testing across multiple risk factors to assess potential impacts on both assets and liabilities.

In addition to market risk, the Company is exposed to policyholder behavior and mortality or longevity risk, which it manages through continuous monitoring of experience and periodic updates to mortality, morbidity and persistency assumptions.

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

Reclassifications

The Company reclassified certain policyholder balances between future policy benefits, policyholder contract deposits and accrued and other liabilities on the consolidated balance sheet to conform with the revised presentation upon adoption of ASU 2018-12. Refer to Note 2 for further discussion on the reclassification of these policyholder balances. The Company also reclassified amortization of deferred costs of reinsurance and deferred acquisition costs from policyholder benefits and general operating expenses, respectively, to amortization of deferred costs of reinsurance and deferred acquisition costs on the consolidated statements of income (loss). The Company also reclassified deferred acquisition costs from other assets to deferred cost of reinsurance contracts and deferred acquisition costs (previously deferred cost of reinsurance contracts) on the consolidated balance sheets.

Prior period amounts related to the above reclassifications have been updated to conform to the current period presentation, which includes updates to the consolidated statements of cash flows and certain disclosures contained in our notes to consolidated financial statements.

Change in Accounting Principle

Effective January 1, 2025, the Company updated its accounting policy for determining the locked-in discount rate used to measure the liability for future policy benefits. Previously, for certain cohorts, the Company applied a single equivalent discount rate ("SEDR") based on the weighted-average duration of the liability. Under the updated policy, the Company's default approach is to lock in and apply a full discount rate curve at contract inception (based on the upper-medium grade fixed-income instrument yield), and to use a SEDR only when the curve approach would not best reflect the underlying economics.

The Company determined this represents a change in accounting principle. The effect of the change was an increase in pre-tax net income of \$31 million for the year ended December 31, 2025. This change did not have an impact on the Company's consolidated financial position or results of operations for the years ended December 31, 2024 or 2023.

Summary of Significant Accounting Policies

The following summarizes the Company's significant accounting policies.

Fair Value Option

The fair value option ("FVO") provides entities with an option to use fair value as the initial and subsequent accounting measurement for assets and liabilities that meet the definition of a financial asset or liability. The decision to elect the FVO is determined on an instrument-by-instrument basis and is applied to an entire instrument. The decision is irrevocable once elected. The Company has made this election for certain investments, as it improves operational efficiency and better aligns the recognition and measurement of those investments. Refer to Note 3 for more information on the Company's FVO elections.

Investments

Funds withheld - directly managed, at fair value: Funds withheld - directly managed represents a reinsurance receivable collateralized by segregated portfolios of investments contractually maintained by the ceding companies. It is carried at fair value because it represents the aggregate of the funds held at cost and the value of the related embedded derivative. The Company is entitled to all economic rights and obligations on the collateral as if the Company held the investments directly.

The reinsurance agreements contain embedded derivatives which are required to be separated from their host contracts and reported as derivatives. The embedded derivative relates to the contractual rights to receive the return on the segregated portfolio of investments and the performance risk of the individual assets supporting the funds withheld agreement. The embedded derivative is valued as a total return swap with a floating leg and is computed as the change in fair value of the underlying assets. Changes in the fair value of the embedded derivative are included in change in fair value of funds withheld agreements in the consolidated statements of income (loss).

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

The change in the fair value of the funds withheld excludes the change in fair value of alternative investments collateralizing the funds withheld - directly managed, which is recorded within net investment income.

Fixed maturity securities available for sale, at fair value: Fixed maturity securities designated as available for sale ("AFS") are carried at fair value. Unrealized gains and losses from AFS fixed maturity securities are reported as a separate component of accumulated other comprehensive income (loss) ("AOCI"), net of deferred income taxes, with changes in estimated credit losses recognized in investment gains (losses).

Fixed maturity securities, fair value option: The Company's fixed maturity securities for which the FVO has been elected are reported on the consolidated balance sheets as fixed maturity securities, fair value option. Realized and unrealized gains and losses are reported in investment gains (losses) on the consolidated statements of income (loss).

Both AFS and FVO fixed maturity securities are recorded on a trade-date basis, with any unsettled trades recorded in other assets or other liabilities on the consolidated balance sheets. Interest income, including amortization of premium and accretion of discount, is determined using the effective yield method. Interest income, amortization of premium, accretion of discount, and prepayment premiums are reported in net investment income in the consolidated statements of income (loss).

Yields on both AFS and FVO fixed maturity securities are determined based on the fixed maturity type and, for structured securities, are determined using estimates of future cash flows. Premiums and discounts arising from the purchase of bonds are treated as yield adjustments over their estimated holding periods, until maturity, or call date, if applicable.

On a quarterly basis, the Company reviews its AFS fixed maturity securities portfolio to determine whether a decline in fair value below amortized cost (i.e., impairment) of an AFS debt security is due to credit-related or non credit-related factors. Any impairment that is not credit-related is recognized in other comprehensive income (loss). Credit related impairment is recognized in earnings through a contra-asset allowance account, unless the Company intends to sell before recovery. If the Company intends to sell the debt security, or it is more likely than not the Company will be required to sell the security before recovery of its amortized cost basis, any allowance for credit losses is written off and the amortized cost basis is written down to the debt security's fair value. Accrued interest is excluded from the measurement of the allowance for credit losses.

When determining whether a credit loss exists, the Company estimates the expected credit losses based on a discounted cash flow method, using effective interest rates to discount the expected cash flows associated with each debt security to determine its fair value, which is then compared with its amortized cost basis to derive the credit loss on the security. The methodology and inputs used to determine the credit loss by security type are as follows:

For corporate, municipal and sovereign fixed maturity securities, the Company considers: Expected default rates and the timing of such defaults, loss severity and the timing of any recovery and scenarios specific to the issuer and the security, which may also include estimates of outcomes of corporate restructurings, political and macroeconomic factors, stability and financial strength of the issuer, the value of any secondary sources of repayment and the disposition of assets.

For structured fixed maturity securities (e.g., residential mortgage backed securities ("RMBS"), commercial mortgage backed securities ("CMBS"), collateralized debt obligations ("CDO") and asset-backed securities ("ABS")), the Company evaluates a combination of qualitative and quantitative factors, including the historical performance of underlying assets and available market information as well as bond-specific structural considerations, such as credit enhancement and the priority of payment structure of the security. In addition, the process of estimating future cash flows may consider, among other factors, the following critical inputs, which vary by asset class: Current delinquency rates, expected default rates and the timing of such defaults, loss severity and the timing of any recovery, and expected prepayment speeds.

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

Mortgage loans, at fair value: The Company has elected the FVO on the entirety of the residential mortgage loans portfolio. Realized and unrealized gains and losses on these investments are reported in investment gains (losses) on the consolidated statements of income (loss).

Other invested assets - Private equity funds, limited partnerships and limited liability companies ("LP/LLCs"): LPs/LLCs are recorded within other invested assets on the consolidated balance sheets. The Company uses the net asset value ("NAV"), a permitted practical expedient, as an estimate of fair value when the fair value is not readily available for the Company's LPs/LLCs. The Company uses financial information provided by the investee, generally on a one to three-month lag which may be adjusted for market events, if necessary. The Company consolidates LPs/LLCs in certain other instances where it is deemed to exercise control, or is considered the primary beneficiary of a VIE (See Note 4). Contributions to and distributions from these investments are recorded in the period in which the transaction occurred. Changes in fair value of other invested assets are reported in net investment income in the consolidated statements of income (loss).

Other invested assets - loans: These investments represent consumer and middle market corporate loans for which the Company has elected the FVO and which are reported within other invested assets on the consolidated balance sheets. Changes in fair value of other invested assets – loans are reported in investment gains (losses) in the consolidated statements of income (loss).

Other invested assets - Policy loans: These investments represent funds loaned to policyholders up to the cash surrender value of the associated insurance policies and are carried at the unpaid principal balances due to the Company from the policyholders. Policy loans are recorded within other invested assets on the consolidated balance sheets. Interest income on policy loans is recognized in net investment income at the contract interest rate when earned. Policy loans are fully collateralized by the cash surrender value of the associated insurance policies.

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

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

The Company does not elect to apply hedge accounting for derivative instruments. Accordingly, all realized and unrealized changes in fair value of derivatives are recorded in investment gains (losses) or foreign exchange gains (losses) on the consolidated statements of income (loss). Cash flows from derivatives are reported as operating activities or investing activities in the consolidated statements of cash flows depending on the nature of the underlying hedged item.

Derivatives are recorded either as assets, within other invested assets, or as liabilities, within accrued and other liabilities on the consolidated balance sheets. The Company nets the fair value of all derivative financial instruments on the balance sheet where there is a master netting arrangement that has been executed and if the Company has the right of offset (See Note 5). Cash collateral posted in excess of derivative liabilities and cash collateral received in excess of derivative assets are recorded within other invested assets and accrued and other liabilities, respectively.

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 and include short term debt securities issued by government sponsored or corporate entities.

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

Cash and Cash Equivalents

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

Reinsurance

The Company assumes short duration and long duration insurance and investment contracts under funds withheld, coinsurance and modified-coinsurance funds withheld arrangements. The Company follows reinsurance accounting for assumed and ceded transactions that provide indemnification against loss or liability relating to insurance risk (risk transfer). To meet risk transfer requirements, a reinsurance agreement must include both insurance risk consisting of both underwriting and timing risks, and a reasonable possibility of a significant loss.

If the Company determines that a contract lacks significant mortality risk and thus could not achieve risk transfer, the Company records the contract using the deposit method of accounting. Any net amount receivable is reflected as an asset within reinsurance receivables, recorded within other assets, and any net amount payable reflected as a liability within reinsurance payables, recorded within accrued and other liabilities. Deposits received on investment-oriented products are not recognized as revenues, because they are recorded directly to policyholder contract deposits upon receipt. Short duration contracts qualify to be accounted for as retroactive reinsurance.

Reinsurance receivables, recorded in other assets, includes contractual balances due from ceding companies. Reinsurance payables, recorded in accrued and other liabilities, include unpaid claims which are based upon estimates of payments to be made for claims incurred whether reported or unreported. Reinsurance payables also include net settlements due to ceding companies and accrued interest on policyholder contract deposits which is accrued outside the account value as it is due to the ceding company. The Company generally has the right of offset on reinsurance contracts and has elected to present reinsurance settlement amounts due to and from the Company on a net basis.

Accounting for reinsurance requires the use of assumptions, particularly related to the future performance of the underlying business and the potential impact of counterparty risks. The Company attempts to minimize counterparty risk through the structuring of the terms of the reinsurance agreements, including the use of trusts and the monitoring of credit ratings of the counterparties for signs of declining credit quality.

As the Company actively runs off its reinsurance business, it may seek to mitigate exposure through early settlement of its obligations to ceding companies by entering into novations. A novation results in full and final settlement of all current and future policy obligations due from the Company to the ceding company. Gains and losses on novations are recorded as either a decrease or increase respectively in policyholder benefits in the consolidated statements of income (loss).

Deferred Cost of Reinsurance Contracts ("Deferred Costs") and Deferred Acquisition Costs ("DAC")

For the reinsurance of existing in-force blocks, 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.

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

Deferred Costs - long duration: The Deferred Costs are grouped into cohorts consistent with those used for the calculation of future policyholder benefits and amortized over the lives of the reinsured policies on a constant-level basis that approximates straight-line amortization. Amortization is calculated in relation to expected benefit payments or insurance in-force for life and annuity insurance contracts. The amortization is included within amortization of deferred cost of reinsurance contracts and deferred acquisition costs within the consolidated statements of income (loss).

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

The portion of Deferred Costs that are included within the net carrying amount of future policy benefit liabilities for universal life-type contracts are subject to loss recognition testing, as described in further detail below.

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

The Company performs periodic tests, including at issuance, to determine if the Deferred Costs for short duration contracts are recoverable. If the Company determines that the Deferred Costs are not recoverable, the Company records a cumulative charge to the current period in amortization of deferred cost of reinsurance contracts and deferred acquisition costs on the consolidated statements of income (loss).

DAC: DAC represents the deferred costs that are directly related to the successful acquisition or renewal of an insurance (or reinsurance) contract. Each cost is analyzed to assess whether it is fully deferrable. If deferrable, these costs have been recorded as an asset. DAC related to investment contracts with significant revenue streams from sources other than investment of the policyholder funds are amortized on a constant-level basis for a cohort of contracts using policy count or account value. The amortization is included within amortization of deferred cost of reinsurance contracts and deferred acquisition costs within the consolidated statements of income (loss).

Other Assets

Other assets primarily consist of accrued investment income, other investment-related receivables, receivables from related parties and current income tax receivable.

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

Loan receivable from related parties: The loan receivable from related parties is carried at the unpaid principal balances. Interest income is accrued on the principal balance of the loan based on the loan's contractual interest rate and is recorded as earned within net investment income on the consolidated statements of income (loss).

Future Policy Benefits

Future policy benefits include obligations for insurance products that are long-duration and are primarily comprised of the following: U.S. and non-U.S. traditional life products, U.S. and non-U.S. life contingent payout annuities, accident and health products, secondary guarantee features on universal life-type contracts, and participating insurance contracts.

Utilizing the net premium model, a liability for future policy benefits is established to meet the estimated future benefits to be paid on assumed life and health reinsurance in force less the present value of estimated future net premiums. The liability is estimated using the Company's mortality, morbidity, and persistency assumptions that reflect the Company's historical experience, industry data, cedant specific experience, and discount rates based on the current yields of upper-medium grade fixed income instruments.

These assumptions may vary with the characteristics of the reinsurance contract, the year the risk was assumed, age of the insured and other appropriate factors. The Company reviews actual and anticipated experience compared to the assumptions used to establish policy benefits on a quarterly basis. The Company completes its annual assumption review and any necessary updates of cash flow assumptions used to calculate the liability for future policy benefits during the third quarter of each financial year. Assumptions may be updated in other quarters if information becomes available during the quarter that indicates this is necessary.

Liabilities for future benefits for life contingent annuities in the payout phase have been established in an amount adequate to meet the estimated future obligations on policies in force using expected mortality, discount rates and other assumptions. These assumptions may vary with the characteristics of the plan of insurance, year of issue, age

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

of insured, and other appropriate factors. The Company's mortality assumptions are based on the Company's historical experience, industry data and cedant specific experience.

An assumed or ceded deferred profit liability ("DPL") is established under the limited-payment model when the reinsurance benefit extends beyond the period in which premiums are collected, and the gross premium exceeds the net premium. The DPL is amortized in proportion to insurance in force for traditional life insurance and expected future benefits for annuity contracts. The assumed DPL is recorded in the liability for future policy benefits and the DPL associated with ceded contracts is recorded in reinsurance recoverable in the consolidated balance sheet. The amortization of both the assumed and ceded DPL is recognized as a reduction or increase, respectively, in policyholder benefits and changes in fair value of insurance liabilities on the consolidated statements of income (loss). When the net premium ratio for the corresponding future policy benefit is updated for actual experience and changes to projected cash flow assumptions, the DPL is retrospectively recalculated from the contract issuance date through the beginning of the current reporting period. The revised DPL is compared to the beginning of the period carrying amount to determine the change to be recognized as a remeasurement gain or loss within policyholder liability remeasurement (gain) loss.

For the purpose of calculating the liability for future policy benefits, the Company's reinsurance contracts are grouped into annual cohorts based upon (1) how the reinsurance contracts are priced and managed (2) the effective date of the reinsurance agreement (3) the ceding company and other factors. To the extent the present value of future benefits and expenses exceeds the present value of gross premiums, the Company caps the net premium ratio at 100% at the cohort level by increasing the corresponding liability and recognizing an immediate loss through the consolidated statements of income (loss). All changes thereafter, both favorable and unfavorable, in expected benefits resulting from both actual experience deviations and changes in future assumptions are recognized immediately as a gain or loss, respectively. The liability is never recorded at an amount less than zero for the cohort.

Each quarter, the Company updates its estimate of cash flows expected over the entire life of a group of contracts using actual historical experience. On an annual basis, or more frequently if evidence suggests that this is required, the Company updates its cash flow assumptions by reviewing actual and anticipated experience compared to the prior assumptions used. These updated cash flows, discounted using the original contract issuance discount rates at transition, or the upper-medium grade fixed-income Single-A discount rate at the time of issuance post-transition, are used to calculate the revised net premium ratio, as of the beginning of the current reporting period. The present value of these updated cash flows is compared to the carrying amount of the liability as of that same date, before updating estimated cash flows, to determine the current period change in the liability's estimate, reflected in policyholder liability remeasurement (gain) loss. The Company has elected to lock-in claims expense assumptions at contract inception for each cohort.

The discount rates used to measure the liability for future policy benefits are based on market observable yields on upper-medium grade fixed-income instruments (A- rated corporate debt instrument) aligned to the characteristics of the liability, including the duration and currency of the underlying cash flows. The discount rate assumption is updated quarterly and used to remeasure the liability at the reporting date, with the resulting change reflected in other comprehensive income (loss). For unobservable discount rates, the Company uses estimates consistent with fair value guidance, maximizing the use of relevant, observable market prices and minimizing the use of unobservable inputs.

