

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K/A
Amendment No. 1**

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2022
OR**

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission File Number: 001-35538

The Carlyle Group Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

45-2832612
(I.R.S. Employer
Identification No.)

1001 Pennsylvania Avenue, NW
Washington, DC, 20004-2505
(Address of principal executive offices) (Zip Code)

(202) 729-5626
(Registrant's telephone number, including area code)

Not Applicable
(Former name or former address, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	CG	The Nasdaq Global Select Market
4.625% Subordinated Notes due 2061 of Carlyle Finance L.L.C.	CGABL	The Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the common stock of the Registrant held by non-affiliates as of June 30, 2022 was \$8,088,355,343.

The number of the Registrant's shares of common stock outstanding as of February 8, 2023 was 364,219,014.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement relating to its 2023 annual meeting of the shareholders (the "2023 Proxy Statement") are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. The 2023 Proxy Statement will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

EXPLANATORY NOTE

The Carlyle Group Inc., a Delaware corporation, together with its subsidiaries, where applicable, the “Company,” which may also be referred to as “we,” “us” or “our,” is filing this Amendment No. 1 (the “Amendment”) to our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, which was filed on February 9, 2023 (the “Form 10-K”), to provide financial statements for FGH Parent, L.P. (“FGH Parent,” the successor partnership to Fortitude Group Holdings, LLC), pursuant to Rule 3-09 of Regulation S-X as of and for the years ended December 31, 2022, 2021 and 2020. FGH Parent, along with its predecessor, was significant under Rule 3-09 for the year ended December 31, 2020, but not for the years ended December 31, 2021 and 2022. As a result, under Rule 3-09, we have included in this Amendment unaudited financial statements for 2022 and 2021 and audited financial statements for 2020. In accordance with Rule 3-09(b), these financial statements of FGH Parent are being filed as an amendment to the Form 10-K as Exhibits 99.1 and 99.2 included in Part IV, Item 15 of this filing.

Except as otherwise expressly noted, this Amendment does not modify or update in any way (i) the consolidated financial position, the results of operations or cash flows of the Company, or (ii) the disclosures in or exhibits to the Form 10-K; nor does it reflect events occurring after the filing of the Form 10-K. Among other things, forward-looking statements made in the Form 10-K have not been revised to reflect events that occurred or facts that became known to us after the filing of the Form 10-K, and such forward-looking statements should be read in their historical context. Furthermore, this Amendment should be read in conjunction with the Form 10-K and any subsequent filings with the U.S. Securities and Exchange Commission.

PART IV.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this report

1. Financial Statements

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3. Exhibits

A list of exhibits required to be filed or furnished as part of this Amendment is set forth in the Exhibit Index below.

(c) Separate financial statements of subsidiaries not consolidated and fifty percent or less owned persons

The unaudited financial statements for the years ended December 31, 2022 and 2021 and audited financial statements for the year ended December 31, 2020 of FGH Parent, L.P. included in Exhibits 99.1 and 99.2 are filed as part of Item 15 of Amendment No. 1 to the Company's Annual Report on Form 10-K filed on March 22, 2023 and should be read in conjunction with the Company's consolidated financial statements.

Exhibit No.	Exhibit Index	
	Description	
23.2	Consent of PricewaterhouseCoopers LLP.	
31.3	Certification of the Chief Executive Officer pursuant to Rule 13a - 14(a).	
31.4	Certification of the Chief Financial Officer pursuant to Rule 13a - 14(a).	
32.3	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	
32.4	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	
99.1	Unaudited Financial Statements of FGH Parent, L.P. as of and for the Years Ended December 31, 2022 and 2021.	
99.2	Audited Financial Statements of FGH Parent, L.P. as of December 31, 2020 and for the Period from June 2, 2020 to December 31, 2020 (FGH Parent, L.P.) and for the Period from January 1, 2020 to June 1, 2020 (Fortitude Group Holdings, LLC).	
104	The cover page from The Carlyle Group Inc.'s Amendment No. 1 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2022, formatted in Inline XBRL.	

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 22, 2023

The Carlyle Group Inc.

By: /s/ Curtis L. Buser
Name: Curtis L. Buser
Title: Chief Financial Officer

CONSENT OF INDEPENDENT AUDITORS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-236397) and Form S-8 (No. 333-181109, No. 333-187264, No. 333-194164, No. 333-202315, No. 333-209690, No. 333-216100, No. 333-223051, No. 333-229663, No. 333-236394, No. 333-252992, No. 333-269328 and No. 333-269723) of The Carlyle Group Inc. of our reports dated November 12, 2021 relating to the consolidated financial statements of Fortitude Group Holdings, LLC, and March 10, 2023 relating to the consolidated financial statements of FGH Parent, L.P., which appear in this Form 10-K/A.

