FORTITUDE RE

Fortitude Reinsurance Company Ltd.

Financial Condition Report

For the year ended December 31, 2018

Contents

i. Executive Summary

This financial condition report ("FCR") for Fortitude Reinsurance Company Ltd. (the "Company" or "Fortitude Re") is produced in accordance with the Insurance (Public Disclosure) Rules 2015 (the "Rules") under the Bermuda Insurance Act 1978 (the "Act"). This outlines the financial condition of Fortitude Re as at December 31, 2018. The FCR contains qualitative and quantitative information of Fortitude Re's business and performance, governance structure, risk profile, solvency valuation and capital management.

FORTITUDE RE

FORTITUDE REINSURANCE COMPANY LTD.

FINANCIAL CONDITION REPORT

FOR THE YEAR ENDED DECEMBER 31, 2018

J. Bracken

James Bracken
President and Chief Executive Officer

Craig Buck
Senior Vice President and Chief Financial Officer

iii. Company Background Information

Fortitude Reinsurance Company Ltd. (the Company or Fortitude Re) was incorporated under the laws of Bermuda on January 1, 2017 (originally registered as SAM Reinsurance Company Ltd., the Company changed its name to DSA Reinsurance Company, Ltd. on October 27, 2017, and it changed to its current name on September 17, 2018). The Company is licensed and registered as a Class 4 and Class E reinsurance company in Bermuda and is a reinsurer of general insurance and life insurance run-off business.

iv. Business and Performance

a. *Name of Insurer*

Fortitude Reinsurance Company Ltd.

b. *Supervisors*

Insurance Supervisor	Group Supervisor
Bermuda Monetary Authority	New York State Department of
BMA House,	Financial Services
43 Victoria Street,	One State Street, 11th Floor
Hamilton HM12 Bermuda	New York, New York

c. *Approved Auditor*

Statutory Reporting	US GAAP Reporting
PricewaterhouseCoopers Ltd.	PricewaterhouseCoopers LLP
P.O. Box HM 1171	300 Madison Avenue
Hamilton HMEX	New York, New York
Bermuda	United States of America

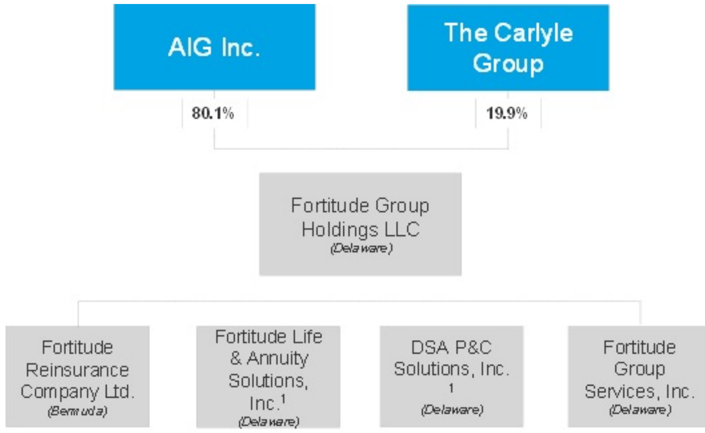
d. *Ownership Details*

Fortitude Re is a wholly-owned subsidiary of Fortitude Group Holdings, LLC (Fortitude Holdings), a subsidiary of American International Group, Inc. (AIG) which is an SEC-registered company incorporated in the state of Delaware, USA and TC Group Cayman Investment Holdings, L.P. (TCG), an affiliate of The Carlyle Group L.P. (Carlyle). AIG and TCG hold 80.1 and 19.9 percent ownership interest in Fortitude Holdings, respectively.

e. *Group Structure*

Fortitude Re's ownership as of December 31, 2018.

Figure 1. Fortitude Re Legal Entity Structure



1. Licensing currently in process

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

The Company is a reinsurer of run-off general insurance and long-term business, including property and casualty, life, annuity and accident and health businesses. All reserves are currently ceded from AIG. Long-term reserves consist of certain structured settlements, pension risk transfer annuities and single premium immediate annuities written prior to April 2012 as well as exposures to whole life, long-term care and exited accident & health product lines. General insurance reserves consist of excess workers' compensation, environmental exposures and exposures to other products that are no longer actively marketed by AIG.

Premiums in Figure 2 and 3 represent premiums assumed from the ceding insurance companies under affiliated reinsurance transactions.

Figure 2. Premiums assumed by Business Segment (GAAP Basis)

Period Ended December 31, 2018 (in millions)	
Long-term business	273
General business	5
Total gross premium written	**277**

Figure 3. Premiums assumed by Geographic Segment (GAAP Basis)

Period Ended December 31, 2018 (in millions)	
US	277
Total gross premium written	**277**

g. Performance of Investments and Material Income and Expenses

Performance of Investments

The Company invests in mainly high quality investment grade securities with approximately 7% held in alternative assets and 3% held in below-investment grade securities, based on NAIC ratings, including assets held at ceding companies through reinsurance agreements. The portfolio is well diversified across industries and issuers. During the year, the Company continued to purchase investment grade fixed income assets of relatively long duration consistent with its liability driven duration objectives.

As of December 31, 2018 93% of Fortitude investments were subject to funds withheld arrangements related to affiliated reinsurance transactions described in *section (v) (iv.) Any Material Transactions with Shareholder Controllers, Persons who Exercise Significant Influence, the Board or Senior Executives.* Funds withheld by ceding companies are subject to certain collateral funding requirements.