The Company utilizes the discount rate curve at contract inception for purposes of interest accretion and updating the net premium ratio. Interest accretion is recognized in policyholder benefits and changes in fair value of insurance liabilities on the consolidated statements of income (loss). Contracts entered into after the transition date of ASU 2018-12 utilize the full locked-in discount rate curve or a single equivalent discount rate (for cohorts with certain characteristics) based on the upper-medium grade fixed-income instrument yield at inception of the reinsurance contract. Contracts entered into prior to the transition date of ASU 2018-12 utilize the discount rate assumptions which were used prior to the adoption, which were based on estimates of expected investment yields.

Included in the liability for future policy benefits are unpaid claims related to long-duration contracts and an accrual for incurred but not reported losses ("IBNR"). The Company's IBNR accrual related to long-duration contracts is determined using case-basis estimates and lag studies of past experience. The time lag from the date of the claim or death to when the ceding company reports the claim to the Company can vary significantly by ceding company and product type. Incurred but not reported claims are estimates on an undiscounted basis, using actuarial

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

estimates of historical claims expense, adjusted for current trends and conditions. These estimates are continually reviewed, and the ultimate liability may vary significantly from the amount recognized. Claims payable for incurred but not reported losses for long-duration contracts are included in the liability for future policy benefits on the consolidated balance sheets.

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

The AIL for the universal life-type contracts is calculated by dividing the present value of total expected benefit payments over the life of the contract from inception, less the AIL at inception, by the present value of assessments at the inception date to calculate a benefit ratio. The benefit ratio is then multiplied by the cumulative assessments recorded from the contract inception through the balance sheet date less the cumulative excess benefit payments plus accrued interest on the liability. Assessments are the aggregate of all charges, including those for administration, mortality, expense, and surrender, regardless of how characterized, including investment margins. As experience or assumption changes result in a change in expected benefit payments or assessments, the benefit ratio is recalculated using the updated expected benefit payments and assessments over the life of the contract since inception. The revised benefit ratio is then applied to the liability calculation described above, with the resulting change in liability reported in policyholder benefits and changes in fair value of insurance liabilities on the consolidated statements of income (loss) except that, to the extent that the change in liability calculation is driven by a change in unrealized investment margins arising from securities classified as AFS, then the resulting change in liability is reported as a component of AOCI.

When estimates used to establish the AIL are updated for actual experiences and changes to projected cash flow assumptions, the AIL is retrospectively recalculated from the contract issuance date through the beginning of the current reporting period. The revised AIL is compared to the beginning of the period carrying amount to determine the change to be recognized as a remeasurement gain or loss within policyholder liability remeasurement (gain) loss.

The Company assumes participating insurance contracts which were issued by ceding companies that are stock life insurance companies. The Company has elected to account for these contracts in accordance with ASC 944-20. The assumptions used to estimate benefit liabilities are set when a contract is issued and do not change with changes in actual experience unless a loss recognition event occurs. These locked-in assumptions include mortality, morbidity, persistency, maintenance expenses, and investment returns and include margins for adverse deviation to reflect uncertainty given that actual experience might deviate from these assumptions.

For universal life-type and participating insurance contracts, a loss recognition event occurs when the net carrying amount of future policy benefit liabilities is less than the amount determined using current best estimate assumptions. The net carrying amount includes Deferred Costs, VOBA, and Deferred Gains. When a loss recognition event is identified, the Company records additional liabilities through policyholder benefits. To the extent that a loss recognition event is triggered by decreased interest rates stemming from assets designated as AFS, the additional liability would be recorded as a component of accumulated other comprehensive income (loss).

Following a loss recognition event, the Company updates these assumptions to current best estimates, adjusting reserves and related items as necessary—including unearned premiums, IBNR claims, and disabled life reserves. Groupings for loss recognition testing are consistent with the Company's manner of acquiring, servicing and measuring the profitability of the business and applied by line of business.

Policyholder Contract Deposits

The liability for policyholder contract deposits is recorded at accumulated or fund value (deposits received, plus accrued interest credited, less withdrawals, surrender charges and fees). Policyholder contract deposits are primarily comprised of the following: U.S. deferred annuity products, fixed indexed annuity products ("FIA"), funding agreements, universal life-type products ("UL"), and U.S. non-life contingent payout annuities.

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

The liability for the non-life contingent payout products represents an estimate of the present value of future benefits using an interest rate determined at the treaty inception date.

The equity market option associated with the FIA product is an embedded derivative accounted for at fair value. The embedded derivative cash flows are discounted at a rate that reflects the Company's own credit risk. Changes in the fair value of the embedded derivative are recorded in investment gains and losses in the consolidated statements of income (loss). The host contract is established as the account value less the embedded derivative and is accreted over the underlying product's life.

Unpaid Losses and Loss Adjustment Expenses

The unpaid losses and loss adjustment expenses represent estimates of unpaid claims on short duration contracts, including estimates for claims incurred but not reported ("IBNR") and loss adjustment expenses ("LAE"), less applicable discount. The Company regularly reviews and updates the methods used to determine loss reserve estimates. Because these estimates are subject to the outcome of future events, changes in estimates are common given that loss trends vary and time is often required for changes in trends to be recognized and confirmed.

Reserve changes that increase or decrease previous estimates are referred to as unfavorable or favorable development, respectively. Prior year loss development is recorded after taking into consideration the results from actuarial analyses that are performed for each reserving line of business as well as on-going review of actual vs. expected results performed during the course of each calendar year.

The Company discounts total workers' compensation liabilities using a locked-in discount rate of 2.31%, based on U.S. Treasury yields plus a liquidity premium.

Value of Business Acquired ("VOBA") and Deferred Gain from Reinsurance Contracts ("Deferred Gains")

VOBA: The negative VOBA intangible represents the difference between estimated fair value of future best estimate liability cash flows and the Company's liability for future policyholder benefits and contract deposits after adjusting for current assumptions measured on the Company's acquisition date. The negative VOBA is amortized over the lives of the reinsured policies in relation to expected benefit payments or insurance in-force amounts for insurance contracts. The amortization is included within policyholder benefits within the consolidated statements of income (loss).

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

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

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

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

Accrued and Other Liabilities

Accrued and other liabilities primarily consist of reinsurance payables, repurchase agreements, derivatives, deposit liability, due and unpaid claim liabilities, payables to related parties, current income tax payable, deferred income tax payable, accrued expenses and payables resulting from purchases of securities that have not yet settled at the balance sheet date.

Repurchase Agreements: Securities repurchase agreements that satisfy certain criteria are treated as secured borrowing arrangements and are carried at the amounts at which the securities will be subsequently reacquired, as specified in the respective transactions. As part of securities repurchase agreements, the Company primarily transfers U.S. government and government agency securities to a third-party and receives cash as collateral, which is subsequently reinvested in higher yielding assets. The market value of the securities to be repurchased is monitored, and additional collateral is obtained where appropriate, to protect against credit exposure. The Company obtains collateral in an amount at least equal to 95% of the fair value of the securities sold. The securities to be repurchased are the same, or substantially the same, as those sold. The majority of these transactions are with highly rated financial institutions. Income and expenses related to these transactions, all of which are used to earn spread income, are reported within net investment income.

Income Taxes

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

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

Deferred tax assets and liabilities are recognized for the timing differences between the carrying amounts of existing assets and liabilities and the respective tax basis at the balance sheet date. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

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

Insurance Revenue and Expense Recognition

Revenues, benefits and expenses are recorded net of amounts ceded to reinsurers on the consolidated statements of income (loss). For reinsurance of traditional long-duration insurance contracts, premiums are recognized and earned when due. Estimates for premiums due but not yet collected are accrued in the period they are earned. Benefits are recorded as an expense when they are incurred.

For fixed annuities, non-life contingent liabilities and universal life-type contracts, premiums are recorded as increases to policyholder contract deposits. Revenues from these contracts are reported in policy charges and fee income in the consolidated statements of income (loss) and consist mainly of administration, surrender, and cost-of-insurance charges, recognized when assessed or earned, as applicable.

Interest credited to policyholder account balances is presented as a separate line item in the consolidated statements of income (loss).

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

Foreign Exchange Gains (Losses)

Foreign currency assets and liabilities that are considered monetary items are remeasured at exchange rates in effect at the balance sheet date. Foreign currency revenues and expenses are remeasured at average exchange rates for the reporting period. These exchange gains and losses are recognized in foreign exchange gains (losses) within the consolidated statements of income (loss). Foreign exchange gains (losses) also include fair value changes related to foreign currency derivative contracts.

Accounting Standard Updates ("ASUs") Adopted During 2025

ASU 2018-12, *Targeted Improvements to the Accounting for Long-Duration Contracts* ("LDTI")

The Company adopted ASU 2018-12 by applying the modified retrospective transition method on January 1, 2025 with a transition date of January 1, 2023. ASU 2018-12 updates certain requirements for the accounting for long-duration insurance contracts.

- Cash flow assumptions and the measurement of the liability for future policy benefits: ASU 2018-12 requires the Company to review its cash flow assumptions at least annually and update, if necessary, with the impact recognized in net income in the period of the change. The liability for future policy benefits includes required adjustments at the cohort level to cap the net premium ratio at 100% and eliminate negative reserves. Upon adoption, an adjustment was recorded to retained earnings as a result of net premiums exceeding gross premiums on a certain block of non-U.S. denominated PRT business. See Note 2 for further details on the impact of the adoption of ASU 2018-12.
- Discount rate: The discount rate assumption is prescribed by ASU 2018-12 as an upper-medium (low credit risk) fixed-income yield and is required to be updated every reporting period. The change in the liability as a result of updating the discount rate assumption is recognized in other comprehensive income (loss) ("OCI"). Upon adoption, an adjustment was recorded to accumulated other comprehensive income (loss) ("AOCI") as a result of remeasuring in force contract liabilities using the current upper-medium grade fixed-income instrument yields as of the date of transition. The adjustment reflects the difference between discount rates locked-in at contract inception versus current discount rates at transition. See Note 2 for further details on the impact of the adoption of ASU 2018-12.
- Deferred policy acquisition costs and similar balances – Deferred policy acquisition costs ("DAC") and other capitalized costs are required to be amortized on a constant level or straight-line basis over the expected term of the contracts. Such costs are not subject to separate impairment testing.

Refer to Note 2, Transition Impact of ASU 2018-12 for further information.

Future Adoption of Accounting Standard Updates

ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*

In December 2023, the FASB issued ASU 2023-09 *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. This ASU is expected to enhance the transparency and decision usefulness of income tax disclosures by requiring disclosure of specific categories in the rate reconciliation, additional information for reconciling items that meet a quantitative threshold and certain information about income taxes paid. This revised guidance is effective for financial statements issued for fiscal years beginning after December 15, 2025. The update is expected to expand the Company's disclosures but will not have an impact on the Company's financial position or results of operations.

2. Transition Impact of ASU 2018-12

The liability for future policy benefits was remeasured using the modified retrospective approach applied to all outstanding contracts at January 1, 2023 and was recognized in the opening balance of retained deficit. The impact of remeasuring the future policy benefits liability for the discount rate changes was recorded through accumulated other comprehensive income. The following tables detail the January 1, 2023 transition adjustments by providing a

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

rollforward of the previously reported balances as of December 31, 2022 to the opening balances as of January 1, 2023.

At transition, there was a pre-tax charge to retained deficit of \$42 million for certain Payout Annuity - Non U.S. cohorts where the net premiums exceeded gross premiums (loss contracts). This required an immediate loss to be recognized in the opening January 1, 2023 retained deficit balance to offset the increase in the liability.

Equity

	Retained Deficit	Accumulated Other Comprehensive Income (Loss)
	(in millions)	
Balance, end of year December 31, 2022	\$ (7,561)	\$ (459)
Cumulative effect of adoption of ASU 2016-13, net of tax	(35)	35
Effect of changes in cash flow assumptions of loss contracts	(42)	—
Effect of changes in discount rate assumptions	—	3,988
Tax impacts of adoption of ASU 2018-12	9	(838)
Adjusted balance, beginning of year January 1, 2023	\$ (7,629)	\$ 2,726

Future Policy Benefits

	Balance, end of year December 31, 2022	Effect of changes in discount rate assumptions	Change in cash flow assumptions, effect of net premiums exceeding gross premiums	Reclassification of certain reserve and policyholder balances ⁽²⁾	Adjusted balance, beginning of year January 1, 2023
	(in millions)				
Payout Annuities - U.S.	\$ 19,500	\$ (2,627)	\$ —	\$ —	\$ 16,873
Payout Annuities - Non-U.S.	1,295	(615)	42	21	743
Traditional Life - U.S.	3,481	(657)	—	53	2,877
Accident and Health	780	(89)	—	—	691
Other Products ⁽¹⁾	1,884	—	—	92	1,976
Total	\$ 26,940	\$ (3,988)	\$ 42	\$ 166	\$ 23,160

⁽¹⁾ Primarily represents participating insurance contracts issued by ceding companies that are stock life insurance companies. The Company has elected to account for these contracts in accordance with ASC 944-20.

⁽²⁾ Amount includes reclassification of certain reserve and policyholder balances to conform with the revised presentation upon adoption of ASU 2018-12.

As part of the adoption of ASU 2018-12, the Company did not record January 1, 2023 transition adjustments to VOBA, DAC, Deferred Gain or Deferred Costs.

The following tables present amounts as previously reported in 2024 and 2023, the effect upon those amounts from the adoption of ASU 2018-12, and the adjusted amounts that are reflected in the Consolidated Financial Statements included herein. In conjunction with the preparation of the 2025 financial statements and the adoption of ASU 2018-12, certain prior period amounts were reclassified to conform with the revised presentation upon adoption of ASU 2018-12. The reclassifications were determined to not be material to the consolidated financial statements, taken as whole, and have been included within the effects from the adoption of ASU 2018-12 as shown below.

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

Consolidated Balance Sheets - Impacted Lines Only

	December 31, 2024		
	As Reported	Adoption of LDTI	As Adjusted
	(in millions)		
Assets:			
Deferred cost of reinsurance contracts ⁽¹⁾	\$ 3,421	\$ 39	\$ 3,460
Deferred income taxes, net	2,544	(948)	1,596
Total assets	\$ 69,506	\$ (909)	\$ 68,597
Liabilities and Equity			
Liabilities:			
Future policy benefits	\$ 40,587	\$ (4,427)	\$ 36,160
Value of business acquired	3,434	(28)	3,406
Deferred gain from reinsurance contracts	675	10	685
Accrued and other liabilities	1,821	(30)	1,791
Total liabilities	\$ 71,298	\$ (4,475)	\$ 66,823
Equity:			
Retained deficit	(7,368)	(125)	(7,493)
Accumulated other comprehensive income (loss)	(307)	3,691	3,384
Total equity (deficit)	(1,792)	3,566	1,774
Total liabilities and equity	\$ 69,506	\$ (909)	\$ 68,597

⁽¹⁾ See reclassifications within Note 1 for updates made to prior period amounts to conform to current period presentation within the consolidated balance sheets.

	December 31, 2023		
	As Reported	Adoption of LDTI	As Adjusted
	(in millions)		
Assets:			
Deferred cost of reinsurance contracts	\$ 3,671	\$ (29)	\$ 3,642
Deferred income taxes, net	2,108	(629)	1,479
Total assets	\$ 73,814	\$ (658)	\$ 73,156
Liabilities and Equity			
Liabilities:			
Future policy benefits	\$ 40,524	\$ (2,862)	\$ 37,662
Policyholder contract deposits	25,248	(139)	25,109
Deferred gain from reinsurance contracts	707	4	711
Accrued and other liabilities	1,142	(27)	1,115
Total liabilities	74,406	(3,024)	71,382
Equity:			
Retained deficit	(6,489)	(99)	(6,588)
Accumulated other comprehensive income	9	2,465	2,474
Total equity (deficit)	(592)	2,366	1,774
Total liabilities and equity	\$ 73,814	\$ (658)	\$ 73,156

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

Consolidated Statements of Income (Loss) - Impacted Lines Only

	Year Ended December 31, 2024		
	As Reported	Adoption of LDTI	As Adjusted
	(in millions)		
Benefits and expenses:			
Policyholder benefits ⁽¹⁾	\$ 2,461	\$ (69)	\$ 2,392
Policyholder liability remeasurement loss	—	102	102
Total benefits and expenses	3,447	33	3,480
Loss before income tax benefit	(1,137)	(33)	(1,170)
Income tax benefit	(258)	(7)	(265)
Net loss	\$ (879)	\$ (26)	\$ (905)

⁽¹⁾ See reclassifications within Note 1 for updates made to prior period amounts to conform to current period presentation within the consolidated statements of income (loss).

	Year Ended December 31, 2023		
	As Reported	Adoption of LDTI	As Adjusted
	(in millions)		
Revenues:			
Foreign exchange losses	\$ (71)	\$ (2)	\$ (73)
Total revenues	3,709	(2)	3,707
Benefits and expenses:			
Policyholder benefits ⁽¹⁾	\$ 1,807	\$ 61	\$ 1,868
Policyholder liability remeasurement loss	—	21	21
Total benefits and expenses	2,359	82	2,441
Income before income tax expense	1,350	(84)	1,266
Income tax expense	243	(18)	225
Net income	\$ 1,107	\$ (66)	\$ 1,041

⁽¹⁾ See reclassifications within Note 1 for updates made to prior period amounts to conform to current period presentation within the consolidated statements of income (loss).