/s/PricewaterhouseCoopers LLP

Nashville, TN

March 22, 2023

I, Harvey M. Schwartz, certify that:

1. I have reviewed this Amendment No. 1 to the Annual Report on Form 10-K for the year ended December 31, 2022 of The Carlyle Group Inc. (the “Registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; and
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report.

Date: March 22, 2023

/s/ Harvey M. Schwartz

Harvey M. Schwartz
Chief Executive Officer
The Carlyle Group Inc.
(Principal Executive Officer)

I, Curtis L. Buser, certify that:

1. I have reviewed this Amendment No. 1 to the Annual Report on Form 10-K for the year ended December 31, 2022 of The Carlyle Group Inc. (the “Registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; and
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report.

Date: March 22, 2023

/s/ Curtis L. Buser

Curtis L. Buser

Chief Financial Officer

The Carlyle Group Inc.

(Principal Financial Officer)

**Certification of the Chief Executive Officer
Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with this Amendment No. 1 to the Annual Report of The Carlyle Group Inc. (the "Company") on Form 10-K for the year ended December 31, 2022 filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Harvey M. Schwartz, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Harvey M. Schwartz

Harvey M. Schwartz
Chief Executive Officer
The Carlyle Group Inc.
Date: March 22, 2023

*The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

Certification of the Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with this Amendment No. 1 to the Annual Report of The Carlyle Group Inc. (the "Company") on Form 10-K for the year ended December 31, 2022 filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Curtis L. Buser, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Curtis L. Buser

Curtis L. Buser
Chief Financial Officer
The Carlyle Group Inc.
Date: March 22, 2023

*The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

FGH Parent, L.P.
Consolidated Financial Statements

**As of and for the years ended December 31, 2022 (not covered by the auditor's report) and
2021 (not covered by the auditor's report)**

FGH Parent, L.P.
Consolidated Financial Statements
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FGH Parent, L.P.
Consolidated Balance Sheets
(in millions, except units data)

	December 31,	
	2022*	2021*
Assets:		
Investments:		
Funds withheld - directly managed, at fair value	\$ 33,003	\$ 43,948
Fixed maturities:		
Securities, at fair value	8,935	—
Available for sale, at fair value (amortized cost: \$2,274 and \$2,271 at December 31, 2022 and 2021, respectively)	1,687	2,266
Equity securities, at fair value	175	—
Mortgage loans, at fair value	334	—
Other invested assets (includes \$178 and \$— of assets measured at fair value at December 31, 2022 and 2021, respectively)	1,969	679
Short term investments	262	293
Total investments	46,365	47,186
Cash and cash equivalents	2,216	995
Accrued investment income	98	13
Income taxes	2,636	445
Deposit asset, at fair value	607	—
Reinsurance recoverables (includes \$253 and \$— of assets measured at fair value at December 31, 2022 and 2021, respectively)	463	—
Deferred charge assets	279	—
Funds withheld by ceding companies	238	—
Goodwill and other intangibles	127	—
Other assets	173	14
Separate account assets, at fair value	23,601	—
Total assets	\$ 76,803	\$ 48,653

*not covered by the auditor's report

See accompanying Notes to Consolidated Financial Statements.

FGH Parent, L.P.
Consolidated Balance Sheets (continued)
(in millions, except units data)

	December 31,	
	2022*	2021*
Liabilities and Equity		
Liabilities:		
Future policy benefits for life insurance and annuity contracts	\$ 26,995	\$ 27,771
Policyholder contract deposits	12,146	7,055
Insurance liabilities, at fair value	5,546	—
Value of business acquired	3,824	4,053
Liability for unpaid losses and loss adjustment expenses	3,613	3,310
Collateral deposit liability	181	188
Long-term debt	745	243
Reinsurance payable	796	609
Deferred gain from reinsurance contracts	699	731
Loaned securities and repurchase agreements	417	—
Derivative liabilities	200	—
Other liabilities	334	75
Separate account liabilities	23,601	—
Total liabilities	79,097	44,035
Contingencies and commitments (Note 13)		
Equity:		
Owners' equity - 1,560,036 and 1,000,000 units issued and outstanding at December 31, 2022 and 2021, respectively	4,234	3,185
Retained earnings (deficit)	(6,179)	1,438
Accumulated other comprehensive loss	(349)	(5)
Total equity (deficit)	(2,294)	4,618
Total liabilities and equity	\$ 76,803	\$ 48,653

*not covered by the auditor's report
See accompanying Notes to Consolidated Financial Statements.