Figure 4. Investments (GAAP Basis)

Period Ended December 31, 2018 (in millions)	**Balance**	**Investment Income**
Fixed income securities		
Obligations of states, municipalities and political subdivisions	434	1
Corporate debt	898	22
RMBS	223	11
CMBS	100	6
CDO / ABS	23	1
Short term investments	27	—
Other invested assets	1,285	169
Funds withheld by ceding companies	37,605	1,490
Total	**40,595**	**1,700**
Investment expenses		(54)
Total	**40,595**	**1,646**

Material Income & Expenses

The Company's main source of revenue is investment income and premiums assumed. The Company's main expenses arise from insurance claims and the cost of operations.

Figure 5. Material Expenses (GAAP Basis)

Period Ended December 31, 2018 (in millions)	
Policyholder benefits and losses incurred	1,228
Interest credited to policyholder account balances	205
Operating expenses	160
Interest expenses	15
Total expenses	**1,608**

h. Any Other Material Information

No other material information to report.

v. Governance Structure

<u>*Board and Senior Executives*</u>

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

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

- Audit Committee
- Risk and Capital Committee
- Life & Annuity Reinsurance & Claims Committee
- Property & Casualty Reinsurance & Claims Committee
- Compliance Committee

Each of the above mentioned committees has its own charter.

At December 31, 2018, the Board consisted of eleven directors: Kevin Hogan (EVP and CEO, AIG Life & Retirement); Dough Dachille (EVP and Chief Investment Officer, AIG); Tom Diemer (CFO, AIG Life & Retirement); Sabby Ray (COO, AIG Life & Retirement); Spencer Gluck (Senior Managing Director Enterprise Risk Management, AIG); Anthony Vidovich (Chief Claims Officer, AIG General Insurance); Geoffrey Cornell (Deputy Chief Investment Officer, AIG); Brian Schrieber (Managing Director and Co-Head of Carlyle Global Financial Services Partners); Sam Weinhoff (Independent Director, Carlyle); Brian O'Hara (Independent Director, Fortitude Re) and Richard Patching (Independent Director, Fortitude Re).

The Company's applicable constitutional documents, committee charters, and BMA Insurance Code of Conduct include guidance and/or details of the Board's role and responsibilities. In addition, as a subsidiary of AIG, the Company is also subject to AIG's Internal Corporate Governance Policy, which details certain requirements in connection with Board composition, training and standards for AIG group company board and committee meetings.

ii. Remuneration Policy

The Company's remuneration policy for senior executives is currently established by its ultimate parent, AIG and AIG's corporate compensation team. AIG's compensation policy provides for a fixed base salary along with a short term incentive ("STI") of an annual bonus which is calculated based on both AIG's and the individual employee's performance. In addition, senior executives receive a long term incentive ("LTI") of a combination of restricted stock units, performance units, and stock options. Both the LTI and STI are set by AIG's Compensation and Management Resources Committee. The Company's Human Resources Department participates in annual surveys designed to review local compensation practices/standards to ensure Fortitude Re's compensation packages are in keeping with industry and market standards.

Fortitude Re Board members who are also employed by AIG do not receive any additional compensation to act in their capacity as Fortitude Re Directors other than their fixed salary, STI and LTI.

Independent directors receive a fixed fee which is paid in quarterly installments.

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

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

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

Because of the significant related-party transactions with AIG Parent and its affiliates, Fortitude Re's financial condition and results of operations may not necessarily be indicative of the financial condition or results of operations that would have occurred if Fortitude Re had been operating as an unaffiliated company.

Establishment of Fortitude Re

On or prior to February 12, 2018, AIG Inc. (the Parent Company of Fortitude Re) contributed capital of $2,625 million to Fortitude Re to support the reinsurance operations in Bermuda as well as fulfill local capital requirements.

Affiliated reinsurance transactions

On February 12, 2018, (the "execution date"), Fortitude Re entered into a series of reinsurance transactions with various AIG subsidiaries. These transactions were designed to consolidate the bulk of AIG's legacy insurance runoff lines into a single legal entity.

AIG's US domestic life insurance companies (American General Life Insurance Company (AGL), The Variable Annuity Life Insurance Company (VALIC) and The United States Life Insurance Company in the City of New York (USL)) (collectively affiliated insurance companies) and Fortitude Re entered into modified coinsurance (Mod-co) agreements, whereby the affiliated insurance companies transferred, for arm's length consideration, certain run-off inforce life and retirement policies effective January 1, 2017 (the "effective date") to Fortitude Re. The mortality and timing risks related to certain life blocks of business, such as whole life, universal life, and payout annuities with life contingencies were reinsured to Fortitude Re and are subject to reinsurance accounting. The total consideration (net of commissions of $39 million) received for these blocks of business was $27,592 million and the amount of assumed future policy benefit liabilities was $25,545 million. The remaining blocks of life business, such as fixed annuities and structured settlements without life contingencies, lacked mortality risks, and thus could not achieve risk transfer. Accordingly, these reinsured contracts are subject to deposit, rather than reinsurance accounting. The total consideration received for these deposit blocks of business was $5,421 million and the amount of assumed deposit liabilities was $5,022 million.