Consolidated Statement of Comprehensive Income (Loss) - Impacted Lines Only

	Year Ended December 31, 2024		
	As Reported	Adoption of LDTI	As Adjusted
	(in millions)		
Net loss	\$ (879)	\$ (26)	\$ (905)
Other comprehensive income (loss), before income tax expense (benefit):			
Change in additional insurance liability	251	—	251
Change in discount rate assumptions on future policy benefits	—	1,553	1,553
Total other comprehensive income (loss), before income tax expense (benefit)	(400)	1,553	1,153
Income tax expense (benefit) related to other comprehensive income (loss)	84	(327)	(243)
Total other comprehensive income (loss), net of income tax expense (benefit)	(316)	1,226	910
Comprehensive loss	\$ (1,195)	\$ 1,200	\$ 5

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

	Year Ended December 31, 2023		
	As Reported	Adoption of LDTI	As Adjusted
	(in millions)		
Net income	\$ 1,107	\$ (66)	\$ 1,041
Other comprehensive income (loss), before income tax expense (benefit):			
Change in discount rate assumptions on future policy benefits	—	(868)	(868)
Total other comprehensive income (loss), before income tax expense (benefit)	549	(868)	(319)
Income tax expense (benefit) related to other comprehensive income (loss)	(116)	183	67
Total other comprehensive income (loss), net of income tax expense (benefit)	433	(685)	(252)
Comprehensive income	\$ 1,540	\$ (751)	\$ 789

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

Consolidated Statement of Cash Flows - Impacted Lines Only

	Year Ended December 31, 2024		
	As Reported	Adoption of LDTI	As Adjusted
	(in millions)		
Cash flows provided by (used in) operating activities			
Net loss	\$ (879)	\$ (26)	\$ (905)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Amortization of value of business acquired	(183)	(28)	(211)
Amortization of deferred gain (cost) from reinsurance contracts	194	(62)	132
Policyholder liability remeasurement loss	—	102	102
Deferred income tax benefit	(321)	(7)	(328)
Changes in operating assets and liabilities:			
Future policy benefits	337	(115)	222
Policyholder contract deposits	(1,761)	139	(1,622)
Other, net	(86)	(3)	(89)
Net cash provided by operating activities	\$ (183)	\$ —	\$ (183)

	Year Ended December 31, 2023		
	As Reported	Adoption of LDTI	As Adjusted
	(in millions)		
Cash flows provided by (used in) operating activities			
Net income (loss)	\$ 1,107	\$ (66)	\$ 1,041
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Amortization of deferred gain (cost) from reinsurance contracts	24	3	27
Policyholder liability remeasurement (gain) loss	—	21	21
Deferred income tax expense (benefit)	268	(19)	249
Net foreign exchange gains (losses)	71	2	73
Changes in operating assets and liabilities:			
Future policy benefits	104	59	163
Policyholder contract deposits	(543)	6	(537)
Deferred gain from reinsurance contracts	8	(1)	7
Other changes, net	(140)	(5)	(145)
Net cash provided by (used in) operating activities	\$ 560	\$ —	\$ 560

3. Fair Value Measurements

Fair Value Measurements on a Recurring Basis

Fair value is defined as the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The degree of judgment used in measuring the fair value of financial instruments generally inversely correlates with the level of observable valuation inputs. The Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when determining fair value. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgment is used in measuring fair value. Conversely, financial instruments for which no quoted prices are available have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction, liquidity and general market conditions.

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

Fair Value Hierarchy

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

- Level 1: Fair value is based on unadjusted quoted prices in active markets that are accessible to the Company for identical assets or liabilities.
- Level 2: Fair value is based on significant inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets and liabilities, quoted market prices in markets that are not active for identical or similar assets or liabilities, and other market observable inputs.
- Level 3: Fair value is based on at least one significant unobservable input for the asset or liability. The assets and liabilities in this category may require significant judgment or estimation in determining fair value.

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

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

Valuation of Financial Instruments Measured at Fair Value

Funds withheld - directly managed

The fair value of the underlying assets collateralizing the funds withheld - directly managed, inclusive of the associated embedded derivative, are generally based on market observable inputs using industry standard valuation techniques but also require certain significant unobservable inputs for specific asset classes. The level in the fair value hierarchy assigned to the funds withheld - directly managed is based upon the observability of inputs used to value the underlying investment assets held at fair value within the funds withheld portfolio.

Fixed maturity securities

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

When observable price quotations are not available, indicative broker quotes, asset manager pricing, or third-party valuation specialist pricing is used for valuation. Fair value can be determined based on discounted cash flow models using discount rates based on credit spreads, yields or price levels of comparable securities, adjusted for illiquidity and structure. The significant unobservable inputs used in the fair value measurement of these investments are liquidity discount rates applied to each of the net tangible book value multiples used in the internal valuation models, and discount rates applied to the expected cash flows of the underlying entities in various scenarios. These unobservable inputs in isolation can cause significant increases or decreases in fair value.

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

Generally, an increase in the liquidity discount rate or discount rates would result in a decrease in the fair value of these private investments. Asset manager overrides and indicative broker quotes are generally included in Level 3 in the fair value hierarchy.

Mortgage loans

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

Derivative instruments (Other invested assets and accrued and other liabilities)

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

The majority of the Company's derivative positions are traded in the OTC derivative market and are classified within Level 2 in the fair value hierarchy. OTC derivatives classified within Level 2 are valued using models that utilize actively quoted or observable market input from external market data providers, third-party pricing vendors and/or recent trading activity. The Company's policy is to use mid-market pricing in determining its best estimate of fair value. The fair values of most OTC derivatives, including interest rate and cross-currency swaps, currency forward contracts and credit default swaps are determined using discounted cash flow models.

The Company's cleared interest rate swaps and credit derivatives linked to an index are valued using models that utilize actively quoted or observable market inputs, including the Secured Overnight Financing Rate "SOFR", obtained from external market data providers, third-party pricing vendors, and/or recent trading activity. These derivatives are classified as Level 2 in the fair value hierarchy.

Other invested assets - LPs/LLCs

Other invested assets include investments in private equity funds, for which the Company utilizes NAV, a permitted practical expedient, as an estimate of the fair value.

Other invested assets - Loans

Other invested assets include investments in consumer and middle-market corporate loans for which the Company has elected the FVO. Fair values are generally based on valuation information provided by the investment managers and incorporate significant unobservable inputs. As a result, these investments are generally classified as Level 3 within the fair value hierarchy.

Short term investments

Fair values of short term investments are generally based on market observable inputs and are primarily classified as Level 2 in the fair value hierarchy.

Cash and Cash equivalents

Cash and cash equivalents, including certain money market instruments, are primarily valued using unadjusted quoted prices in active markets that are accessible for identical assets and are primarily classified as Level 1. Due to their short term nature, all other instruments are primarily classified as Level 2 as amortized cost is used as the best estimate of fair value.

FIA embedded derivative

The index-crediting feature in the FIA products is an embedded derivative that is required to be accounted for separately from the host contract and is classified within policyholder contract deposits in the consolidated balance sheets. The fair value of the obligation is calculated based on actuarial and capital market assumptions related to

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

the projected cash flows over the anticipated life of the underlying policies. The cash flow estimates are produced by market implied assumptions. This embedded derivative is reflected within Level 3 in the fair value hierarchy.

Assets and Liabilities Measured at Fair Value

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

	December 31, 2025					
	Level 1	Level 2	Level 3	Fair Value Based on NAV as Practical Expedient	Netting ⁽¹⁾	Total
Assets:						
Funds withheld - directly managed	\$ 1,155	\$ 22,875	\$ 10,465	\$ 3,150	\$ —	\$ 37,645
Fixed maturity securities, AFS:						
U.S. government and government sponsored entities	—	805	—	—	—	805
Obligations of states, municipalities and political subdivisions	—	611	—	—	—	611
Non-U.S. governments	—	46	—	—	—	46
Corporate debt	—	7,943	2,014	—	—	9,957
RMBS	—	605	28	—	—	633
CMBS	—	731	1	—	—	732
CDO / ABS	—	1,714	3,506	—	—	5,220
Total fixed maturity securities, AFS	—	12,455	5,549	—	—	18,004
Fixed maturity securities, FVO:						
Obligations of states, municipalities and political subdivisions	—	99	—	—	—	99
Non-U.S. governments	—	175	—	—	—	175
Corporate debt	—	605	335	—	—	940
RMBS	—	5	—	—	—	5
CMBS	—	99	—	—	—	99
CDO / ABS	—	355	593	—	—	948
Total fixed maturity securities, FVO	—	1,338	928	—	—	2,266
Mortgage loans	—	—	4,191	—	—	4,191
Other invested assets	15	180	1,594	1,472	(180)	3,081
Short term investments	—	56	15	—	—	71
Cash and cash equivalents	737	—	—	—	—	737
Total assets	\$ 1,907	\$ 36,904	\$ 22,742	\$ 4,622	\$ (180)	\$ 65,995
Liabilities:						
FIA embedded derivative ⁽²⁾	\$ —	\$ —	\$ 154	\$ —	\$ —	\$ 154
Accrued and other liabilities	1	1,042	176	—	(1,029)	190
Total liabilities	\$ 1	\$ 1,042	\$ 330	\$ —	\$ (1,029)	\$ 344

⁽¹⁾ "Netting" amounts represent offsetting considerations as disclosed in Note 5.

⁽²⁾ Recorded in policyholder contract deposits on the consolidated balance sheets.

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

December 31, 2024						
	Level 1	Level 2	Level 3	Fair Value Based on NAV as Practical Expedient	Netting ⁽¹⁾	Total
Assets:						
Funds withheld - directly managed	\$ 430	\$ 23,791	\$ 11,059	\$ 3,369	\$ —	\$ 38,649
Fixed maturity securities, AFS:						
U.S. government and government sponsored entities	—	858	—	—	—	858
Obligations of states, municipalities and political subdivisions	—	1,147	—	—	—	1,147
Non-U.S. governments	—	37	—	—	—	37
Corporate debt	—	8,713	974	—	—	9,687
RMBS	—	513	16	—	—	529
CMBS	—	654	1	—	—	655
CDO / ABS	—	1,622	2,221	—	—	3,843
Total fixed maturity securities, AFS	—	13,544	3,212	—	—	16,756
Fixed maturity securities, FVO:						
Obligations of states, municipalities and political subdivisions	—	100	—	—	—	100
Non-U.S. governments	—	312	—	—	—	312
Corporate debt	—	570	256	—	—	826
RMBS	—	9	—	—	—	9
CMBS	—	174	—	—	—	174
CDO / ABS	—	439	331	—	—	770
Total fixed maturity securities, FVO	—	1,604	587	—	—	2,191
Mortgage loans	—	—	2,942	—	—	2,942
Other invested assets	2	177	—	1,412	(177)	1,414
Short term investments	—	170	—	—	—	170
Cash and cash equivalents	749	—	—	—	—	749
Total assets	\$ 1,181	\$ 39,286	\$ 17,800	\$ 4,781	\$ (177)	\$ 62,871
Liabilities:						
FIA embedded derivative ⁽²⁾	\$ —	\$ —	\$ 182	\$ —	\$ —	\$ 182
Accrued and other liabilities	—	984	80	—	(939)	125
Total liabilities	\$ —	\$ 984	\$ 262	\$ —	\$ (939)	\$ 307

⁽¹⁾ "Netting" amounts represent offsetting considerations as disclosed in Note 5.

⁽²⁾ Recorded in policyholder contract deposits on the consolidated balance sheets.

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

Quantitative Information About Level 3 Fair Value Measurements

The table below presents information about the significant unobservable inputs used for recurring fair value measurements for certain Level 3 assets and liabilities, which includes only those financial instruments for which information about the inputs is reasonably available to the Company. Weighted averages are calculated by weighting each input by the relative fair value of the respective category of assets and liabilities (in millions):

December 31, 2025					
	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)	Impact of Increase in the Input on Fair Value
Assets:					
Fixed maturity securities:					
Corporate debt	\$ 1,287	Discounted Cash Flow	Discount Rate	1.99% - 15.40% (6.94)%	Decrease
	80	Trade Price	Trade Price	N/A	Increase
CDO / ABS	1,592	Discounted Cash Flow	Discount Rate	2.63% - 15.73% (6.33)%	Decrease
	58	Consensus Pricing	Indicative Quotes (% of Par)	100.21% - 100.77% (100.49)%	Increase
	566	Trade Price	Trade Price	N/A	Increase
Short Term Investments	15	Trade Price	Trade Price	N/A	Increase
Mortgage loans	3,867	Level Yield	Market Yield	4.26% - 12.15% (6.58)%	Increase
	324	Trade price	Trade Price	N/A	Increase
Other invested assets	1,057	Discounted Cash Flow	Discount Rate	2.13% - 11.79% (5.88)%	Decrease
	527	Trade Price	Trade Price	N/A	Increase
Liabilities:					
FIA embedded derivative	\$ 154	Discounted Cash Flow	Lapse rate	3.56% - 28.67%	Decrease
			Spread over risk-free	0.24% - 1.87%	Decrease
			Withdrawal rate	2.50% - 3.26%	Decrease
			Mortality rate	0.01% - 1.66%	Decrease

Excluded from the above chart are certain Level 3 assets and liabilities that were valued by an external vendor and for which the unobservable inputs were not readily available. As of December 31, 2025, \$10,465 million of funds withheld - directly managed, \$2,604 million of fixed maturity securities, AFS, \$290 million of fixed maturity securities, FVO and \$10 million of other invested assets were excluded from assets under this criteria. As of December 31, 2025, \$176 million of accrued and other liabilities were excluded from liabilities under this criteria.

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

December 31, 2024					
	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)	Impact of Increase in the Input on Fair Value
Assets:					
Fixed maturity securities:					
Corporate debt	\$ 883	Discounted Cash Flow	Discount rate	1.95% - 15.53% (6.93%)	Decrease
CDO / ABS	1,665	Discounted Cash Flow	Discount rate	3.33% - 21.50% (8.98%)	Decrease
	491	Trade price	Trade price	N/A	Increase
Mortgage loans	2,942	Level yield	Market yield	3.78% - 12.15% (7.37%)	Increase
Liabilities:					
FIA embedded derivative	\$ 182	Discounted Cash Flow	Lapse rate	3.42% - 30.65%	Decrease
			Spread over risk-free	0.46% - 2.10%	Decrease
			Withdrawal rate	2.50% - 3.17%	Decrease
			Mortality rate	0.01% - 1.52%	Decrease

Excluded from the above chart are certain Level 3 assets and liabilities that were valued by an external vendor and for which the unobservable inputs were not readily available. As of December 31, 2024, \$11,059 million of funds withheld - directly managed, \$718 million of fixed maturity securities, AFS and \$42 million of fixed maturity securities, FVO were excluded from assets under this criteria. As of December 31, 2024, \$80 million of accrued and other liabilities were excluded from liabilities under this criteria.

Transfers into or out of Level 3

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

December 31, 2025							
	Assets						
	Funds Withheld - Directly Managed	Fixed Maturity Securities, AFS	Fixed Maturity Securities, FVO	Mortgage Loans	Short Term Investments	Other Invested Assets	Total Assets
Balance, beginning of year	\$ 11,059	\$ 3,212	\$ 587	\$ 2,942	\$ —	\$ —	\$ 17,800
Purchases	—	3,734	321	2,480	15	956	7,506
Sales, maturities, redemptions	—	(416)	(36)	(1,224)	—	(83)	(1,759)
Total realized and unrealized gains (losses) included in net income (loss) ⁽¹⁾	—	6	—	17	—	6	29
Unrealized gains (losses) included in other comprehensive income (loss)	—	63	—	—	—	—	63
Change in fair value of funds withheld - directly managed included in net income (loss)	(594)	—	—	—	—	—	(594)
Transfers into Level 3	—	314	6	—	—	4	324
Transfers out of Level 3	—	(65)	—	—	—	—	(65)
Other ⁽²⁾	—	(1,299)	50	(24)	—	711	(562)
Balance, end of year	\$ 10,465	\$ 5,549	\$ 928	\$ 4,191	\$ 15	\$ 1,594	\$ 22,742

⁽¹⁾ Fixed maturity securities, FVO includes changes in unrealized gains (losses) of \$1 million included in the consolidated statements of income (loss) for instruments still held as of December 31, 2025.

⁽²⁾ Includes \$622 million of fixed maturity securities, AFS held in variable interest entities that were consolidated by the Company during 2025 which resulted in a reclassification to other invested assets.