FGH Parent, L.P.
Consolidated Statements of Income (Loss)
(in millions)

	Year Ended December 31,	
	2022*	2021*
Revenues:		
Premiums	\$ 244	\$ 280
Policy charges and fee income	449	76
Net investment income	2,093	2,049
Change in fair value of funds withheld	(8,688)	(1,303)
Investment gains (losses)	(3,113)	64
Foreign exchange gains	32	23
Asset management and service fees	71	—
Other revenues	87	—
Total revenues	(8,825)	1,189
Benefits, losses and expenses:		
Policyholder benefits and changes in fair value of insurance liabilities	(112)	1,060
Interest credited to policyholder account balances	321	194
General operating and other expenses	538	196
Interest expense	31	12
Total benefits, losses and expenses	778	1,462
Loss before income tax benefit	(9,603)	(273)
Income tax benefit	(1,986)	(61)
Net loss	\$ (7,617)	\$ (212)

*not covered by the auditor's report

See accompanying Notes to Consolidated Financial Statements.

FGH Parent, L.P.
Consolidated Statements of Comprehensive Income (Loss)
(in millions)

	Year Ended December 31,	
	2022*	2021*
Net loss	\$ (7,617)	\$ (212)
Other comprehensive loss, before tax:		
Change in unrealized losses of fixed maturity securities, available for sale	(576)	(124)
Change in own-credit risk related to insurance liabilities	140	—
Total other comprehensive loss, before tax	(436)	(124)
Income tax benefit related to other comprehensive loss	92	26
Total other comprehensive loss, net of tax	(344)	(98)
Comprehensive loss	\$ (7,961)	\$ (310)

**not covered by the auditor's report
See accompanying Notes to Consolidated Financial Statements.*

FGH Parent, L.P.
Consolidated Statements of Changes in Owners' Equity
(in millions)

	For the Years Ended December 31, 2022* and 2021*			
	Owners' Equity	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Owners' Equity (Deficit)
Balance, December 31, 2020	\$ 3,185	\$ 1,650	\$ 93	\$ 4,928
Net loss	—	(212)	—	(212)
Other comprehensive loss	—	—	(98)	(98)
Balance, December 31, 2021	3,185	1,438	(5)	4,618
Contributed capital	1,049	—	—	1,049
Net loss	—	(7,617)	—	(7,617)
Other comprehensive loss	—	—	(344)	(344)
Balance, December 31, 2022	\$ 4,234	\$ (6,179)	\$ (349)	\$ (2,294)

*not covered by the auditor's report
See accompanying Notes to Consolidated Financial Statements.

FGH Parent, L.P.
Consolidated Statements of Cash Flows
(in millions)

	Year Ended December 31,	
	2022*	2021*
Cash flows provided by (used in) operating activities		
Net loss	\$ (7,617)	\$ (212)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Amortization of value of business acquired	(229)	(238)
Amortization of deferred gain (charge) from reinsurance contracts	51	14
Investment (gains) losses	2,059	(76)
Deferred income tax benefit	(2,122)	(351)
Net foreign exchange gains (losses)	(32)	—
Other	(57)	18
Changes in operating assets and liabilities:		
Funds withheld - directly managed	10,838	1,604
Future policy benefits for life insurance and annuity contracts	(669)	(614)
Policyholder contract deposits	(256)	(337)
Insurance liabilities, at fair value	(7,750)	—
Deposit asset, at fair value	1,989	—
Liability for unpaid losses and loss adjustment expenses	171	(283)
Deferred gain from reinsurance contracts	111	167
Deferred charge assets	(126)	—
Income taxes	295	(117)
Reinsurance payable	(5)	28
Reinsurance recoverable	4,711	—
Funds withheld by ceding companies	(238)	—
Derivatives, net	(276)	—
Other, net	47	—
Net cash provided by (used in) operating activities	895	(397)
Cash flows provided by (used in) investing activities		
Proceeds from the sale, maturities, and prepayments of:		
Fixed maturities, securities at fair value	6,524	—
Fixed maturities, available for sale	488	2,710
Mortgage loans	6	—
Other invested assets	199	112
Short term investments	731	69
Purchases of:		
Fixed maturities, securities at fair value	(10,983)	—
Fixed maturities, available for sale	(374)	(987)
Equity securities	(11)	—
Mortgage loans	(341)	—
Other invested assets	(1,194)	(390)
Short term investments	(371)	(315)
Acquisitions, net of cash acquired (Note 4)	(217)	—
Other, net	(2)	—
Net cash provided by (used in) investing activities	(5,545)	1,199