On February 12, 2018, we also entered into a tri-party novation agreement with certain Bermuda affiliates, AIG Life of Bermuda and AIRCO. Pursuant to this agreement, AIRCO retroceded, on a 100% quota share basis, business associated with the termination of occupational pension programs in the United Kingdom, which AIRCO had previously assumed from Phoenix Life Limited (Phoenix Life, formerly ALBA Life, Ltd.) and retroceded to AIG Life of Bermuda. The total consideration (net of ceding commissions of $75 million) received for these blocks of business was $1,255 million and the amount of assumed reserves was $1,250 million. Under the terms of the retrocession agreement with AIRCO, AIRCO retained assets and other derivatives in a funds withheld account that would otherwise have been paid to us, which is included in funds withheld by ceding companies in our Balance Sheet. These funds withheld by AIRCO are supported by a specified portfolio of assets, subject to a security agreement between AIRCO and Phoenix Life. Under the contractual terms of the retrocession agreement, the realized and unrealized gains and losses and net investment income related to the specified portfolio of assets inure to our benefit.

On February 12, 2018, AIG's United States property and casualty insurance companies which are members of a pool ("Combined Pool Companies") and Fortitude Re entered into loss portfolio transfer ("LPT") reinsurance agreements, whereby the Combined Pool Companies reinsured with Fortitude Re, for arm's length consideration, their net exposures corresponding to existing open and future liabilities for certain run-off business effective January 1, 2017. In addition, on February 12, 2018, Fortitude Re assumed excess workers compensation run off business through a novation agreement between the Combined Pool Companies and Eaglestone Reinsurance Company, an affiliated insurance company effective January 1, 2017. Pursuant to the LPT and novation agreements and subject to their limits, the Combined Pool companies have ceded 100% of their net insurance liabilities and obligations on certain blocks of insurance: excess workers compensation, pollution liability products, environmental losses from incidental liability, healthcare (including physicians and surgeons, pharmaceutical equipment, product recall and other healthcare coverages), commercial auto (buffer trucking) and other casualty (including certain occupational accident, public entity excess liability and exposures emanating from specified segments of underwriting divisions in run-off). At the inception of these reinsurance and novation agreements, Fortitude Re received the consideration of $5,041 million on a funds withheld basis and recorded loss and loss adjustment expenses incurred of $4,505 million.

The Combined Pool Companies include National Union Fire Insurance Company of Pittsburgh, Pa., American Home Assurance Company, Lexington Insurance Company, Commerce and Industry Insurance Company, AIG Property Casualty Company, New Hampshire Insurance Company, The Insurance Company of The State of Pennsylvania, AIG Specialty Insurance Company, AIU Insurance Company, AIG Assurance Company, Granite State Insurance Company, and Illinois National Insurance Co.

Establishment of Fortitude Holdings and sale of minority interest to Carlyle affiliate

On November 13, 2018, AIG completed the sale of a 19.9 percent ownership interest in Fortitude Holdings to TCG (the Fortitude Re Closing). Fortitude Holdings owns 100 percent of the outstanding common shares of Fortitude Re and AIG has an 80.1 percent ownership interest in Fortitude Holdings.

In addition to its holding in Fortitude Re, Fortitude Holdings also owns Fortitude Life & Annuity Solutions, Inc. (Fortitude Life), a third party administrator for life and annuities business, DSA P&C Solutions, Inc. (Fortitude General), a third party administrator for property and casualty business, and Fortitude Group Services, Inc. (Fortitude Services), a management company. Fortitude Life, Fortitude General, and Fortitude Services were not operational during the year ended December 31, 2018.

Related party agreements

Fortitude Re has an unconditional capital maintenance agreement (CMA) with AIG that shall continue until the earliest of: (a) AIG's applicable regulators no longer require the CMA; (b) AIG sells more than 50 percent of the voting share capital of Fortitude Re; and (c) the Company is wound up or the Company's registration as an insurer is canceled or surrendered, each pursuant to the laws of Bermuda. As long as the CMA is in force, AIG is obligated to make a capital contribution to Fortitude Re if the Company's available statutory economic capital and surplus in respect of its general business and long term business falls below the Stress Threshold Percentage of Fortitude Re's projected Enhanced Capital Requirement (ECR) pursuant to Bermuda Monetary Authority (BMA) regulation.

Under a Service and Expense Agreement between Fortitude Re and various AIG affiliates, we purchase administrative, investment management, accounting, marketing and data processing services from AIG or its subsidiaries. The affiliated entities provide Fortitude Re with personnel, office space, equipment, computer processing and other services. The allocation of costs for investment management services is based on the level of assets under management. The allocation of costs for other services is based on estimated level of usage, transactions or time incurred in providing the respective services. Fortitude Re reimburses its affiliates for these services at cost.

Fortitude Re has an asset management agreement with AIG Asset Management Company, an affiliate, which provides asset management and related accounting services for Fortitude Re. Fortitude Re records an investment management fee as a deduction from income from investments, which is paid quarterly, based on the value of the assets under management.

In addition, Fortitude Re entered into (1) Investment Management Agreements with an affiliate of TCG (the "Investment Manager"), pursuant to which the Investment Manager will provide certain investment management and advisory services with respect to certain asset classes and (2) Fortitude Re entered into an Exclusivity Agreement with TCG pursuant to which the Investment Manager will be the exclusive provider of investment management and advisory services with respect to certain asset classes and certain new business acquired by Fortitude Re following the Fortitude Re Closing.

b. *Fitness and Propriety Requirements*

i. *Fit and Proper Process in Assessing the Board and Senior Executive*

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

Fortitude Re has also adopted a policy related to Employee Conflict of Interest Policy to identify, prevent and manage conflicts of interest in order to ensure that all AIG employees perform their work in an objective and unbiased manner.