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

December 31, 2024					
	Assets				
	Funds Withheld - Directly Managed	Fixed Maturity Securities, AFS	Fixed Maturity Securities, FVO	Mortgage Loans	Total Assets
Balance, beginning of year	\$ 11,412	\$ 562	\$ 557	\$ 882	\$ 13,413
Purchases	—	2,796	375	2,727	5,898
Sales, maturities, redemptions	—	(127)	(14)	(677)	(818)
Total realized and unrealized gains (losses) included in net income (loss) ⁽¹⁾	—	(6)	(2)	21	13
Unrealized gains (losses) included in other comprehensive income (loss)	—	25	—	—	25
Change in fair value of funds withheld - directly managed included in net income (loss)	(353)	—	—	—	(353)
Transfers into Level 3	—	26	—	—	26
Transfers out of Level 3	—	(56)	(339)	—	(395)
Other	—	(8)	10	(11)	(9)
Balance, end of year	\$ 11,059	\$ 3,212	\$ 587	\$ 2,942	\$ 17,800

⁽¹⁾ Fixed maturity securities, FVO includes changes in unrealized gains (losses) of \$(4) million included in the consolidated statements of income (loss) for instruments still held as of December 31, 2024.

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

December 31, 2025			
	Liabilities		
	FIA Embedded Derivative	Accrued and other liabilities⁽¹⁾	Total Liabilities
Balance, beginning of year	\$ 182	\$ 80	\$ 262
Total realized and unrealized gains (losses) included in net income (loss)	—	96	96
Change in fair value (discount rate)	(28)	—	(28)
Balance, end of year	\$ 154	\$ 176	\$ 330

⁽¹⁾ Represents derivative liabilities associated with repackaging vehicles. See Note 4 for further information.

December 31, 2024			
	Liabilities		
	FIA Embedded Derivative	Accrued and other liabilities⁽¹⁾	Total Liabilities
Balance, beginning of year	\$ 252	\$ —	\$ 252
Total realized and unrealized gains (losses) included in net income (loss)	—	51	51
Change in fair value (discount rate)	(70)	—	(70)
Other	—	29	29
Balance, end of year	\$ 182	\$ 80	\$ 262

⁽¹⁾ Represents derivative liabilities associated with repackaging vehicles. See Note 4 for further information.

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

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

Fair Value Information About Financial Instruments Not Measured at Fair Value

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

	December 31, 2025					Carrying Value
	Estimated Fair Value					
	Level 1	Level 2	Level 3	Total		
Assets:						
Policy loans	\$	—	\$	77	\$	77
Loans receivable from related parties ⁽¹⁾		—		100		100
Liabilities:						
Policyholder contract deposits associated with investment-type contracts	\$	—	\$	9,494	\$	9,494
Deposit liability ⁽²⁾		—		84		84
Repurchase agreements ⁽²⁾		—		248		248

⁽¹⁾ Recorded in other assets in the consolidated balance sheets.

⁽²⁾ Recorded in accrued and other liabilities in the consolidated balance sheets.

	December 31, 2024					
	Estimated Fair Value					
	Level 1	Level 2	Level 3	Total	Carrying Value	
Assets:						
Policy loans	\$ —	\$ —	\$ 76	\$ 76	\$ 76	
Loans receivable from related parties ⁽¹⁾	—	—	51	51	51	
Liabilities:						
Policyholder contract deposits associated with investment-type contracts	\$ —	\$ —	\$ 9,788	\$ 9,788	\$ 11,022	
Deposit liability ⁽²⁾	—	—	101	101	110	
Repurchase agreements ⁽²⁾	—	249	—	249	249	

⁽¹⁾ Recorded in other assets in the consolidated balance sheets.

⁽²⁾ Recorded in accrued and other liabilities in the consolidated balance sheets.

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

Policy loans

The fair value is generally approximated by the carrying value.

Loans receivable from related parties

The fair value is generally approximated by the carrying value due to the short-term nature of the loans.

Policyholder contract deposits associated with investment-type contracts

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

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

Deposit liability

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

Repurchase Agreements

The Company receives cash for selling securities under agreements to repurchase. Fair values for repurchase agreements that have a maturity date greater than one year are determined using discounted cash flow analyses and incorporate interest rates associated with the repurchase agreement liability. The carrying amount of repurchase agreements that have a maturity date of one year or less approximates fair value due to the short-term nature of the transactions.

4. Investments

Fixed Maturity Securities AFS

The following tables present the amortized cost or cost, gross unrealized gains, gross unrealized losses, allowance for credit losses and fair value of AFS fixed maturity securities (in millions):

	December 31, 2025				
	Amortized	Gross Unrealized		Allowance for	Fair
	Cost or	Gains	Losses	Expected Credit	Value
	Cost			Losses	
Fixed maturity securities, AFS:					
U.S. government and government sponsored entities	\$ 892	\$ 1	\$ (87)	\$ (1)	\$ 805
Obligations of states, municipalities and other political subdivisions	596	16	(1)	—	611
Non-U.S. governments	67	2	(23)	—	46
Corporate debt	9,867	317	(172)	(55)	9,957
Mortgage-backed, asset-backed and collateralized:					
RMBS	625	12	(3)	(1)	633
CMBS	730	12	(8)	(2)	732
CDO / ABS	5,171	63	(11)	(3)	5,220
Total mortgage-backed, asset-backed and collateralized	6,526	87	(22)	(6)	6,585
Total fixed maturity securities, AFS	\$ 17,948	\$ 423	\$ (305)	\$ (62)	\$ 18,004

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

	December 31, 2024				
	Amortized	Gross Unrealized		Allowance for	Fair
	Cost or	Gains	Losses	Expected Credit	Value
	Cost			Losses	
Fixed maturity securities, AFS:					
U.S. government and government sponsored entities	\$ 1,062	\$ —	\$ (203)	\$ (1)	\$ 858
Obligations of states, municipalities and other political subdivisions	1,146	8	(4)	(3)	1,147
Non-U.S. governments	60	—	(23)	—	37
Corporate debt	9,728	151	(99)	(93)	9,687
Mortgage-backed, asset-backed and collateralized:					—
RMBS	531	7	(6)	(3)	529
CMBS	657	10	(11)	(1)	655
CDO / ABS	3,830	30	(12)	(5)	3,843
Total mortgage-backed, asset-backed and collateralized	5,018	47	(29)	(9)	5,027
Total fixed maturity securities, AFS	\$ 17,014	\$ 206	\$ (358)	\$ (106)	\$ 16,756

Fixed Maturity Securities AFS in a Loss Position

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

	December 31, 2025					
	Less than 12 Months		Greater than 12 Months		Total	
	Gross		Gross		Gross	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed maturity securities, AFS:						
U.S. government and government sponsored entities	\$ 443	\$ (24)	\$ 306	\$ (63)	\$ 749	\$ (87)
Obligations of states and municipalities and other political subdivisions	46	—	7	(1)	53	(1)
Non-U.S. governments	—	—	17	(23)	17	(23)
Corporate debt	1,197	(51)	769	(121)	1,966	(172)
Mortgage-backed, asset-backed and collateralized:						
RMBS	189	(2)	25	(1)	214	(3)
CMBS	44	—	1	(8)	45	(8)
CDO / ABS	598	—	27	(11)	625	(11)
Total mortgage-backed, asset-backed and collateralized	831	(2)	53	(20)	884	(22)
Total fixed maturity securities, AFS	\$ 2,517	\$ (77)	\$ 1,152	\$ (228)	\$ 3,669	\$ (305)

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

	December 31, 2024					
	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturity securities, AFS:						
U.S. government and government sponsored entities	\$ 506	\$ (27)	\$ 352	\$ (176)	\$ 858	\$ (203)
Obligations of states and municipalities and other political subdivisions	407	(1)	50	(3)	457	(4)
Non-U.S. governments	7	(1)	12	(22)	19	(23)
Corporate debt	2,804	(6)	645	(93)	3,449	(99)
Mortgage-backed, asset-backed and collateralized:						
RMBS	188	(2)	91	(4)	279	(6)
CMBS	63	—	39	(11)	102	(11)
CDO / ABS	379	(7)	10	(5)	389	(12)
Total mortgage-backed, asset-backed and collateralized	630	(9)	140	(20)	770	(29)
Total fixed maturity securities, AFS	\$ 4,354	\$ (44)	\$ 1,199	\$ (314)	\$ 5,553	\$ (358)

As of December 31, 2025, 63% of fixed maturity securities, AFS in a gross unrealized loss position had a decline in fair value less than 8% of amortized cost. As of December 31, 2024, 73% of fixed maturity securities, AFS in a gross unrealized loss position had a decline in fair value less than 6% of amortized cost. Additionally, \$167 million and \$325 million of the gross unrealized losses as of December 31, 2025 and 2024, respectively, relate to investment-grade securities (or highly rated or securities with a Standard and Poor's rating of at least BBB-).

Gross unrealized losses are primarily attributable to increases in interest rates, general credit spread widening and foreign currency exchange rate movements since the date of acquisition. As of December 31, 2025, the Company did not intend to sell these securities, nor is it more likely than not that the Company will be required to sell these securities before recovery of the amortized cost basis.

Contractual Maturities of Fixed Maturity Securities AFS

The following table presents the amortized cost and fair value of fixed maturity securities AFS by contractual maturity (in millions):

	December 31,			
	2025		2024	
	Total Fixed Maturity Securities, AFS			
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 34	\$ 34	\$ 55	\$ 55
Due after one year through five years	1,505	1,521	1,120	1,121
Due after five years through ten years	1,841	1,892	1,398	1,394
Due after ten years	8,042	7,972	9,423	9,159
Mortgage-backed, asset-backed and collateralized	6,526	6,585	5,018	5,027
Total	\$ 17,948	\$ 18,004	\$ 17,014	\$ 16,756

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

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

Proceeds and gross gains and losses from sales

The following table presents the proceeds from sales and the gross gains and losses on those sales of AFS fixed maturity securities (in millions):

	Year Ended December 31,		
	2025	2024	2023
Proceeds from voluntary sales	\$ 5,128	\$ 9,272	\$ 1,069
Gross gains	99	317	22
Gross losses	(166)	(296)	(44)

Allowance for Credit Losses and Impairments - Fixed Maturity Securities AFS

The following table presents the rollforward of the allowance for credit losses in fixed maturity securities by type (in millions):

	U.S. government and government sponsored entities	Obligations of states and municipalities and other political subdivisions	Non-U.S. governments	Corporate debt	RMBS	CMBS	CDO / ABS	Total
Balance, December 31, 2023	\$ —	\$ —	\$ 2	\$ 34	\$ —	\$ 1	\$ 1	\$ 38
Additions for initial credit losses	1	1	(3)	29	2	1	3	34
Reductions for securities sold during the period	—	—	—	(7)	—	—	—	(7)
Additions (reductions) to previously impaired securities	—	2	1	37	1	(1)	1	41
Balance, December 31, 2024	1	3	—	93	3	1	5	106
Additions for initial credit losses	—	—	—	8	—	—	5	13
Reductions for securities sold during the period	—	—	—	(8)	—	—	(1)	(9)
Additions (reductions) to previously impaired securities	—	(3)	—	(38)	(2)	1	(6)	(48)
Balance, December 31, 2025	\$ 1	\$ —	\$ —	\$ 55	\$ 1	\$ 2	\$ 3	\$ 62

Other Invested Assets

The following table presents the components of other invested assets by asset class (in millions):

	December 31,	
	2025	2024
LPs/LLCs	\$ 1,472	\$ 1,412
Derivatives	—	—
Loans and other	1,686	78
Total other invested assets	\$ 3,158	\$ 1,490

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

Variable Interest Entities

A VIE is an entity that either: (a) has equity investors that lack certain essential characteristics of a controlling financial interest (including the ability to control activities of the entity, the obligation to absorb the entity's expected losses and the right to receive the entity's expected residual returns); or (b) lacks sufficient equity to finance its own activities without financial support provided by other entities, which in turn would be expected to absorb at least some of the expected losses of the VIE.

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

The Company holds both fixed maturity securities and equity interest issued by VIEs. The Company is the primary beneficiary of a VIE if the Company has: (a) the power to direct the activities of the VIE that most significantly impact the economic performance of the entity; and (b) the obligation to absorb losses of the entity that could be potentially significant to the VIE or the right to receive benefits from the entity that could be potentially significant. If the Company determines that it is the VIE's primary beneficiary, it consolidates the VIE. While also considering these factors, the consolidation conclusion also depends on the breadth of the Company's decision-making ability and the Company's ability to influence activities that significantly affect the economic performance of the VIE.

Consolidated VIEs

Creditors or beneficial interest holders of VIEs where the Company is the primary beneficiary have recourse only to the assets and cash flows of the VIEs and have no recourse to the general credit of the Company, as the Company's obligation to the VIEs is limited to the amount of its committed investment. Assets of consolidated VIEs can only be used to settle liabilities of consolidated VIEs.

The Company has formed certain VIEs to either (i) securitize residential mortgage loans, (ii) repackage fixed maturities and derivatives into pass-through securities, or (iii) to hold investments and derivatives including consumer loans and credit linked derivatives. The Company's subsidiaries own some of the beneficial interests of these VIEs and maintain the power to direct the activities of the VIEs that most significantly impact their economic performance. Accordingly, the Company consolidates these entities and the associated beneficial interests issued to third parties and derivative liabilities are reported within accrued and other liabilities on the consolidated balance sheets. Consolidated debt and beneficial interests are non-recourse to the Company.

The following table presents the total assets and total liabilities relating to investment related VIEs for which the Company has concluded that it is the primary beneficiary and which are consolidated (in millions):

	December 31,	
	2025	2024
Assets:		
Fixed maturity securities, AFS	\$ 398	\$ 188
Fixed maturity securities, FVO	316	304
Mortgage loans, at fair value	716	927
Other invested assets	1,581	—
Cash and cash equivalents	22	—
Total Assets	\$ 3,033	\$ 1,419
Liabilities:		
Accrued and other liabilities	\$ 465	\$ 460
Total liabilities	\$ 465	\$ 460

Unconsolidated VIEs

In the normal course of activities, the Company will invest in LPs/LLCs which include hedge funds, private equity funds and real estate-related funds and may or may not be VIEs. The Company's maximum exposure to loss on these investments, both VIEs and non-VIEs, is limited to the amount of its investment plus any unfunded commitments. The Company has determined that it is not required to consolidate these entities because either (1) it does not control them or (2) it does not have the obligation to absorb losses of these entities that could be potentially significant to the entities or the right to receive benefits from the entities that could be potentially significant.

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

The carrying amount and maximum exposure to loss relating to VIEs in which the Company holds a variable interest but is not the primary beneficiary and which have not been consolidated were as follows (in millions):

	December 31,			
	2025		2024	
	Carrying Amount	Maximum Exposure to Loss ⁽¹⁾	Carrying Amount	Maximum Exposure to Loss ⁽¹⁾
Fixed maturity securities, AFS ⁽²⁾	\$ 820	\$ 1,376	\$ 34	\$ 108
Fixed maturity securities, FVO ⁽²⁾	373	492	91	125
Other invested assets	464	791	438	878
Total	\$ 1,657	\$ 2,659	\$ 563	\$ 1,111

⁽¹⁾ The maximum exposure to loss is equal to the carrying amounts plus any unfunded commitments.

⁽²⁾ For variable interests included within fixed maturity securities, AFS and fixed maturity securities, FVO, the Company's involvement is limited to that of a passive investor in asset-backed securities issued by LPs or LLCs that do not have substantial equity.

Net Investment Income

The following table presents the components of net investment income (in millions):

	Year Ended December 31,		
	2025	2024	2023
Funds withheld - directly managed	\$ 2,022	\$ 2,064	\$ 1,502
Fixed maturity securities, AFS	1,099	1,072	226
Other invested assets	126	172	125
Mortgage loans	224	163	34
Fixed maturity securities, FVO	105	122	136
Short term investments and other investments	70	70	31
Gross investment income	3,646	3,663	2,054
Investment expenses ⁽¹⁾	(128)	(113)	(73)
Net investment income	\$ 3,518	\$ 3,550	\$ 1,981

⁽¹⁾ For the years ended December 31, 2025, 2024 and 2023, investment expenses includes \$11 million, \$2 million and \$25 million, respectively, of expenses related to liabilities associated with repurchase agreements.

Investment Gains (Losses)

The following table presents the components of investment gains (losses) (in millions):

	Year Ended December 31,		
	2025	2024	2023
Net losses on derivative instruments	\$ (553)	\$ (715)	\$ (110)
Realized losses on funds withheld - directly managed	(167)	(260)	(615)
Net gains (losses) on FIA embedded derivative	(11)	25	8
Realized losses on fixed maturity securities, AFS	(25)	(55)	(19)
Net gains on mortgage loans	17	21	—
Unrealized gains on fixed maturity securities, FVO	17	2	90
Realized losses on fixed maturity securities, FVO	(1)	(1)	(20)
Other net gains	—	—	1
Investment gains (losses)	\$ (723)	\$ (983)	\$ (665)

The amount of unrealized appreciation (depreciation) of fixed maturity securities, AFS reclassified from AOCI to investment gains (losses) upon the sale of securities was \$84 million, \$274 million and \$22 million for the years ended December 31, 2025, 2024 and 2023, respectively.

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

Repurchase Agreements

In the normal course of business, the Company sells securities under agreements to repurchase.

The following table sets forth, by type, the securities the Company has agreed to repurchase. The below amounts represent the cash received under the outstanding repurchase agreements (in millions):

	December 31,							
	2025				2024			
	Remaining Contractual Maturities of the Agreements							
	Up to 30 days	30-90 days	Greater than 90 days	Total	Up to 30 days	30-90 days	Greater than 90 days	Total
U.S. corporate public securities	\$ 248	\$ —	\$ —	\$ 248	\$ 249	\$ —	\$ —	\$ 249

The market value of the securities posted as collateral under the repurchase agreements was \$243 million and \$244 million as of December 31, 2025 and 2024, respectively.

Securities Pledged and Restricted Assets

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

The Company utilizes asset trust accounts to collateralize business with reinsurance counterparties. The fair value of assets held in these trusts for the benefit of the counterparties as of December 31, 2025 and 2024 was \$22,868 million and \$17,766 million, respectively.

As of December 31, 2025 and 2024, 65% and 74%, respectively, of the fixed maturity securities within the funds withheld - directly managed, serving as collateral for the reinsurance receivable, are classified as investment grade by the National Association of Insurance Commissioners.

Concentration of Credit Risk

The Company is a party to financial assets with a concentration of credit risk in the normal course of business, including funds withheld - directly managed and reinsurance recoverable. For funds withheld - directly managed, in the event of a ceding company's insolvency, the Company would need to assert a claim on the investments collateralizing the reinsurance receivable and used to settle liabilities. However, the Company has the ability to offset amounts owed to the ceding company, which reduces the risk of loss. Under the terms of the reinsurance agreements, the Company is required to fund any deficiency in collateral supporting the reinsured obligations and is entitled to receive any excess collateral, as applicable. For reinsurance recoverable, credit risk is mitigated by requiring collateral and credit enhancements in various forms, including structuring the terms of our retrocession agreements on a funds withheld basis.

5. Derivatives and Offsetting

Types of Derivative Instruments and Derivative Strategies

The Company utilizes various derivative instruments and strategies to manage interest rate, foreign currency exchange rate, equity and credit risk. Commonly used derivative instruments include but are not necessarily limited to:

- Interest rate contracts: futures, swaps, swaptions, forwards, options, caps, floors and treasury bond total return swaps;
- Equity contracts: futures, options and total return swaps;
- Foreign exchange contracts: futures, options, forwards and swaps; and

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

- Credit contracts: single and index reference credit default swaps, credit default index swaptions and credit index options.

See Note 1 for a detailed discussion of the accounting treatment for derivative instruments. See Note 3 for additional disclosures related to the fair value of derivative instruments.

Interest Rate Contracts

Interest rate swaps, options, and bond total return swaps are used by the Company to reduce risks from changes in interest rates, and manage interest rate exposures arising from mismatches between assets and liabilities and to hedge against changes in the values of assets it owns or anticipates acquiring or selling.

Interest rate swaps may be attributed to specific assets or liabilities or to a portfolio of assets or liabilities. The Company agrees with counterparties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed upon notional principal amount.

Treasury bond total return swaps are contracts whereby the Company agrees with counterparties to exchange, at specified intervals, the difference between the return on an asset and SOFR plus an associated funding spread based on a notional amount. The Company generally uses bond total return swaps to hedge the effect of changes in interest rates.

Interest rate options include swaptions and interest rate floors. Swaptions are options that give the holder the right but not obligation to enter into a specified interest rate swap. The Company uses these instruments for protection against the change in future interest rates. Interest rate floors set an effective rate of interest on underlying reference rate and is used by the Company to provide protection against potential future declines in rates.

Equity Contracts

The Company utilizes equity derivatives to manage its exposure to the equity markets which impacts the value of assets and liabilities it owns or anticipates acquiring or selling.

Equity total return swaps are contracts whereby the Company agrees with counterparties to exchange, at specified intervals, the difference between the return on an asset (or market index) and SOFR plus an associated funding spread based on a notional amount. The Company generally uses equity total return swaps to economically hedge the effect of changes in equity indices.

Foreign Exchange Contracts

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

Under currency forwards, the Company agrees with counterparties to deliver a specified amount of an identified currency at a specified future date. Typically, the price is agreed upon at the time of the contract and payment for such a contract is made at the specified future date.

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

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

Credit Contracts

The Company purchases credit protection using credit derivatives in order to hedge specific credit exposures in the Company's investment portfolio. The Company has consolidated a VIE that sold credit protection under a credit default swap referencing a \$1,000 million notional portfolio of senior secured loans to generate investment income with an approximate 8 year term. Credit protection payments are triggered by failure to pay, bankruptcy, or restructuring of a reference obligation. The Company's exposure is limited to a 12.5% first-loss tranche, and the maximum potential amount of future payments under the derivative is \$125 million, fully collateralized by cash on deposit. As of December 31, 2025, no credit events have occurred.

Primary Risks Managed by Derivatives

The table below provides a summary of the gross notional amount and fair value of derivative contracts by the primary underlying risks. Many derivative instruments contain multiple underlying risks. The fair value amounts below represent the value of derivative contracts prior to taking into account the netting effects of master netting agreements and cash collateral (in millions). Certain prior period amounts have been reclassified to conform to the current period presentation.

Instrument Type	December 31,					
	2025			2024		
	Notional	Gross Fair Value		Notional	Gross Fair Value	
		Assets	Liabilities		Assets	Liabilities
Interest rate contracts:						
Interest rate swaps ⁽¹⁾	\$ 21,270	\$ 167	\$ 876	\$ 12,798	\$ 150	\$ 709
Interest rate options ⁽¹⁾	—	—	—	1,850	6	—
Bond total return swaps ⁽¹⁾	1,799	—	114	1,545	—	122
Foreign exchange contracts:						
Foreign currency forwards ⁽¹⁾	966	5	6	1,082	12	43
Foreign currency swaps ⁽¹⁾	927	5	223	881	5	190
Credit contracts:						
Credit spread index options ⁽¹⁾	45	1	—	4,900	4	—
Credit default swaps ⁽¹⁾	1,000	2	—	—	—	—
Other:						
Funds withheld embedded derivative ⁽²⁾	—	(6,348)	—	—	(7,027)	—
FIA embedded derivative ⁽³⁾	—	—	154	—	—	182
Total Derivatives	\$ 26,007	\$ (6,168)	\$ 1,373	\$ 23,056	\$ (6,850)	\$ 1,246

⁽¹⁾ Recorded in other invested assets and accrued and other liabilities on the consolidated balance sheets.

⁽²⁾ Assets are recorded in funds withheld - directly managed, at fair value on the consolidated balance sheets. See Note 1 for further information.

⁽³⁾ Liabilities are recorded in policyholder contract deposits on the consolidated balance sheets. See Notes 1 and 3 for further information.

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

Offsetting Assets and Liabilities

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

	December 31, 2025						
	Gross Amounts of Recognized Financial Instruments	Gross Amounts Offset in the Consolidated Balance Sheets		Amounts Presented in the Consolidated Balance Sheets	Financial Instruments/ Collateral ⁽¹⁾	Net Amount	
		Counterparty Netting	Cash Collateral				
Offsetting of Financial Assets:							
Derivatives	\$ 182	\$ (179)	\$ (1)	\$ 2	\$ —	\$	2
Offsetting of Financial Liabilities:							
Derivatives	\$ 1,219	\$ (179)	\$ (850)	\$ 190	\$ (176)	\$	14
Repurchase agreements ⁽²⁾	248	—	—	248	(243)		5

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

⁽²⁾ Recorded in accrued and other liabilities on the consolidated balance sheets.

	December 31, 2024							
	Gross Amounts of Recognized Financial Instruments	Gross Amounts Offset in the Consolidated Balance Sheets		Amounts Presented in the Consolidated Balance Sheets	Financial Instruments/ Collateral ⁽¹⁾	Net Amount		
		Counterparty Netting	Cash Collateral					
Offsetting of Financial Assets:								
Derivatives	\$ 177	\$ (172)	\$ (5)	\$ —	\$ —	\$ —	\$ —	
Offsetting of Financial Liabilities:								
Derivatives	\$ 1,064	\$ (172)	\$ (767)	\$ 125	\$ —	\$ 125	\$ 125	
Repurchase agreements ⁽²⁾	249	—	—	249	(244)	5	5	

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

⁽²⁾ Recorded in accrued and other liabilities on the consolidated balance sheets.

For securities sold under repurchase agreements, the Company monitors the value of the securities and maintains collateral, as appropriate, to protect against credit exposure. Where the Company has entered into repurchase agreements with the same counterparty, in the event of default, the Company would generally be permitted to exercise rights of offset. The Company monitors the value of securities borrowed not reflected on the consolidated balance sheets that are used to provide collateral to ceding companies under reinsurance transactions.

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

The following table provides the financial statement classification and impact of derivatives (in millions). Certain prior period amounts have been reclassified to conform to the current period presentation.

Instrument Type	Year Ended December 31,					
	2025		2024		2023	
	Investment Gains (Losses)	Foreign Exchange Gains (Losses)	Investment Gains (Losses)	Foreign Exchange Gains (Losses)	Investment Gains (Losses)	Foreign Exchange Gains (Losses)
Interest rate contracts:						
Interest rate swaps	\$ (325)	\$ —	\$ (434)	\$ —	\$ (176)	\$ —
Interest rate options	(6)	—	(4)	—	49	—
Bond total return swaps	8	—	(118)	—	17	—
Foreign exchange contracts:						
Foreign currency forwards	—	(31)	—	(185)	—	(145)
Foreign currency swaps	—	(69)	—	(153)	—	(79)
Equity contracts:						
Equity total return swaps ⁽¹⁾	(22)	—	—	—	—	—
Credit contracts:						
Credit spread index options	(14)	—	(1)	—	—	—
Credit default swaps ⁽²⁾	(194)	—	(158)	—	—	—
Other:						
FIA embedded derivative	(11)	—	25	—	8	—
Total Derivatives	\$ (564)	\$ (100)	\$ (690)	\$ (338)	\$ (102)	\$ (224)

⁽¹⁾ Represents related party activity for the year ended December 31, 2025. See Note 14 for additional information.

⁽²⁾ Represents related party activity for the years ended December 31, 2025 and 2024. See Note 14 for additional information.

Counterparty Credit Risk

The Company is exposed to credit-related losses in the event of non-performance by counterparties to financial derivative transactions with a positive fair value. The Company manages credit risk by (i) entering into derivative transactions with highly rated major international financial institutions and other creditworthy counterparties governed by master netting agreements, as applicable; (ii) trading through central clearing and OTC parties; and (iii) obtaining collateral, such as cash and securities, when appropriate.

Substantially all of the Company's derivative agreements require daily full collateralization by the party in a liability position.

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

6. Reinsurance

The following table shows the effects of reinsurance on the consolidated statements of income (loss) (in millions):

	Year Ended December 31,		
	2025	2024	2023
Premiums:			
Assumed	\$ 277	\$ 207	\$ 217
Ceded	(283)	—	—
Net premiums	\$ (6)	\$ 207	\$ 217
Policy charges and fee income:			
Assumed	\$ 816	\$ 852	\$ 251
Net policy charges and fee income	\$ 816	\$ 852	\$ 251
Policyholder benefits:			
Assumed ⁽¹⁾	\$ 2,720	\$ 2,221	\$ 1,809
Ceded	(185)	—	—
Net policyholder benefits	\$ 2,535	\$ 2,221	\$ 1,809
Policyholder liability remeasurement (gain) loss:			
Assumed ⁽¹⁾	\$ (74)	\$ 102	\$ 21
Ceded	(6)	—	—
Net policyholder liability remeasurement (gain) loss	\$ (80)	\$ 102	\$ 21
Interest credited to policyholder account balances:			
Assumed	\$ 712	\$ 762	\$ 391
Net interest credited to policyholder account balances	\$ 712	\$ 762	\$ 391

⁽¹⁾ Prior period amounts have been restated for the adoption of ASU 2018-12.

7. Future Policy Benefits

The following is a reconciliation of future policy benefits contained in the consolidated balance sheets (in millions):

	December 31,	
	2025	2024
Future policy benefits included in the rollforwards:		
Payout Annuities - U.S.	\$ 17,074	\$ 17,649
Payout Annuities - Non-U.S.	811	739
Traditional life - U.S.	2,960	2,904
Accident and health	4,748	671
Total future policy benefits included in the rollforwards	25,593	21,963
AIL for universal life-type contracts	13,906	12,431
Reconciling Items:		
Other products ⁽¹⁾	1,705	1,766
Future policy benefits	\$ 41,204	\$ 36,160

⁽¹⁾ Primarily represents participating insurance contracts issued by ceding companies that are stock life insurance companies. The Company has elected to account for these contracts in accordance with ASC 944-20.

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

Effective January 1, 2025, a U.S. based life insurance company recaptured its reinsurance agreement with the Company, which resulted in the full and final settlement of the Company's obligations under the reinsurance agreement. The impact of the recapture resulted in a reduction in future policy benefits, a reduction in policyholder contract deposits, a reduction in funds withheld - directly managed, at fair value and an extinguishment of the related negative VOBA intangible.

The following table presents changes in future policy benefits (in millions):

	December 31, 2025				
	Payout Annuities - U.S. ⁽¹⁾	Payout Annuities - Non-U.S.	Traditional Life - U.S. ⁽²⁾	Accident and Health ^{(3) (4)}	Total
Present Value of Expected Net Premiums					
Balance, beginning of year	\$ —	\$ —	\$ 687	\$ 158	\$ 845
Beginning balance at original discount rate	—	—	777	177	954
Effect of changes in cash flow assumptions	—	—	(44)	(8)	(52)
Effect of actual variances from expected experience	—	—	(29)	(6)	(35)
Other	—	—	—	12	12
Adjusted beginning of year balance	—	—	704	175	879
Issuances	—	—	—	683	683
Interest accrual	—	—	17	21	38
Net premiums collected	—	—	(89)	(82)	(171)
Ending balance at original discount rate	—	—	632	797	1,429
Effect of changes in discount rate assumptions	—	—	(51)	(8)	(59)
Balance, end of year	\$ —	\$ —	\$ 581	\$ 789	\$ 1,370
Present Value of Expected Future Policy Benefits					
Balance, beginning of year	\$ 17,649	\$ 739	\$ 3,591	\$ 829	\$ 22,808
Beginning balance at original discount rate	20,879	1,380	4,393	938	27,590
Effect of changes in currency exchange rates	—	106	—	—	106
Effect of changes in cash flow assumptions	(55)	—	(51)	(5)	(111)
Effect of actual variances from expected experience	(9)	3	6	—	—
Other	(12)	—	—	6	(6)
Adjusted beginning of year balance	20,803	1,489	4,348	939	27,579
Issuances	46	—	—	4,860	4,906
Interest accrual	834	18	129	139	1,120
Benefit payments	(1,504)	(37)	(258)	(357)	(2,156)
Other ⁽⁵⁾	(362)	—	—	—	(362)
Ending balance at original discount rate ^{(1) (3)}	19,817	1,470	4,219	5,581	31,087
Effect of changes in discount rate assumptions	(2,743)	(590)	(678)	(44)	(4,055)
Effect of foreign exchange on change in discount rate assumptions	—	(69)	—	—	(69)
Balance, end of year	\$ 17,074	\$ 811	\$ 3,541	\$ 5,537	\$ 26,963
Net Future Policy benefits	\$ 17,074	\$ 811	\$ 2,960	\$ 4,748	\$ 25,593
Less: Reinsurance recoverable ^{(2) (4)}	—	—	94	(62)	32
Net Future Policy benefits, after reinsurance recoverable	\$ 17,074	\$ 811	\$ 2,866	\$ 4,810	\$ 25,561

⁽¹⁾ Includes DPL of \$433 million within Payout Annuities - U.S.

⁽²⁾ Includes ceded DPL of \$94 million within Traditional Life - U.S.

⁽³⁾ Includes DPL of \$719 million within Accident and Health.

⁽⁴⁾ Includes ceded DPL of \$580 million within Accident and Health.

⁽⁵⁾ Represents the recapture of a reinsurance agreement by a U.S. based life insurance company.