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

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

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

Board

Kevin Hogan

Kevin Hogan joined AIG as Chief Executive Officer of Global Consumer Insurance in October 2013. He is responsible for AIG's consumer life and property casualty businesses worldwide, which include the company's personal auto, personal property, service programs, personal accident, health, disability, life, annuities and mutual funds products and services.

Mr. Hogan, who previously had a 24-year career at AIG, was most recently Chief Executive Officer of Global Life, Zurich Insurance Group, and was a member of the Zurich Executive Committee.

Mr. Hogan started his career in 1984 at AIG with American International Underwriters (AIU) in New York, and subsequently held management positions in Chicago, Tokyo, Hong Kong, and Singapore.

Mr. Hogan joined Zurich in December 2008 as CEO, Global Life Americas. In this role, he led Zurich's life insurance business in North and South America, with accountability for Farmers Life and Zurich's Latin America Life Operations. He became CEO, Global Life, in July 2010. Mr. Hogan is a graduate of Dartmouth College.

Doug Dachille

Doug Dachille is Executive Vice President and Chief Investment Officer of AIG. He oversees the Science function. Before joining AIG in September 2015, Mr. Dachille served as CEO of First Principles Capital Management LLC., an investment management firm which AIG acquired and now operates as a wholly-owned subsidiary.

Mr. Dachille is a proven leader in financial services and investments, with more than 25 years of experience in creating asset management solutions, and has a deep understanding of client liabilities. Prior to co-founding First Principles, he was President and Chief Operating Officer of Zurich Capital Markets, an integrated alternative investment asset management and structured product subsidiary of Zurich Financial Services.

Mr. Dachille began his career at JPMorgan Chase & Co., where he served as Global Head of Proprietary Trading and co-Treasurer, and built the hybrid derivatives business.

Mr. Dachille earned his Bachelor of Science degree in a special joint program through Union University and Albany Medical College, and later was a Pew Scholar in Medicine, Arts, and Social Sciences at the University of Chicago.

Tom Diemer

Tom Diemer serves as Chief Financial Officer for AIG Life & Retirement, which he assumed in September 2015. In his current role, he oversees all aspects of financial management for AIG's Life and Retirement businesses and related legal entities which have more than $200B in assets and approximately $20B in capital. Previously he was Chief Risk Officer for AIG Consumer Insurance, where he oversaw the identification, measurement, management and mitigation of the organization's risk and partnered with the senior leadership team to deliver on its strategic agenda. Additionally, Mr. Diemer managed risk for the AIG Life Companies and oversaw the risk officers for legal entities in Asia Pacific. He joined AIG in February of 2013.

Previously Mr. Diemer was Chief Financial Officer for Prudential Annuities where he held various executive leadership positions since 2002. From 2006 to 2010, he was Prudential's Investment Controller, and before that time, he managed their Derivatives and Foreign Exchange Finance divisions. Earlier, Mr. Diemer spent six years at Merrill Lynch working in a number of finance areas. He began his career at PriceWaterhouse Coopers, LLC.

Mr. Diemer earned a Master of Business Administration degree in finance and information systems from New York University and a bachelor's degree in accounting from Fordham University.

Sabby Ray

Sabby Ray is the Chief Operating Officer for AIG Life and Retirement. As COO he manages Centralized Operations, Operational Controls through coordination of first-line-of-defense activities, Customer Experience and leading Data and Innovation initiatives. Prior to this role, Mr. Ray was based in Japan and managed Claims and Operations for its General Insurance business in Asia Pacific.

Mr. Ray joined AIG in 2005 in Consumer Finance Group in New York. He was CEO for its Asia business based in Hong Kong. Prior to AIG, he worked in Citigroup for 15 years. He played different roles during this period within US and Asia. His roles included managing Mergers and Acquisitions integrations, building an Affluent Retail Banking Business, re-engineering branch operations and managing centralized operations.

Mr. Ray has a Masters in Business Administration from Indian Institute of Management, Bangalore, India in 1991. He has also a Bachelors of Engineering degree in Electronics and Electrical Engineering from Birla Institute of Technology and Sciences Pilani, India in 1987.

Spencer Gluck

Spencer Gluck is the Head of Actuarial Challenge and Risk Analytics for AIG General Insurance. He is responsible for providing an independent reporting channel direct to senior management regarding loss reserves. His role also includes model risk management with regard to insurance pricing models and risk analytics.

Mr. Gluck has over 30 years of industry experience. Mr. Gluck joined AIG in 2010 as the Head of Casualty Risk with responsibilities for the design, calibration, and implementation of a model used to measure underwriting performance. Prior to joining AIG, Mr. Gluck held a variety of Actuarial related roles with Guy Carpenter, Gerling Global Financial Products, Swiss Re, and Milliman.

Mr. Gluck earned a Masters and Bachelors degree in Mathematics from Cornell University. Mr. Gluck is a Fellow of the Casualty Actuarial Society and a Member of the American Academy of Actuaries.

Anthony Vidovich

Anthony Vidovich is the Chief Claims Officer for AIG General Insurance, encompassing the North America, International and Personal Insurance businesses. He is responsible for the strategic direction of the General Insurance claims operation and providing market-leading claims expertise and service to clients around the globe, while also driving best practices and data driven insights for AIG and its partners.