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

	December 31, 2024				
	Payout Annuities - U.S. ⁽¹⁾	Payout Annuities - Non-U.S.	Traditional Life - U.S.	Accident and Health	Total
Present Value of Expected Net Premiums					
Balance, beginning of year	\$ —	\$ —	\$ 751	\$ 285	\$ 1,036
Beginning balance at original discount rate	—	—	839	311	1,150
Effect of changes in cash flow assumptions	—	—	18	1	19
Effect of actual variances from expected experience	—	—	(6)	(109)	(115)
Adjusted beginning of year balance	—	—	851	203	1,054
Interest accrual	—	—	20	7	27
Net premiums collected	—	—	(94)	(33)	(127)
Ending balance at original discount rate	—	—	777	177	954
Effect of changes in discount rate assumptions	—	—	(90)	(19)	(109)
Balance, end of year	\$ —	\$ —	\$ 687	\$ 158	\$ 845
Present Value of Expected Future Policy Benefits					
Balance, beginning of year	\$ 19,579	\$ 852	\$ 3,750	\$ 976	\$ 25,157
Beginning balance at original discount rate	21,508	1,429	4,382	1,071	28,390
Effect of changes in currency exchange rates	—	(24)	—	—	(24)
Effect of changes in cash flow assumptions	19	—	20	—	39
Effect of actual variances from expected experience	(12)	(10)	20	(90)	(92)
Adjusted beginning of year balance	21,515	1,395	4,422	981	28,313
Interest accrual	877	18	134	32	1,061
Benefit payments	(1,513)	(33)	(163)	(75)	(1,784)
Ending balance at original discount rate ⁽¹⁾	20,879	1,380	4,393	938	27,590
Effect of changes in discount rate assumptions	(3,230)	(621)	(802)	(109)	(4,762)
Effect of foreign exchange on change in discount rate assumptions	—	(20)	—	—	(20)
Balance, end of year	\$ 17,649	\$ 739	\$ 3,591	\$ 829	\$ 22,808
Net Future Policy benefits	\$ 17,649	\$ 739	\$ 2,904	\$ 671	\$ 21,963

⁽¹⁾ Includes DPL of \$189 million within Payout Annuities - U.S.

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

	December 31, 2023				
	Payout Annuities - U.S. ⁽¹⁾	Payout Annuities - Non-U.S.	Traditional Life - U.S.	Accident and Health	Total
Present Value of Expected Net Premiums					
Balance, beginning of year	\$ —	\$ —	\$ 801	\$ 310	\$ 1,111
Beginning balance at original discount rate	—	—	917	344	1,261
Effect of changes in cash flow assumptions	—	—	(11)	—	(11)
Effect of actual variances from expected experience	—	—	11	(6)	5
Adjusted beginning of year balance	—	—	917	338	1,255
Interest accrual	—	—	22	11	33
Net premiums collected	—	—	(100)	(38)	(138)
Ending balance at original discount rate	—	—	839	311	1,150
Effect of changes in discount rate assumptions	—	—	(88)	(26)	(114)
Balance, end of year	\$ —	\$ —	\$ 751	\$ 285	\$ 1,036
Present Value of Expected Future Policy Benefits					
Balance, beginning of year	\$ 16,873	\$ 743	\$ 3,678	\$ 1,001	\$ 22,295
Beginning balance at original discount rate	19,499	1,358	4,450	1,124	26,431
Effect of changes in currency exchange rates	—	74	—	—	74
Effect of changes in cash flow assumptions	(2)	—	(12)	—	(14)
Effect of actual variances from expected experience	18	9	12	(5)	34
Adjusted beginning of year balance	19,515	1,441	4,450	1,119	26,525
Issuances	2,514	—	—	—	2,514
Interest accrual	785	18	127	33	963
Benefit payments	(1,306)	(30)	(195)	(81)	(1,612)
Ending balance at original discount rate ⁽¹⁾	21,508	1,429	4,382	1,071	28,390
Effect of changes in discount rate assumptions	(1,929)	(545)	(632)	(95)	(3,201)
Effect of foreign exchange on change in discount rate assumptions	—	(32)	—	—	(32)
Balance, end of year	\$ 19,579	\$ 852	\$ 3,750	\$ 976	\$ 25,157
Net Future Policy benefits	\$ 19,579	\$ 852	\$ 2,999	\$ 691	\$ 24,121

⁽¹⁾ Includes DPL of \$221 million within Payout Annuities - U.S.

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

The following represents the discounted and undiscounted amounts regarding expected gross premiums and expected future benefit payments (in millions):

	December 31,					
	2025		2024		2023	
	Discounted	Undiscounted	Discounted	Undiscounted	Discounted	Undiscounted
Payout Annuities - U.S.						
Expected future benefit payments	\$ 16,641	\$ 36,897	\$ 17,460	\$ 39,322	\$ 19,358	\$ 40,292
Expected future gross premiums	—	—	—	—	—	—
Payout Annuities - Non-U.S.						
Expected future benefit payments	811	1,794	739	1,702	852	1,780
Expected future gross premiums	—	—	—	—	—	—
Traditional Life - U.S.						
Expected future benefit payments	3,541	6,250	3,591	6,290	3,750	6,551
Expected future gross premiums	957	1,373	980	1,414	1,079	1,525
Accident and health						
Expected future benefit payments	4,818	6,732	829	1,176	976	1,364
Expected future gross premiums	1,106	1,510	221	310	300	413

For the years ended December 31, 2025, 2024 and 2023, there were immaterial impacts to net income for Non-U.S. payout annuities, where net premiums exceeded gross premiums for certain cohorts.

The following table summarizes the gross premium income and interest expense recognized in premiums and policyholder benefits, respectively, on the consolidated statements of income (loss) (in millions):

	December 31,					
	2025	2024	2023	2025	2024	2023
	Gross Premiums			Interest Expense		
Payout Annuities - U.S.	\$ 1	\$ —	\$ —	\$ 834	\$ 877	\$ 785
Payout Annuities - Non-U.S.	—	—	—	18	17	18
Traditional life - U.S.	128	133	138	112	112	105
Accident and health	112	38	40	118	24	22
Total	\$ 241	\$ 171	\$ 178	\$ 1,082	\$ 1,030	\$ 930

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

The following table summarizes the weighted average interest rate and weighted average duration.

	December 31,		
	2025	2024	2023
Payout Annuities - U.S.			
Weighted average interest accretion rate	4.25 %	4.26 %	3.62 %
Weighted average current discount rate	5.43 %	5.60 %	4.28 %
Weighted average duration (in years)	10.14	10.48	10.28
Payout Annuities - Non U.S.			
Weighted average interest accretion rate	1.25 %	1.25 %	1.25 %
Weighted average current discount rate	5.59 %	5.65 %	4.64 %
Weighted average duration (in years)	11.94	12.38	13.92
Traditional Life - U.S.			
Weighted average interest accretion rate	3.31 %	3.32 %	3.32 %
Weighted average current discount rate	5.26 %	5.54 %	4.91 %
Weighted average duration (in years)	10.33	10.76	11.23
Accident and Health			
Weighted average interest accretion rate	4.78 %	3.49 %	3.50 %
Weighted average current discount rate	4.85 %	5.39 %	4.82 %
Weighted average duration (in years)	6.29	7.12	7.69

The following table summarizes the balances of and changes in the AIL for universal life-type contracts (in millions):

	December 31,		
	2025	2024	2023
Balance, beginning of year	\$ 12,431	\$ 11,700	\$ 92
Beginning balance before shadow reserve adjustments	12,381	11,399	92
Effect of changes in cash flow assumptions	(45)	—	—
Effect of actual variances from expected experience	16	56	(1)
Adjusted beginning of year balance	12,352	11,455	91
Issuances	—	—	10,564
Interest accrual	441	396	43
Assessments Collected	1,959	1,472	843
Benefit payments	(955)	(942)	(142)
Ending balance before shadow reserve adjustments	13,797	12,381	11,399
Effect of shadow reserve adjustments	109	50	301
Balance, end of year	\$ 13,906	\$ 12,431	\$ 11,700

The following table summarizes the total gross premium assessments and interest expense recognized in policy charges and fee income and policyholder benefits, respectively, on the consolidated statements of income (loss) (in millions):

	December 31,					
	2025	2024	2023	2025	2024	2023
	Gross Assessments			Interest Expense		
AIL	\$ 783	\$ 786	\$ 843	\$ 441	\$ 396	\$ 43

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

This table summarizes certain weighted average information regarding the AIL for universal life-type contracts.

	December 31,		
	2025	2024	2023
AIL			
Weighted average interest accretion rate	3.38 %	3.34 %	3.31 %
Weighted average duration (in years)	14.98	14.62	15.19

8. Policyholder Contract Deposits

The following represents the reconciliation of policyholder contract deposits in the consolidated balance sheets (in millions):

	December 31,	
	2025	2024
Policy contract deposits included in the rollforwards:		
Deferred Annuities - U.S.	\$ 4,814	\$ 5,227
FIA	1,255	1,624
Funding Agreements	427	—
UL	10,330	10,937
Total policy contract deposits included in the rollforwards	16,826	17,788
Reconciling Items:		
Payout Annuities - US ⁽¹⁾	3,828	4,354
Policyholder contract deposits	\$ 20,654	\$ 22,142

⁽¹⁾ Due to the nature of these products, which do not carry significant insurance risk, they are excluded from the scope of ASU 2018-12 regarding disclosure requirements for policyholder contract deposits.

The following represents the changes in policyholder contract deposits (in millions):

	December 31, 2025				
	Deferred Annuities - U.S.	FIA	Funding Agreements	UL	Total
Balance, beginning of year	\$ 5,227	\$ 1,624	\$ —	\$ 10,937	\$ 17,788
Issuances (funds collected from new business)	32	—	422	—	454
Deposits received (deposits collected from inforce business)	17	—	—	643	660
Policy charges	—	—	—	(1,387)	(1,387)
Surrenders and withdrawals	(475)	(378)	—	(59)	(912)
Benefit payments	(175)	(26)	—	(196)	(397)
Interest credited	188	19	5	392	604
Changes related to embedded derivatives	—	16	—	—	16
Balance, end of year	\$ 4,814	\$ 1,255	\$ 427	\$ 10,330	\$ 16,826
Weighted-average crediting rate	3.90 %	1.89 %	4.63 %	3.75 %	
Net amount at risk	\$ —	\$ —	\$ —	\$ 70,657	
Cash surrender value	\$ 4,807	\$ 1,239	\$ —	\$ 13,578	

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

December 31, 2024

	Deferred Annuities - U.S.	FIA	UL	Total
Balance, beginning of year	\$ 6,237	\$ 2,107	\$ 11,586	\$ 19,930
Deposits received (deposits collected from inforce business)	19	2	720	741
Policy charges	—	—	(1,471)	(1,471)
Surrenders and withdrawals	(1,030)	(457)	(108)	(1,595)
Benefit payments	(206)	(19)	(223)	(448)
Interest credited	209	11	420	640
Changes related to embedded derivatives	—	(70)	—	(70)
Other	(2)	50	13	61
Balance, end of year	\$ 5,227	\$ 1,624	\$ 10,937	\$ 17,788

Weighted-average crediting rate	3.88 %	1.87 %	3.75 %
Net amount at risk	\$ —	\$ —	\$ 72,645
Cash surrender value	\$ 5,220	\$ 1,588	\$ 13,788

December 31, 2023

	Deferred Annuities - U.S.	FIA	UL	Total
Balance, beginning of year	\$ 4,337	\$ —	\$ 1,332	\$ 5,669
Issuances (funds collected from new business)	2,156	2,127	10,378	14,661
Deposits received (deposits collected from inforce business)	22	—	141	163
Policy charges	—	—	(245)	(245)
Surrenders and withdrawals	(353)	(24)	(42)	(419)
Benefit payments	(97)	(4)	(85)	(186)
Interest credited	172	3	98	273
Changes related to embedded derivatives	—	6	—	6
Other	—	(1)	9	8
Balance, end of year	\$ 6,237	\$ 2,107	\$ 11,586	\$ 19,930

Weighted-average crediting rate	3.74 %	2.13 %	3.75 %
Net amount at risk	\$ —	\$ —	\$ 73,747
Cash surrender value	\$ 6,218	\$ 2,016	\$ 13,699

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

The following represents the balance of account values by range of guaranteed minimum crediting rates and the related range in difference (in bps) between the rates being credited to policyholders and the respective guaranteed minimums (in millions):

December 31, 2025					
Range of Guaranteed Minimum Crediting Rates	At Guaranteed Minimum Crediting Rate	1 bp-50 bps Above Guaranteed Minimum Crediting Rate	51 bps-150 bps Above Guaranteed Minimum Crediting Rate	More than 150 bps Above Guaranteed Minimum Crediting Rate	Total
Deferred Annuities - U.S.					
Less than 1.99%	\$ 41	\$ 6	\$ 80	\$ 69	\$ 196
2.00% - 3.99%	1,070	463	112	—	1,645
Greater than 4.00%	2,973	—	—	—	2,973
Total	\$ 4,084	\$ 469	\$ 192	\$ 69	\$ 4,814
FIA					
Less than 1.99%	\$ 50	\$ 123	\$ 58	\$ 6	\$ 237
2.00% - 3.99%	73	—	—	—	73
Other ⁽¹⁾	—	—	—	—	945
Total	\$ 123	\$ 123	\$ 58	\$ 6	\$ 1,255
Funding Agreements					
Greater than 4.00%	\$ 427	\$ —	\$ —	\$ —	\$ 427
Total	\$ 427	\$ —	\$ —	\$ —	\$ 427
UL					
2.00% - 3.99%	\$ 2,706	\$ 22	\$ —	\$ 1,965	\$ 4,693
Greater than 4.00%	5,128	509	—	—	5,637
Total	\$ 7,834	\$ 531	\$ —	\$ 1,965	\$ 10,330

⁽¹⁾ Consists of indexed account balances that include the fair value of embedded derivative instruments.

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

December 31, 2024

Range of Guaranteed Minimum Crediting Rates	At Guaranteed Minimum Crediting Rate	1 bp-50 bps Above Guaranteed Minimum Crediting Rate	51 bps-150 bps Above Guaranteed Minimum Crediting Rate	More than 150 bps Above Guaranteed Minimum Crediting Rate	Total
Deferred Annuities - U.S.					
Less than 1.99%	\$ 50	\$ 2	\$ 73	\$ 182	\$ 307
2.00% - 3.99%	1,017	576	134	—	1,727
Greater than 4.00%	3,193	—	—	—	3,193
Total	\$ 4,260	\$ 578	\$ 207	\$ 182	\$ 5,227

FIA

Less than 1.99%	\$ 134	\$ —	\$ 182	\$ 8	\$ 324
2.00% - 3.99%	76	—	—	—	76
Other ⁽¹⁾	—	—	—	—	1,224
Total	\$ 210	\$ —	\$ 182	\$ 8	\$ 1,624

UL

2.00% - 3.99%	\$ 2,863	\$ 22	\$ 35	\$ 2,209	\$ 5,129
Greater than 4.00%	5,257	551	—	—	5,808
Total	\$ 8,120	\$ 573	\$ 35	\$ 2,209	\$ 10,937

⁽¹⁾ Consists of indexed account balances that include the fair value of embedded derivative instruments.

December 31, 2023

Range of Guaranteed Minimum Crediting Rates	At Guaranteed Minimum Crediting Rate	1 bp-50 bps Above Guaranteed Minimum Crediting Rate	51 bps-150 bps Above Guaranteed Minimum Crediting Rate	More than 150 bps Above Guaranteed Minimum Crediting Rate	Total
Deferred Annuities - U.S.					
Less than 1.99%	\$ 82	\$ 20	\$ 54	\$ 617	\$ 773
2.00% - 3.99%	1,462	371	266	8	2,107
Greater than 4.00%	3,357	—	—	—	3,357
Total	\$ 4,901	\$ 391	\$ 320	\$ 625	\$ 6,237

FIA

Less than 1.99%	\$ 46	\$ 76	\$ 164	\$ 2	\$ 288
2.00% - 3.99%	97	—	—	—	97
Other ⁽¹⁾	—	—	—	—	1,722
Total	\$ 143	\$ 76	\$ 164	\$ 2	\$ 2,107

UL

2.00% - 3.99%	\$ 3,017	\$ 23	\$ 33	\$ 2,482	\$ 5,555
Greater than 4.00%	5,402	610	—	—	6,012
Other	19	—	—	—	19
Total	\$ 8,438	\$ 633	\$ 33	\$ 2,482	\$ 11,586

⁽¹⁾ Consists of indexed account balances that include the fair value of embedded derivative instruments.

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

9. Short Duration Contracts

The Company's loss reserves cover excess workers' compensation, environmental impairment, legacy environmental, and other casualty run-off lines (e.g., primary workers' compensation, general liability, professional liability, medical malpractice, products liability, commercial auto, and A&H) on a retroactive basis. Reserves represent estimates of unpaid claims, including IBNR, discounted where applicable, and are developed using traditional actuarial methods supplemented by claim-specific analyses.