Mr. Vidovich has over 20 years of industry expertise and a track record for leading high performing global teams. Prior to joining AIG in May 2018, he served as Executive Vice President and Global Head of Claims for Insurance and Reinsurance at XL Catlin. He previously served as XL Group's Senior Vice President and General Counsel for Global Insurance Claims. Before joining XL Group, he supported all legal and regulatory needs of the underwriting and claims businesses of The Hartford as Senior Vice President, Associate General Counsel and Director of Commercial Markets Law for The Hartford, after having served as Director of Reinsurance Law.

Earlier in his career, Mr. Vidovich was an attorney at Blank Rome LLP, where his practice centered on financial institutions, including re/insurance companies, regulators and receivers.

Mr. Vidovich earned a B.A., summa cum laude, from Boston University and a J.D., with highest honors, from Rutgers University School of Law. He is an ARIAS*US certified arbitrator and frequent speaker at industry trade conferences.

Geoffrey Cornell

Geoffrey N. Cornell was named AIG Deputy Chief Investment Officer - Asset Management in May of 2015. In this role, he leads a team that of approximately 400 people that are responsible for direct management of all internally managed investment assets on AIG's balance sheet and oversight of all externally managed investment assets. He also leads the tactical asset allocation process and works closely with the Business Unit Investment teams to develop strategic asset allocation.

Prior to assuming the role of Deputy Chief Investment Officer, he has held various other positions in the investment department of AIG including Business Unit Chief Investment Officer for the US Commercial Companies and Head of Municipal Bond Investments. He joined the investments team at AIG in 1994.

Mr. Cornell earned his Master of Business Administration in Finance from Fordham University in New York and his Bachelor of Science in Business Administration degree in Finance from Bryant University in Smithfield, RI. He holds the Chartered Financial Analyst designation.

Brian Schreiber

Brian Schreiber is a Managing Director and Co-head of Carlyle Global Financial Services Partners. Prior to joining Carlyle, Mr. Schreiber spent 20 years at AIG in a variety of senior executive roles, including: Chief Strategy Officer, Deputy Chief Investment Officer, and Global Treasurer, and was a member of AIG's Operating Committee, Group Risk Committee and Investment Committee. He served as a board member of United Guaranty, AIG's mortgage insurance subsidiary, and Varagon Capital, AIG's middle market direct lending joint venture.

Mr. Schreiber was a key member of AIG's executive leadership team that engineered and executed AIG's successful restructuring and recapitalization. He led AIG's divestiture, hedging and capital markets activities coming out of the financial crisis, executing 120+ transactions (debt, equity, M&A) and raising over $200 billion. Prior to the crisis, Mr. Schreiber was responsible for leading approximately $60 billion of acquisitions and strategic investments for AIG including: SunAmerica, American General, and Edison Insurance Japan.

Prior to AIG, Mr. Schreiber invested in financial services companies for the Bass Brothers, was an investment banker in Lehman Brothers' Financial Institutions Group, and started his career as a research associate for Booz Allen & Hamilton. He earned a BS from New York University's Stern School of Business, an MBA from Columbia Business School, and is a member of the Council on Foreign Relations.

Sam Weinhoff

Mr. Weinhoff has been an independent consultant to the insurance industry since 2000. Mr. Weinhoff began his insurance career at the Home Insurance Company in 1976 as a corporate planning analyst. He rose to the head of the corporate planning, reporting and analysis department and later became an excess casualty treaty reinsurance underwriter. Mr. Weinhoff joined the investment department of the Reliance Insurance Company in 1980. While there, he had responsibility for investing in financial institution equities. Mr. Weinhoff joined Lehman Brothers in 1985, first as an equity research analyst covering the insurance industry and later as an Investment Banker focused on insurance. In 1997, he joined Schroders & Co. as head of their U.S. financial institutions effort.

Mr. Weinhoff has served on the Board of Directors of Infinity Property Casualty, one of the largest U.S. Hispanic auto insurers. He became head of their Audit Committee in 2008 and Lead Director in 2015. Mr. Weinhoff joined the Board of Directors of Allied World in 2006 where he has served as Chair of the Compensation Committee and a member of the Risk, Audit, Investment and Executive Committee.

Mr. Weinhoff received a BA in Economics from the University of Illinois and an MBA from the Wharton School.

Brian O’Hara

Mr. O'Hara is the former Chairman of XL Capital Ltd, now known as XL Group plc. He served as Chairman of XL’s Board of Directors from 2008 to 2009 and was President and Chief Executive Officer of XL from 1994 to 2008. In 1986, Mr. O’Hara joined XL Insurance (Bermuda) Ltd as its founding President and Chief Operating Officer. Mr. O’Hara began his insurance career in San Francisco with The Royal Insurance Company and Employers’ Reinsurance Company in 1970. He joined General Reinsurance Corporation in 1975 and in 1978 assumed responsibility for the newly developing captive reinsurance underwriting group. From 1979 to 1986 Mr. O’Hara was a founder and Chief Underwriting Officer of reinsurer Trenwick Group, Inc. in Bermuda.

Mr. O’Hara has a Bachelor of Science in Economics from Santa Clara University and a CPCU designation. He also has an Honorary Doctorate in Commercial Science from St. John’s University. Mr. O'Hara is a resident of Bermuda.