The following table details the Company's liabilities for unpaid loss and loss adjustment expenses (in millions):

	December 31, 2025			
	Case Reserves	IBNR	LAE	Total
Excess workers' compensation	\$ 518	\$ 653	\$ 88	\$ 1,259
Environmental impairment liabilities	228	98	23	349
Legacy environmental	176	123	152	451
All other lines	216	288	119	623
Liabilities for unpaid loss and allocated LAE, net of reinsurance	1,138	1,162	382	2,682
Discount for workers' compensation	(142)	(170)	—	(312)
Total liability for unpaid loss and loss adjustment expenses	\$ 996	\$ 992	\$ 382	\$ 2,370

	December 31, 2024			
	Case Reserves	IBNR	LAE	Total
Excess workers' compensation	\$ 556	\$ 742	\$ 100	\$ 1,398
Environmental impairment liabilities	237	156	39	432
Legacy environmental	178	144	158	480
All other lines	252	297	135	684
Liabilities for unpaid loss and allocated LAE, net of reinsurance	1,223	1,339	432	2,994
Discount for workers' compensation	(156)	(199)	—	(355)
Total liability for unpaid loss and loss adjustment expenses	\$ 1,067	\$ 1,140	\$ 432	\$ 2,639

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

The following table provides a roll forward of loss and loss adjustment expense reserves including detail on paid and incurred losses from prior accident years and the current accident year (in millions):

Unpaid losses and loss adjustment expenses	Year Ended December 31,		
	2025	2024	2023
Balance at beginning of period	\$ 2,639	\$ 3,168	\$ 3,613
Net losses incurred:			
Current period	1	1	3
Prior period	(59)	(71)	(100)
Total net losses incurred	(58)	(70)	(97)
Effect of change in discount	42	57	54
Net paid losses:			
Prior period	(253)	(307)	(402)
Total net paid losses	(253)	(307)	(402)
Novations	—	(209)	—
Balance at end of period	\$ 2,370	\$ 2,639	\$ 3,168

The following table details prior accident year loss development (in millions):

(Favorable) / Unfavorable prior year development	Year Ended December 31,		
	2025	2024	2023
Excess workers' compensation	\$ (95)	\$ (123)	\$ (125)
Environmental impairment liabilities	(15)	(48)	(62)
Legacy environmental	4	10	44
All other lines	47	90	43
Total prior year development	\$ (59)	\$ (71)	\$ (100)

Excess workers' compensation had favorable development in 2025, 2024 and 2023 reflecting continued loss mitigation efforts and favorable claim settlements. Environmental impairment liabilities had favorable development in 2025, 2024 and 2023 reflecting continuing loss mitigation efforts, favorable claim settlements and a reduction in IBNR reserves as claims-made policies matured. Legacy environmental had unfavorable development in 2025, 2024 and 2023 driven by higher reported claim frequency and severity and, for 2023, higher than expected loss activity in certain accounts. Other lines had unfavorable development in 2025, 2024 and 2023 primarily due to higher than expected loss activity in certain accounts.

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

The Company presents loss development data prospectively from the date reserves are assumed under retroactive reinsurance agreements, as prior loss history is not considered relevant to the Company's own experience managing these reserves or prior history is not consistently available. Loss development is analyzed based on the year reserves are assumed such that the impact of assumed reserves year to year does not distort the loss development tables.

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

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

Excess Workers' Compensation

Excess workers' compensation is a long-tail line highly sensitive to assumptions such as medical inflation and claimant longevity. Written over qualified self-insurance from the 1970s through 2012, claims are administered by third-party administrators (TPAs) under Company oversight. Reserve estimates are particularly uncertain due to extended claim durations, varying state coverage statutes, and unpredictable medical cost trends. The Company employs both traditional (paid and incurred loss development) and non-traditional methods (individual claim annuity models, report-year development, and IBNR count/severity approaches), segmenting data to account for historical anomalies and past loss mitigation efforts.

No incurred losses are related to the last ten accident years. The total actual paid losses were \$44 million, \$50 million and \$61 million for the years ended December 31, 2025, 2024 and 2023 respectively.

Environmental Impairment Liability

Environmental impairment coverage (such as pollution legal liability, contractor's pollution liability, errors and omissions and similar policies written before June 1, 2016) carries greater reserving uncertainty than other insurance lines. Conventional methods are supplemented by detailed claim-by-claim reviews that consider each policyholder's exposure, expected resolution costs, coverage limits, judicial interpretations, and comparable historical cases.

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

Incurred Loss and Allocated LAE										As of December 31, 2025		
For the Year Ended December 31,												
Accident Year	Net Reserves Assumed	2018	2019	2020	2021	2022	2023	2024	2025	Total of IBNR Liabilities Plus Expected Development on Reported Losses	Cumulative Number of Reported Claims	
(unaudited)												
(in millions, except for number of reported claims)												
Prior	\$ 1,261	\$ 1,175	\$ 1,170	\$ 1,169	\$ 1,088	\$ 1,079	\$ 1,029	\$ 987	\$ 973	\$ 90	2,013	
2016	89	91	95	86	83	88	81	82	89	7	324	
2017	122	157	149	107	116	122	121	117	116	5	422	
2018	9	48	67	56	49	52	51	51	49	2	352	
2019			26	33	33	29	28	26	25	1	148	
2020				22	23	20	21	20	23	13	227	
2021					5	6	3	3	1	1	17	
2022						3	3	2	—	—	4	
2023							3	4	2	1	5	
2024								1	—	—	5	
2025									1	1	1	
	\$ 1,481								\$ 1,279	\$ 121	3,518	
Cumulative Paid Losses and Allocated LAE during the above period									(930)			
Liabilities for losses and LAE									\$ 349			

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

Cumulative Paid Losses and Allocated Loss Adjustment Expenses are set out below (in millions): (in millions):

Accident Year	Cumulative Paid Loss and Allocated LAE								
	Year Ended December 31,								
	2018	2019	2020	2021	2022	2023	2024	2025	
	(unaudited)								
Prior	\$ 146	\$ 271	\$ 357	\$ 434	\$ 533	593	637	\$ 702	
2016	14	25	38	42	52	53	57	60	
2017	30	57	52	58	65	91	91	91	
2018	9	22	31	37	38	43	43	43	
2019		2	16	20	21	22	23	23	
2020			2	4	6	8	10	11	
2021				—	—	—	—	—	
2022					—	—	—	—	
2023						—	—	—	
2024							—	—	
2025								—	
								\$	930

Legacy Environmental

Legacy Environmental exposures arise mainly from pre-1986 policies covering property damage from pollution and hazardous waste claims. These reserves carry significant uncertainty due to evolving legal and regulatory factors. The Company estimates liabilities using traditional actuarial and claim-specific methods, validating results through ratio and market share analyses against industry benchmarks.

No incurred losses are related to the last 10 accident years. The total actual paid losses were \$33 million, \$32 million and \$32 million for the years ended December 31, 2025, 2024 and 2023.

All Other Lines

“All Other Lines” include legacy exposures from primary workers’ compensation, general liability, professional liability, medical malpractice, products liability, commercial auto liability, and A&H business now in run-off. Loss and LAE reserves are estimated separately using traditional methods (paid/incurred loss development and Cape Cod), supplemented by techniques such as IBNR-to-case ratios, frequency-severity models, survival ratios, and annuity approaches for large workers’ compensation claims. LAE estimates use standard development and paid-to-paid methods.

During year ended December 31, 2024, the Company entered into a novation agreement with a ceding company for liability exposure stemming from the All Other Lines of business which resulted in a reduction in unpaid losses and loss adjustment expenses of \$209 million, a reduction in other assets of \$119 million and a reduction in deferred cost of reinsurance contracts of \$11 million on the consolidated balance sheets.

Claims Payout Patterns

The following table presents unaudited supplementary information detailing the historical average annual percentage claims payout on an accident year basis at the same level of disaggregation as presented above for the year ended December 31, 2025.

Average Annual Percentage Payout of Incurred Losses by Age, Net of Reinsurance (Unaudited)											
Year	1	2	3	4	5	6	7	8	9	10	
Environmental impairment liabilities	7.6%	16.7%	16.3%	11.9%	7.1%	6.6%	5.3%	3.6%	2.6%	2.3%	

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

10. Value of Business Acquired, Deferred Cost of Reinsurance Contracts and Deferred Acquisition Costs, and Deferred Gain from Reinsurance Contracts

Negative VOBA

The following table represents the balances and changes in the negative VOBA (in millions):

	Negative VOBA			
	Payout Annuities - U.S.	Traditional Life - U.S.	Accident and Health	Total
Balance, January 1, 2023	\$ 3,245	\$ 481	\$ 98	\$ 3,824
Amortization	(165)	(34)	(8)	(207)
Balance, December 31, 2023	3,080	447	90	3,617
Amortization	(149)	(55)	(7)	(211)
Balance, December 31, 2024	2,931	392	83	3,406
Amortization	(141)	(22)	(5)	(168)
Novation ⁽¹⁾	(69)	—	—	(69)
Balance, December 31, 2025	<u>\$ 2,721</u>	<u>\$ 370</u>	<u>\$ 78</u>	<u>\$ 3,169</u>

⁽¹⁾ Represents the recapture of a reinsurance agreement by a U.S. based life insurance company.

The following represents the estimated future amortization of the negative VOBA over the next five years (in millions):

	Estimated Future Amortization
2026	\$ 155
2027	145
2028	145
2029	134
2030	131

Deferred Costs and DAC

The following table represents the roll forward of the Deferred Costs and DAC (in millions):

	Deferred Costs and DAC						
	Long Duration Business				Accident and Health	Short Duration Business	Total
	Payout Annuities - U.S.	Deferred Annuities - U.S.	FIA	UL			
Balance, January 1, 2023	\$ —	\$ 213	\$ —	\$ —	\$ —	\$ 66	\$ 279
Additions	345	264	262	2,576	—	—	3,447
Amortization	(4)	(24)	(4)	(7)	—	(20)	(59)
Impairment of Deferred Costs	—	—	—	—	—	(2)	(2)
Balance, December 31, 2023	341	453	258	2,569	—	44	3,665
Amortization	(23)	(47)	(38)	(51)	—	(13)	(172)
Other	—	—	—	—	—	(11)	(11)
Balance, December 31, 2024	318	406	220	2,518	—	20	3,482
Additions	—	2	—	—	3	—	5
Amortization	(24)	(53)	(39)	(49)	—	(9)	(174)
Impairment of Deferred Costs	—	—	—	—	—	(15)	(15)
Other	—	—	—	—	—	20	20
Balance, December 31, 2025	<u>\$ 294</u>	<u>\$ 355</u>	<u>\$ 181</u>	<u>\$ 2,469</u>	<u>\$ 3</u>	<u>\$ 16</u>	<u>\$ 3,318</u>

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

Deferred Gains

The following table represents the roll forward of the Deferred Gains and related amortization on reinsurance agreements (in millions):

	Deferred Gains			
	Long Duration Business		Short Duration Business	Total
	Payout Annuities - U.S.	Deferred Annuities - U.S.		
Balance, January 1, 2023	\$ 4	\$ 437	\$ 258	\$ 699
Amortization	—	(29)	(3)	(32)
Effect of change in discount	—	—	(54)	(54)
Favorable/(unfavorable) loss development	—	—	98	98
Balance, December 31, 2023	4	408	299	711
Amortization	—	(30)	(9)	(39)
Effect of change in discount	—	—	(57)	(57)
Favorable/(unfavorable) loss development	—	—	70	70
Balance, December 31, 2024	4	378	303	685
Amortization	(1)	(32)	(20)	(53)
Effect of change in discount	—	—	(42)	(42)
Favorable/(unfavorable) loss development	—	—	78	78
Balance, December 31, 2025	\$ 3	\$ 346	\$ 319	\$ 668

11. Credit Facilities and Liquidity Agreements

Letter of Credit Facilities

In 2023, the Company and other eligible affiliates entered into committed and non-committed bilateral letter of credit agreements (“Bilateral Credit Agreements”), with a syndicate of banks to support collateral requirements for the Company's reinsurance agreements. The Bilateral Credit Agreements contain certain restrictive and maintenance covenants customary for facilities of this type for the Company's ability to use these facilities. The Company's ability to utilize these facilities is also subject to the ability and willingness of the banks to meet their commitments. This could restrict the ability to access these facilities upon demand and could adversely affect the Company's liquidity or ability to meet collateral requirements. The Company was in compliance with all covenants contained therein as of December 31, 2025.

Agreement	Expiration	Maximum Capacity	Utilization	Unused Facility Capacity
Bilateral credit agreements		\$ 1,050	\$ 556	\$ 494
Unsecured arrangements	December 21, 2026	200	200	—

The Company has issued a letter of credit for \$10 million to the Internal Revenue Service (“IRS”) in connection with the Company's election to be taxed as a domestic U.S. company under Section 953(d). This letter of credit provides security to the IRS for payment of any annual tax obligation resulting from the Section 953(d) election and will remain in place until such time that the Company meets the minimum threshold requirements to release the security.

The Company recorded interest expense of \$8 million and \$8 million associated with these credit agreements within general operating and other expenses on the consolidated statement of income (loss) for the years ended December 31, 2025 and 2024, respectively. The Company did not record any interest expense associated with these credit agreements for the year ended December 31, 2023.

Intercompany Liquidity Agreement

The Company entered into an intercompany liquidity agreement with FGH and FGP that allows the Company and other affiliates to lend or borrow funds to meet short term liquidity and other capital needs.

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

During 2025, the Company loaned \$20 million and \$15 million to Fortitude Group Services ("FGS") under the agreement on two separate transactions. FGS repaid the Company in full for these two transactions, plus interest, during 2025. In addition, during 2025, the Company loaned \$10 million and \$50 million to FGH on two separate transactions. FGH repaid the Company in full for the \$10 million transaction, plus interest, during 2025. As of December 31, 2025, \$100 million loaned to FGH was still outstanding. The Company did not have any borrowing activity in 2025. The Company recorded interest income of \$6 million within net investment income on the consolidated statements of income (loss) for the year ended December 31, 2025.

During 2024, the Company loaned \$15 million, \$5 million and \$10 million to FGS under the agreement on three separate transactions. FGS repaid the Company in full for these three transactions, plus interest, during 2024. In addition, during 2024, the Company loaned \$50 million to FGH and \$80 million to Fortitude Life Insurance & Annuity Company ("FLIAC") and borrowed \$50 million from FGP under the agreement. The transactions with FLIAC and FGP were repaid in full, plus interest, during 2024, while the \$50 million loaned to FGH was still outstanding as of December 31, 2024. The Company recorded interest income of \$1 million within net investment income and interest expense of less than \$1 million within general operating and other expenses on the consolidated statements of income (loss) for the year ended December 31, 2024.

12. Contingencies and Commitments

Litigation and Regulatory Matters

As of December 31, 2025 and 2024, the Company has no material contingent liabilities arising from litigation, income taxes, make-whole fee conditions or other matters, other than liabilities arising in the normal course of its business of reinsurance.

Commitments

The Company has commitments to purchase or fund investments, which primarily relate to private credit fixed maturity securities, mortgage loans and alternative investments. The following amounts include unfunded commitments that are not unconditionally cancellable. As of December 31, 2025 and 2024, these commitments include unfunded commitments of \$3,122 million and \$2,603 million, respectively, associated with investments managed by affiliates of Carlyle, a related party. See Note 14 for further information regarding related party investments.

In addition, as of December 31, 2025 and 2024, the outstanding balance on commitments for private credit fixed maturity securities, mortgage loans and alternative investments managed by unaffiliated counterparties was \$1,722 million and \$538 million, respectively.

13. Income Taxes

FRL elected to be treated as a U.S. domestic insurance company for U.S. tax purposes under Section 953(d) of the U.S. Internal Revenue Code and is subject to federal income taxation in the U.S.

FRL is considered a life insurance company for U.S. tax purposes and files a separate tax return. FRL will be eligible to join the consolidated return group no later than the 2027 tax year. The Company's wholly owned subsidiary, Fortitude Re Investments, LLC ("FRI"), is ineligible to join FRL in a consolidated tax filing and, as such, files its own consolidated return with its wholly owned subsidiaries. FRI and its wholly owned subsidiaries will be eligible to rejoin the FGH consolidated tax return group once its immediate parent company, FRL, rejoins.

In 2023, the Bermuda Parliament passed legislation enacting a 15% corporate income tax ("CIT") regime that will become effective for tax years beginning on or after January 1, 2025. The Bermuda income tax rules are intended to align as closely as possible to the Organization for Economic Cooperation and Development's global anti-base erosion rules. Effective for fiscal years beginning on or after January 1, 2025, certain groups with a limited international footprint are eligible for a five-year deferral, extending the effective date to January 1, 2030. The Company is eligible for this deferral. In addition, certain elections and economic transition adjustments are available to support a fair and equitable transition into the Bermuda CIT regime. Based on the Company's current profile and the likelihood of not being subject to the Bermuda CIT for some time after the deferral period ends, the Company

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

will continue to evaluate the need for and availability of these elections and transition adjustments. There are no implications with respect to the Bermuda CIT for the years ended December 31, 2025, 2024 and 2023.

U.S. Tax Law Changes

In July 2025, H.R.1, known as the “One Big Beautiful Bill Act” was signed into law. H.R.1 includes a broad range of tax reform provisions that are expected to impact businesses across numerous sectors of the U.S. economy. The Company evaluated the potential impacts of H.R.1 and it does not have a material impact on its financial position or results of operations for the year ended December 31, 2025.

In August 2022, the U.S. enacted The Inflation Reduction Act of 2022, which provides among other provisions a new corporate alternative minimum tax (“CAMT”). The CAMT is effective for taxable years beginning after December 31, 2022 and generally applies to taxpayers with average annual financial statement income exceeding \$1 billion over a three-year period. The Company determined that there were no material impacts with respect to CAMT for the years ended December 31, 2025, 2024 and 2023.

Effective Tax Rate

The following table presents the income tax expense (benefit) (in millions):

	Year Ended December 31,		
	2025	2024	2023
Income tax expense (benefit):			
Current	176	63	\$ (24)
Deferred ⁽¹⁾	8	(328)	249
Total income tax expense (benefit)	\$ 184	\$ (265)	\$ 225

⁽¹⁾ Prior period amounts have been restated for the adoption of ASU 2018-12.

The Company's actual income tax expense (benefit) differs from the statutory U.S. federal amount computed by applying the U.S. federal income tax rate of 21% (the tax rate at which a majority of the Company's operations are taxed) to net income (loss) before tax, as shown in the following reconciliation (in millions):

	Year Ended December 31,		
	2025	2024	2023
Income (loss) before taxes ⁽¹⁾	\$ 872	\$ (1,170)	\$ 1,266
Income tax expense (benefit) at the U.S. statutory rate ⁽¹⁾	183	(246)	265
Transfer pricing adjustments	(14)	(20)	(20)
Other	15	1	(20)
Total income tax expense (benefit)	\$ 184	\$ (265)	\$ 225

⁽¹⁾ Prior period amounts have been restated for the adoption of ASU 2018-12.

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

Deferred Taxes

The following table presents the components of the net deferred tax assets (liabilities) (in millions). Certain prior period amounts have been reclassified to conform to the current period presentation.

	December 31,	
	2025	2024
Deferred tax assets:		
VOBA ⁽¹⁾	\$ 665	\$ 715
Loss on funds withheld - directly managed	485	669
Reinsurance settlement ⁽¹⁾	551	577
Net operating loss	100	261
Deferred acquisition costs	251	199
Deferred gain from reinsurance ⁽¹⁾	140	144
Basis difference on investments - U.S.	120	141
Basis difference on investments - Bermuda	110	124
Other	89	83
Total deferred tax assets	2,511	2,913
Deferred tax liabilities:		
Deferred cost of reinsurance ⁽¹⁾	(692)	(726)
Life policy reserves ⁽¹⁾	(128)	(542)
Total deferred tax liabilities	(820)	(1,268)
Net deferred tax asset before valuation allowance	1,691	1,645
Valuation allowance - Bermuda	(110)	(124)
Net deferred tax asset (liability)	\$ 1,581	\$ 1,521

⁽¹⁾ Prior period amounts have been restated for the adoption of ASU 2018-12.

Deferred tax assets and deferred tax liabilities are included in deferred income taxes, net and accrued and other liabilities, respectively, on the consolidated balance sheets. The balance sheet presentation of deferred tax accounts differs due to the requirement to present deferred tax assets and liabilities based on the multiple tax filings groups within the Company. The following table reconciles net deferred tax asset (liability) to the amounts recorded on the consolidated balance sheets (in millions):

	December 31,	
	2025	2024 ⁽¹⁾
Deferred income taxes, net	\$ 1,677	\$ 1,596
Deferred tax liabilities	(96)	(75)
Net deferred tax asset (liability)	\$ 1,581	\$ 1,521

⁽¹⁾ Prior period amounts have been restated for the adoption of ASU 2018-12.

The \$60 million increase in the net deferred tax asset balance reflects the deferred tax expense of \$8 million recognized for the year and \$68 million of current year deferred tax benefit recognized in OCI.

Capital Loss Carryforwards and Net Operating Loss Carryforwards

As of December 31, 2025, there is no capital loss carryforward.

As of December 31, 2025, the Company's net operating loss balance totaled \$475 million, which represents a \$100 million deferred tax asset and can be carried forward indefinitely. The Company expects the net operating loss to be fully utilized in the near term.

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

Valuation Allowance on Deferred Tax Assets

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

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

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

As of December 31, 2025 and 2024, based on all available evidence, management believed that it was more likely than not that its U.S. net deferred tax assets will be realized. Therefore, the Company did not record a valuation allowance against its U.S. net deferred tax asset.

As of December 31, 2025 and 2024, the Company held a valuation allowance of \$110 million and \$124 million, respectively, against Bermuda deferred tax assets regarding unrealized capital losses on securities that mature after December 31, 2029. The decrease in the valuation allowance is due to current year unrealized gains and the Company's ability to recognize the future tax benefit.

Accounting for Uncertainty in Income Taxes

The Company filed federal tax returns for the years ended December 31, 2024, 2023 and 2022. All returns are open for examination.

The Company also periodically evaluates uncertain tax positions to determine whether the tax positions are more likely than not to be realized as a tax benefit or expense in the current year. The Company recognizes interest and penalties related to uncertain tax benefits in U.S. Federal income tax expense. For the years ended December 31, 2025, 2024 and 2023, there were no uncertain tax positions and no accrual for interest and penalties. The Company does not anticipate any significant changes within the next twelve months to its total unrecognized tax benefits related to tax years for which the statute of limitations has not expired.

14. Related Party Transactions

The Company has transactions and relationships with related parties. Although the Company seeks to ensure that these transactions and relationships are fair and reasonable, it is possible that the terms of these transactions are not the same as those that would result from transactions among unrelated parties.

See Note 11 for information regarding the Company's related party transactions under the intercompany liquidity agreement.

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

Carlyle Affiliated Entities

The Company invests in limited partnerships and fixed maturity securities where a Carlyle affiliate manages the asset. The Company maintains investment management agreements with Carlyle affiliates (collectively the "Investment Manager"), pursuant to which the Investment Manager provides certain investment management and advisory services with respect to certain asset classes.

The Company reported the following amounts within its consolidated balance sheets in connection with these related party transactions (in millions):

	December 31,	
	2025	2024
Assets:		
Funds withheld - directly managed, at fair value	\$ 5,911	\$ 5,976
Fixed maturity securities, AFS and FVO	5,887	4,459
Other invested assets	2,772	1,140

The Company reported the following amounts within its consolidated statements of income (loss) in connection with these related party transactions (in millions):

		Year Ended December 31,		
		2025	2024	2023
Revenues:				
Funds withheld - directly managed, at fair value	Net investment income	\$ 501	\$ 444	\$ 231
Fixed maturity securities, AFS and FVO	Net investment income	372	210	58
Other invested assets	Net investment income	135	156	97
Investment expenses	Net investment income	(46)	(40)	(27)
Funds withheld - directly managed, at fair value	Investment gains (losses)	13	33	23
Fixed maturity securities, AFS and FVO	Investment gains (losses)	5	9	7

T&D Affiliated Entities

The Company has entered into a reinsurance agreement with an affiliate of T&D whereby the Company assumes a quota share of U.S. payout annuities on a coinsurance basis.

The Company reported the following assumed balances in the consolidated balance sheets in connection with this reinsurance agreement as of December 31, (in millions):

	2025	2024
Liabilities:		
Policyholder contract deposits	\$ 1,874	\$ 2,196
Accrued and other liabilities	97	104

The Company reported the following assumed balances in the consolidated statements of income (loss) in connection with this reinsurance agreement for the years ended December 31, (in millions):

	2025	2024	2023
Benefits and expenses:			
Policyholder benefits	\$ (12)	\$ —	\$ —
Interest credited to policyholder account balances	22	26	33

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

For the year ended December 31, 2023, the Company paid \$8 million to an affiliate of T&D, for a one-time advisory fee paid for assistance with opportunities in the Japanese insurance sector that are included in general operating and other expenses within the consolidated statements of income (loss).

FGP Affiliated Entities

In October 2025, the Company entered into a reinsurance agreement to assume, on a modified coinsurance basis, at least 85% of funding agreement liabilities associated with the FLIAC funding agreement backed note ("FABN") program. The agreement was effective October 6, 2025 and includes funding agreements issued beginning on the effective date.

In October 2025, the Company entered into a reinsurance agreement with FLIAC to assume, on a modified coinsurance basis, a 100% quota share of U.S. deferred annuities. The agreement was effective October 6, 2025 and includes new policies beginning on the effective date.

In December 2025, the Company entered into a mortality stop loss reinsurance agreement with Fortitude International Reinsurance Ltd. ("FIRL") to cede the mortality risk associated with a block of U.S. traditional life policies. The agreement was effective October 1, 2025.

The Company reported the following assumed and ceded balances in the consolidated balance sheets in connection with these reinsurance agreements as of December 31, (in millions):

	2025
<u>Assets:</u>	
Funds withheld - directly managed, at fair value	\$ 495
Other assets	94
<u>Liabilities:</u>	
Policyholder contract deposits	\$ 459

Expense Charges and Allocations

The Company has entered into service agreements with affiliates for services necessary to conduct its activities. In accordance with the service agreements, a portion of the Company's expenses are allocations or charges from FGS and Fortitude International Group Services ("FIGS") which are indirect wholly-owned subsidiaries of FGP. These expenses primarily relate to general and administrative expenses which include personnel and facilities usage, general management services and investment management services. When specific identification to a particular legal entity is not practicable, an allocation methodology is used. The majority of the expenses are allocated based on the following methodologies: headcount, investments under management, reserves and time studies. The allocation methodology is reviewed periodically and may be adjusted accordingly.

During the year ended December 31, 2025, the Company was allocated \$94 million and \$7 million of costs for these services from FGS and FIGS, respectively. During the year ended December 31, 2024, the Company was allocated \$106 million and \$6 million of costs for these services from FGS and FIGS, respectively. During the year ended December 31, 2023, the Company was allocated \$25 million and \$15 million of costs for these services from FGS and FIGS, respectively.

As of December 31, 2025, the Company recorded payables of \$14 million and \$1 million to FGS and FIGS, respectively, for invoices not yet settled within other liabilities on the consolidated balance sheet. As of December 31, 2024, the Company recorded payables of \$45 million and \$0 million to FGS and FIGS, respectively, for invoices not yet settled within other liabilities on the consolidated balance sheet.

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

Affiliated Asset Transfers

The Company may participate in asset transfers with affiliates. Book and market value differences for trades with the Company and affiliates are recognized within investment gains (losses) on the consolidated statement of income (loss). The table below shows affiliated asset trades for the year ended December 31, 2025, (in millions):

Affiliate	Transaction	Security Type	Fair Value	Book Value	Investment Gains (Losses), net
FLIAC	Buy	CDO / ABS	\$ 13	\$ 13	\$ —
FIRL	Sale	CDO / ABS	171	169	2
FIRL	Sale	Corporate debt	20	20	—
FIRL	Transfer ⁽¹⁾	Corporate debt	40	49	(9)
FIRL	Transfer ⁽¹⁾	U.S. government and government sponsored entities	55	94	(39)

⁽¹⁾ Assets ceded in relation to the mortality stop loss reinsurance agreement with FIRL noted above.

The table below shows affiliated asset trades for the year ended December 31, 2024, (in millions):

Affiliate	Transaction	Security Type	Fair Value	Book Value	Investment Gains (Losses), net
FLIAC	Purchase	Asset Backed Security & Bank Loan	\$ 197	\$ 197	\$ —
FLIAC	Purchase	Derivatives	10	10	—
FIRL	Sale	RMBS	93	94	(1)
FGH	Purchase	Alternative Investments	2	2	—

The table below shows affiliated asset trades for the year ended December 31, 2023, (in millions):

Affiliate	Transaction	Security Type	Fair Value	Book Value	Investment Gains (Losses), net
FLIAC	Purchase	Alternative Investments	\$ 344	\$ 344	\$ —
FIRL	Sale	CMBS	34	34	—

Derivatives

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. The Company paid \$194 million and \$158 million in premium payments to FIL during the years ended December 31, 2025 and 2024, respectively. There were no credit events noted during the years ended December 31, 2025 and 2024.

The premium payments under the credit default swap with FIL are recorded within investment gains (losses) on the consolidated statements of income (loss). The Company had no outstanding receivables or payables associated with the credit default swap on the consolidated balance sheets as of December 31, 2025 and 2024.

Effective October 1, 2025, the Company entered into an equity total return swap with FIL, whereby FIL assumed the total economic risk and return relating to covered alternative assets, part of the Company's investment portfolio, between October 1, 2025 and December 31, 2025.

The premium payments under the equity total return swap with FIL are recorded within investment gains (losses) on the consolidated statements of income (loss). The Company recorded a \$22 million payable for these premium payments associated with the total return swap in accrued and other liabilities on the consolidated balance sheets as of December 31, 2025.

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

15. Shareholder's Equity

As of December 31, 2025 and 2024, the Company has issued 1,250,000 shares, of which, 100% were owned by FGH.

The Company did not receive any capital contributions during the years ended December 31, 2025 and 2024. The Company received capital contributions from FGH of \$2,446 million during the year ended December 31, 2023, of which \$1,774 million was in cash, \$679 million was in securities, and \$(7) million was due to a deferred tax liability transfer from FGH.

The Company declared and paid \$300 million of dividends to FGH during the year ended December 31, 2025. The Company made a \$5 million distribution to FGH which was recorded as a reduction to additional paid-in capital during the year ended December 31, 2024. The Company did not declare or pay any dividends during the year ended December 31, 2023.

The following table shows the balance and changes in each component of AOCI (in millions):

	Unrealized Investment Gains (Losses)	Changes in AIL	Changes in Discount Rate Assumptions on Future Policy Benefits	Total Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2022	\$ (459)	\$ —	\$ —	\$ (459)
Effect of adoption of ASU 2016-13, Current Expected Credit Loss (net of taxes of \$9)	35	—	—	35
Effect of adoption of ASU 2018-12, LDTI (net of taxes of \$838)	—	—	3,150	3,150
Adjusted Balance, beginning of year January 1, 2023	(424)	—	3,150	2,726
Change in OCI	850	(301)	(868)	(319)
Income tax (expense) benefit	(179)	63	183	67
Balance, December 31, 2023	247	(238)	2,465	2,474
Change in OCI	(651)	251	1,553	1,153
Income tax (expense) benefit	137	(53)	(327)	(243)
Balance, December 31, 2024	(267)	(40)	3,691	3,384
Change in OCI	330	(39)	(615)	(324)
Income tax (expense) benefit	(73)	12	129	68
Balance, December 31, 2025	\$ (10)	\$ (67)	\$ 3,205	\$ 3,128

16. Statutory Requirements

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

- Statutory financial statements ("SFS"): The SFS framework is consistent with U.S. GAAP reporting requirements adjusted for prudential filters and permitted practices. The Company has obtained permission under Section 6C of the Bermuda Insurance Act to utilize the following permitted practices within the SFS, each with respect to long-term business and subject to taxation where applicable:
 - To value the funds withheld - directly managed, where applicable, and fixed maturity securities investment portfolios pertaining to long-term business at amortized cost rather than fair value;
 - To value the AIL on a book value basis;
 - To perform loss recognition testing on a book value basis; and
 - To exclude the impact of discounting reserves at the upper-medium grade fixed-income Single-A discount rate and to allow the discount rate for reserves to be locked in at contract inception.
- Economic Balance Sheet ("EBS"): Under the EBS framework, assets and liabilities are mainly valued and

Fortitude Reinsurance Company Ltd.
Notes to Consolidated Financial Statements

reported at fair value, with the insurer's U.S. GAAP balance sheet serving as a starting point. The EBS also requires insurers to estimate insurance technical provisions, which consist of the Company's insurance reserve related balances valued based on a best estimate liability assumptions plus a risk margin. The best estimate liability may be calculated by applying the scenario based approach or standard approach. Under the scenario based approach the discount rate for insurance reserves is based on the yield on eligible assets owned by the insurer as determined under the worst result of eight prescribed stressed conditions. Under the standard approach the discount rate for insurance reserves is a rate prescribed by the BMA.

The Company is subject to capital requirements calculated using the Bermuda Solvency and Capital Requirement ("BSCR") model, which is a standardized statutory risk-based capital model used to measure the risk associated with the Company's assets, liabilities and premiums as valued under EBS. Required statutory economic capital and surplus under the BSCR model is referred to as the enhanced capital requirement ("ECR"), which is the greater of the BSCR and minimum margin of solvency ("MSM"). The Company is required to calculate and submit a quarterly financial return, inclusive of the ECR, on a quarterly basis and a statutory financial return and capital and solvency return, inclusive of the ECR, on an annual basis. Following receipt of the submission of these returns, the BMA has the authority to impose additional capital requirements if it deems necessary. As of December 31, 2025 and 2024, the Company met the minimum statutory reporting and capital requirements.

While not specifically referred to in the Bermuda Insurance Act, the target capital level ("TCL") is also an important threshold for statutory economic capital and surplus. The TCL is equal to 120% of ECR as calculated pursuant to the BSCR formula. The TCL serves as an early warning tool for the BMA. If the Company fails to maintain statutory economic capital and surplus at least equal to the TCL, such failure will likely result in increased regulatory oversight by the BMA. As of December 31, 2025 and 2024, the Company met the minimum statutory requirements.

The statutory capital and surplus reported in the Company's SFS is detailed below (in millions):

	December 31,	
	2025	2024
Statutory capital and surplus ⁽¹⁾	\$ 3,351	\$ 3,591

⁽¹⁾ Prior period amounts have been restated for the adoption of ASU 2018-12.

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

17. Subsequent Events

The Company has evaluated the impact of subsequent events through April 27, 2026, the date at which the consolidated financial statements were available to be issued and determined there are no items to disclose, except for the below transaction.

Effective April 1, 2026, the Company entered into a total return swap with FIL, whereby FIL assumed the total economic risk and return relating to covered alternative assets, part of the Company's investment portfolio, between April 1, 2026 and December 31, 2026.