Richard Patching

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

Senior Executives

Please refer to our website at: https://www.fortitude-re.com/leadership for biographies of Senior Executives.

c. Risk Management and Solvency Self-Assessment

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

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

The risk framework at Fortitude Re is organized around five key aspects:

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

Risk Identification and Measurement:

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

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

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

Risk Management:

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

The Company articulates its aggregate risk-taking by setting risk tolerances and thresholds on capital and liquidity measures. It must comply with standards for capital adequacy and maintain sufficient liquidity to meet all obligations as they come due in accordance with its internal capital management and liquidity policies. Its risk tolerances take into consideration regulatory requirements, and business needs. The Fortitude Re Risk and Capital Committee routinely review the level of risk taken by Fortitude Re in relation to the established risk tolerances. A consolidated risk report is also presented periodically, as required, to the Company's Risk and Capital Committee by the CRO.

Risk Monitoring and Reporting:

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

ii. Risk Management and Solvency Self-Assessment

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

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

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

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

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

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

iv. Solvency Self-Assessment Approval Process

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

d. Internal Controls

i. Internal Control System

The Company has systems, processes and procedures to ensure that data and reporting is reliable, organizational policies are adhered to, and adequate security measures are implemented.

ii. Compliance Function

The overall responsibility for the Compliance function within Fortitude Re resides with the Compliance Committee which is a subcommittee of the Fortitude Re Board of Directors. The purpose of the committee is to assist the Board of the Directors (i) to ensure the Company satisfies its regulatory obligations and commitments upon which its licenses were conditioned; and, more generally, (ii) in its oversight of the Company's handling of legal, regulatory and compliance matters and review of the Company's position and policies that relate to current and emerging corporate social responsibility and political and public policy issues of significance to the Company, including those that may affect the Company's business operations, performance or corporate reputation.

While Fortitude Re develops its own compliance function, it also continues to rely on the AIG compliance function. The Compliance Function for Fortitude Re is part of AIG's Global Compliance Group ("GCG"). The GCG is led by the AIG Chief Compliance Officer with an underlying structure that is managed by a set of Regional and Local Compliance Officers. A Local Compliance Officer ("LCO") is physically present in Bermuda and manages all compliance related areas for the country, including any additional compliance staff. Some of the LCO responsibilities include providing guidance on compliance related issues to the Board and Senior Management, Code of Conduct implementation, annual compliance risk assessment, the development and maintenance of AIG Bermuda policies, standards and procedures in accordance with local laws and regulations, support of the local business units, responding to alleged violations of rules, laws, regulations, policies, procedures, and standards of conduct and the reporting of violations or potential violations.

e. Internal Audit

The Internal Audit Group of AIG provides Fortitude Re a dedicated internal audit resource while the Company builds out its own internal audit function. This resource provides independent, objective assurance designed to support Fortitude Re in achieving its defined strategic, operational, financial and compliance objectives, as well as the Board of Directors of Fortitude Re and its committees in discharging their governance responsibilities.

The Internal Audit function assists the group boards with oversight responsibility for assessing and testing the enterprise wide internal control environment, monitors that adequate internal controls are in place, facilitates periodic review and assessment of the control environment and tests compliance with internal controls. It has unrestricted access to the respective boards, and their committees, management and all areas of the organization.

Fortitude's dedicated internal audit resource provides reporting to the Audit Committee and Fortitude Re's Senior Management to support transparent and timely communication of its findings. Written reports are published to Fortitude Re's Senior Management following the conclusion of various audit activities. In addition, Internal Audit provides periodic reporting to the Audit Committee and/or Fortitude Re Senior Management regarding:

- Significant risk exposures, control issues and status of open audit issues,
- Response to risk by Fortitude Re management that may not be deemed acceptable by Internal Audit,
- Results of the internal audit program, including status of the audit plan and significant changes to the audit plan, financial budget and/or resources, and
- Internal Audit's purpose, authority, and responsibility.

f. *Actuarial Function*

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

General Insurance

The primary duty of the Fortitude Re Loss Reserve Specialist is to oversee the estimation of liabilities, setting of appropriate actuarial methodologies and assumptions used to estimate reserves, and oversight of actuarial staff.

When required, the Loss Reserve Specialist also provides input and assistance regarding the underwriting process, including reviews of the profitability of the business on individual transactions.

Long-Term Business

The Approved Actuary ensures that benefit reserves are calculated to meet the requirements of the insurance laws of Bermuda, are computed in accordance with accepted actuarial reserving practices, make an adequate provision for the total long-term business liabilities of Fortitude Re under the terms of its contracts and agreements, and make sure that the assumptions are appropriate to the circumstances of the company and the policies in force.

The Approved Actuary also reviews asset liability matching, capital requirements, analysis of finance results and proposals to reinsure additional business.

g. *Outsourcing*

i. *Outsourcing Policy and Key Functions That Have Been Outsourced*

Currently no key functions (i.e. actuarial, risk management and compliance) are currently outsourced, however Fortitude Re utilizes external vendors to support its operations. The Company maintains an outsourcing and procurement policy that outlines the vetting, suitability and contracting process for outsourced relationships and the due diligence procedures to be undertaken to monitor performance and provide oversight of such arrangements. The Company monitors its outsourcing partners and integrates their services into its operations. Fortitude Re may elect to outsource certain functions in the future.

ii. *Description of Material Intra-group Outsourcing*

Fortitude Re currently uses certain services of AIG as described in section iv (i)(g), Business and Performance. AIG centralizes many of its activities to achieve operational efficiencies and economies of scale. For the year ended December 31, 2018, Fortitude Re utilized certain services including treasury and investment management services, investment accounting support, general ledger administration support, claim and actuarial data support, policyholder billing and collection services, and human resources and benefits services. The Company is currently building out its stand alone capabilities

Fortitude Holdings, the parent of Fortitude Re, also owns Fortitude Life & Annuity Solutions, Inc. (Fortitude Life), a third party administrator for life and annuities business, DSA P&C Solutions, Inc. (Fortitude General), a third party administrator for property and casualty business, and Fortitude Group Services, Inc. (Fortitude Services), a management company. Fortitude Life, Fortitude General, and Fortitude Services were not operational during the year ended December 31, 2018.

h. *Any Other Material Information*

No other material information to report.

vi. Risk Profile

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

Reserve risk is the potential inadequacy of the liabilities that Fortitude Re establishes for unpaid losses and loss adjustment expenses. There is significant uncertainty in factors that drive the ultimate development of losses compared to estimates of losses and loss adjustment expenses. Fortitude Re manages this uncertainty through internal controls and oversight of the loss reserve setting process.

Longevity risk is the risk of a change in value of a policy or benefit as a result of actual mortality experience being lower than the expected mortality assumed at the time of pricing. This risk could arise from longer-term societal health changes as well as other factors. This risk is most significant for Fortitude Re's retirement, and annuity products.
Mortality Risk is the risk arising from actual mortality rates being higher than expected. This risk could arise from pandemics or other events including longer term societal changes that cause higher than expected mortality.

Morbidity Risk is the risk arising from actual morbidity (i.e. illness, disability or disease) incidence being higher than expected.

Liquidity risk is the risk that the Company's financial condition will be adversely affected by the inability or perceived inability to meet short-term cash, collateral or other financial obligations. Failure to appropriately manage liquidity risk can result in insolvency, reduced operating flexibility, increased costs, reputational harm and regulatory action.

Interest rate risk can arise from a mismatch in the interest rate exposure of assets versus liabilities. Lower interest rates generally result in lower investment income and make certain of the product offerings less attractive to investors. Conversely, higher interest rates are typically beneficial for the opposite reasons. Changes in interest rates can affect the valuation of fixed maturity securities, financial liabilities, insurance contracts and derivative contracts.

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

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

Credit risk is the risk that customers or counterparties are unable or unwilling to repay their contractual obligations when they become due. Credit risk may also result from a downgrade of a counterparty's credit ratings or a widening of its credit spreads.

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

b. Risk Mitigation in the Company

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

- Investment guidelines which specify asset types, asset quality, target duration and concentration limits;
- Implementation and adoption of processes and controls governing the design, development and distribution of products prior to launch;
- Setting and applying of underwriting approval processes and authorities;
- Monitoring the utilization of approved exposure limits;
- Conducting modelling and reporting of aggregations and limit concentrations at multiple levels (policy, line of business, product group, country, individual/group, and correlation), using various modeling techniques, including both probability distributions (stochastic) and single-point estimates (deterministic) approaches;
- Monitoring the process of reserve setting and variability in reserve estimates to cover known and unknown liabilities derived from Fortitude Re's insurance operations;
- Using risk transfer tools such as the application of both internal and third- party reinsurance coverage to limit risk; and
- Monitoring of emerging risks, trends in loss costs and other drivers of variation in estimates of the insurance risk assumed within Fortitude Re's portfolio.

c. Material Risk Concentrations

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

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

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

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

e. Stress Testing and Sensitivity Analysis to Assess Material Risks

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

- A comprehensive scenario where all major risks are stressed at the same time. This scenario includes financial market stresses coupled with major insurance-related stresses. The macroeconomic scenario is defined as a credit default driven recession. The insurance-related stresses include an increase to Fortitude Re's property and casualty reserves. This scenario targets Fortitude Re's unique vulnerabilities.
- A scenario focusing on financial risks. The scenario includes a severe financial stress event. This scenario provides a different perspective relative to the comprehensive scenario.

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

f. Any Other Material Information

No other material information to report.

vii. Solvency Valuation

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

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

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

- Level 1: Fair value measurements based on quoted prices (unadjusted) in active markets that we have the ability to access for identical assets or liabilities. Market price data generally is obtained from exchange or dealer markets. We do not adjust the quoted price for such instruments.

- Level 2: Fair value measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.

- Level 3: Fair value measurements based on valuation techniques that use significant inputs that are unobservable. Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3. The circumstances for using these measurements include those in which there is little, if any, market activity for the asset or liability. Therefore, we must make certain assumptions about the inputs a hypothetical market participant would use to value that asset or liability.

We used the following valuation methods and assumptions to estimate fair value for assets held directly and assets supporting funds withheld at interest:

- Cash and Cash Equivalents – includes cash on hand, non-interest bearing demand deposits, interest-bearing cash equivalents, time deposits and investments with original maturities within one year of date of purchase. These are carried at amortized cost which approximates fair value because of the relatively short period of time between origination and expected realization, and their limited exposure to credit risk.
- Bonds Available for Sale – whenever possible, the Company obtains quoted prices in active markets for identical or similar assets at the balance sheet date to measure bonds at fair value. Market price is generally obtained from dealer markets. For bonds that areHye not actively traded and for which similar assets are also not actively traded, the Company uses financial models. The Company employs independent third party valuation service providers to gather, analyse and interpret market information to derive fair value estimates for individual investments, based upon market-accepted methodologies and assumptions.
- Unquoted Investments – fair value in certain hedge funds, private equity funds and other investment partnerships is initially estimated by reference to the transaction price. Subsequently, the Company generally obtains the fair value of these investments from net asset value information provided by the general manager or manager of the investments, the financial statements of which are generally audited annually. The Company considers observable market data and performs certain control procedures to validate the appropriateness of using the net asset value as a fair value measurement.

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

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

The primary valuation method that was used to determine the best estimate technical provisions was the BMA's Scenario Based Approach. The best estimate cash flows have been discounted reflecting the projected performance of the Company's assets under the most severe interest rate stress scenario. The risk free interest rate scenarios were supplied by the BMA. In addition, the Company also holds a risk margin to reflect the uncertainty inherent in the underlying cash flows which is calculated using the cost of capital approach and a risk-free discount rate term structure. The discount rate term structures are prescribed by the BMA for each reporting period.

As at December 31, 2018, the Technical Provisions and Risk Margin for Long-Term and General Business were as follows:

Figure 7. Technical Provision and Risk Margin (EBS Basis)

Period Ended December 31, 2018 (in millions)		Long-term		General
Best Estimate	$	30,682	$	3,888
Risk Margin		767		754
Technical Provision	$	31,448	$	4,642

c. Description of Recoverables from Reinsurance Contracts

Fortitude Re does not have any ceded insurance.

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

Similar to the valuation principles for assets, the Company's liabilities follow the valuation principles outlined by the BMA's "Guidance Note for Statutory Reporting Regime" which values liabilities on a fair value basis.

e. Any Other Material Information

No additional material information to report.

viii. Capital Management

a. Eligible Capital

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

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

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

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

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

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

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

As at December 31, 2018, the Company's Eligible Capital was categorised as follows:

Figure 8. Eligible Capital Categorised by Tier (EBS Basis)

Period Ended December 31, 2018 (in millions)	Eligible Capital
Tier 1	3,784
Tier 2	150
Tier 3	400
Total Eligible Capital	4,334

The majority of the capital is Tier 1, consisting of common stock, contributed surplus and economic surplus.

At December 31, 2018, the Tier 2 and Tier 3 capital represents Letters of Credit which have been approved by the BMA.

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

As at December 31, 2018, the Company's Eligible Capital for its ECR and MSM was categorised as follows:

Figure 9. Eligible Capital Categorised by Tier (EBS Basis)

Period Ended December 31, 2018 (in millions)	ECR	MSM
Tier 1	3,784	3,784
Tier 2	150	150
Tier 3	400	—
Total Eligible Capital	4,334	3,934

In 2018, all Tier 1, 2 and 3 capital is within the eligible regulatory limits and can be used to meet the ECR.

iv. *Confirmation of Eligible Capital is Subject to Transitional Arrangements*

Not applicable.

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

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

vi. *Identification of Ancillary Capital Instruments Approved by the Authority*

$98 million of Tier 1 capital relates to a long-term investment credit. Letters of credit approved by the BMA are disclosed in *Figure 9 Eligible Capital Categorised by Tier (EBS Basis).*

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

A reconciliation between the total statutory capital and surplus and the total equity balance as per the insurer's general purpose financial statements

Figure 10. Reconciliation of Fortitude Re Surplus

Reconciliation of Surplus (in millions)		
Total GAAP Shareholders' Equity	$	2,125
Letter of Credit		550
Total Statutory Capital and Surplus	**$**	**2,675**

b. *Regulatory Capital Requirements*

i. *Enhanced Capital Requirement (ECR) and Minimum Margin of Solvency (MSM)*

As at December 31, 2018, Fortitude Re had an ECR of 214% with $4,334 million of total Statutory Economic Capital and Surplus and an Enhanced Capital Requirement of $2,027 million.

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

The Company was compliant with the MSM and the ECR as at December 31, 2018.

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

Not applicable.

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

Not applicable.

c. *Approved Internal Capital Model*

Not applicable.

ix. Subsequent Event

a. *Description of Significant Event*

Three companies owned by Fortitude Holdings, Fortitude Life, Fortitude General, and Fortitude Services commenced operations on January 1, 2019. On February 21, 2019, Fortitude Re provided loans to the three subsidiaries as follows: Fortitude Life ($10 million), Fortitude General ($5 million), and Fortitude Services ($10 million). One related party loan has a term of 10 years and the other two have a term of 20 years.

On February 19, 2019, Fortitude Re made payments of $60 million and $56 million to VALIC and USL, respectively, in order to fund an obligation related to collateral funding requirements. Fortitude Re has an obligation to fund any shortfall in U.S. statutory book value in conjunction with the reinsurance agreements *described in Note 1, Organization and nature of operations*.

On March 11, 2019, Fortitude Re paid a net reinsurance settlement of $536 million with cash in connection with the mod-co and reinsurance agreements.

b. *Date of Significant Event*

Refer to section ix (a) for dates of subsequent event.

c. *Confirmation of how the Significant Event has Impacted or Will Impact, the Most Recent Financial Condition Report*

The significant events as described in section ix (a) were in the normal course of operations for the company and do not impact the most recent financial condition report.

d. *Any Other Material Information*

No other material information to report.