FGH Parent, L.P.
Consolidated Statements of Cash Flows (continued)
(in millions)

	Year Ended December 31,	
	2022*	2021*
Cash flows provided by (used in) financing activities		
Net proceeds from issuance of debt obligations	850	247
Repayment of debt obligations	(350)	(242)
Capital contributions	1,049	—
Cash collateral for loaned securities	(99)	—
Deposits received for investment-type policyholder contract deposits	4,643	—
Withdrawals from investment-type policyholder contract deposits	(417)	—
Drafts outstanding	(7)	—
Repurchase agreements	300	—
Net cash provided by financing activities	5,969	5
Effect of foreign exchange rate changes on cash and cash equivalents	(98)	—
Net increase in cash and cash equivalents	1,221	807
Cash and cash equivalents at the beginning of the period	995	188
Cash and cash equivalents at the end of the period	\$ 2,216	\$ 995
Supplemental Disclosures of Cash Flow Information		
	2022*	2021*
Cash paid during the period for:		
Interest	\$ 18	\$ 7
Taxes, net of refunds	\$ 67	\$ 407
Non-cash transactions:		
Premiums and deposits on policies reinsured through funds withheld arrangements	\$ 271	\$ 280
Claims, withdrawals and surrenders on policies reinsured through funds withheld arrangements	\$ 2,634	\$ 2,566
Receipt of securities from funds withheld arrangements	\$ 789	\$ 660

**not covered by the auditor's report*

In addition, during the year ended December 31, 2022, we had novations related to variable-indexed annuities under the reinsurance agreement with Pruco Life Insurance Company, a subsidiary of Prudential Financial, Inc., that resulted in non-cash transactions of \$4,635 million of investments with a corresponding offset of (\$4,635) million related to the modified coinsurance payable, which is presented on a net basis with the reinsurance recoverables in the consolidated statements of cash flows and consolidated balance sheets. Refer to Note 9.

See accompanying Notes to Consolidated Financial Statements.

FGH Parent, L.P.
Notes to Consolidated Financial Statements

As of and for the year ended December 31, 2022 (not covered by the auditor's report) and as of and for the year ended December 31, 2021 (not covered by the auditor's report)

1. Organization and Nature of Operations

FGH Parent, L.P. ("FGP") is a Bermuda limited partnership and is the ultimate group holding entity of the following wholly owned direct and indirect subsidiaries:

- Fortitude Group Holdings, LLC ("FGH"), a direct subsidiary of FGP, is a holding company formed under the laws of the State of Delaware, United States of America. The direct and indirect subsidiaries of FGH include:
 - Fortitude Reinsurance Company Ltd. ("FRL"), a direct subsidiary of FGH, is a Bermuda domiciled company. FRL is registered under the Insurance Act 1978 and related regulations, as amended (the "Bermuda Insurance Act") as a Class 4 and Class E composite reinsurance company and is primarily a reinsurer of general insurance and life insurance run-off business. On January 1, 2022, the Texas Department of Insurance granted FRL authority to operate as a Reciprocal Jurisdiction Reinsurer.
 - Fortitude Re Investments, LLC ("FRI"), an investment holding company organized in the State of Delaware, United States of America, is a wholly owned subsidiary of FRL.
 - Grove Funding II, Inc. ("Grove Funding II"), an investment holding company organized in the State of Delaware, United States of America, is a wholly owned subsidiary of FRI.
 - Fortitude Group Services, Inc. ("FGS"), a direct subsidiary of FGH, is a management services company incorporated in the State of Delaware, United States of America.
 - Fortitude Life & Annuity Solutions, Inc. ("FLAS"), a direct subsidiary of FGH, is a licensed third party administrator for life and annuity business domiciled in the state of Nevada which was acquired by the Company on January 1, 2022. FLAS is incorporated in the state of Delaware. Refer to Note 4 for additional information regarding the acquisition of FLAS.
 - Fortitude P&C Solutions, Inc. ("FPCS"), a direct subsidiary of FGH, is a licensed third party administrator for property and casualty business domiciled in the state of Illinois which was acquired by the Company on January 1, 2022. FPCS is incorporated in the state of Delaware. Refer to Note 4 for additional information regarding the acquisition of FPCS.
 - Fortitude US Reinsurance Company ("FRC"), previously named Rx Life Insurance Company ("Rx Life"), was acquired by the Company on January 3, 2022 from Heritage Life Insurance Company. FRC, a direct subsidiary of FGH, is a life and annuity corporation domiciled in the state of Arizona and widely licensed throughout the U.S. Refer to Note 4 for additional information regarding the acquisition of FRC.
 - Fortitude Life Insurance & Annuity Company ("FLIAC"), previously named Prudential Annuities Life Assurance Corporation ("PALAC"), was acquired by the Company on April 1, 2022 from Prudential Financial, Inc. ("Prudential Financial"). FLIAC, a direct subsidiary of FGH, is a life and annuity corporation domiciled in the state of Arizona and widely licensed throughout the U.S. Refer to Note 4 for additional information regarding the acquisition of FLIAC.
 - Grove Funding I, Inc. ("Grove Funding I"), an investment holding company organized in the State of Delaware, United States of America, is a wholly owned subsidiary of FLIAC.
 - Fortitude Casualty Insurance Company ("FCIC"), previously named Plans' Liability Insurance Company ("PLIC"), was acquired by the Company on May 12, 2022. FCIC, a direct subsidiary of FGH, is an Ohio domiciled property and casualty insurer which is widely licensed in the U.S. Refer to Note 4 for additional information regarding the acquisition of FCIC.
- Fortitude International Ltd. ("FIL"), a direct subsidiary of FGP, is a Bermuda domiciled holding company. The direct and indirect subsidiaries of FIL include:
 - Fortitude International Group Holdings ("FIGH"), a direct subsidiary of FIL, is a holding company domiciled in the United Kingdom.

FGH Parent, L.P.
Notes to Consolidated Financial Statements

As of and for the year ended December 31, 2022 (not covered by the auditor's report) and as of and for the year ended December 31, 2021 (not covered by the auditor's report)

- Fortitude International Reinsurance Ltd. ("FIRL"), a direct subsidiary of FIGH, is a Bermuda exempted company, which was incorporated on November 18, 2021. FIRL was registered with effect from January 1, 2022 under the Bermuda Insurance Act as a Class 4 and Class E composite reinsurance company.
- Fortitude International Group Services Ltd. ("FIGS"), a direct subsidiary of FIGH, is a management services company formed under the laws of Bermuda.

The Company is owned by Carlyle FRL, L.P. ("Carlyle FRL"), an investment fund advised by an affiliate of The Carlyle Group Inc. ("Carlyle"), an SEC-registered global investment firm, T&D United Capital Co., Ltd. ("T&D"), a wholly-owned subsidiary of T&D Holdings, Inc., a listed Japanese insurance group, and AIG, an SEC-registered company, which owned interests in the Company of 71.28%, 25.93% and 2.79%, respectively, as of December 31, 2022 and 71.5%, 25.0% and 3.5%, respectively, as of December 31, 2021.

Unless the context indicates otherwise, the terms "the Company" "we" "us" or "our" refers to the consolidated group of FGH Parent, L.P. and subsidiaries.

2. Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). All material intercompany transactions have been eliminated.

In December 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-12 *Definition of a Public Business Entity* which provides a single definition of the term 'public business entity'. The definition within ASU 2013-12 includes a business entity that is required to file or furnish financial statements with the U.S. Securities and Exchange Commission ("SEC"), including when financial statements are included in another entity's filing. As of December 31, 2019 and until June 2, 2020, 19.9% of the membership units of the FGH were owned directly by TC Group Cayman Investment Holdings, L.P. Subsequent to June 2, 2020 and through December 31, 2020, 19.9% of the membership units of FGP were owned indirectly by Carlyle, through Carlyle's interest in Carlyle FRL. Carlyle is required under SEC Regulation S-X, Rule 3-09 ("Rule 3-09"), *Separate Financial Statements of Subsidiaries Not Consolidated and 50 Percent or Less Owned Person*, to file the Company's consolidated financial statements for the years ended December 31, 2022 and 2021 on an unaudited basis and for the periods from January 1, 2020 to June 1, 2020 and June 2, 2020 to December 31, 2020 on an audited basis within its Form 10-K for the year ended December 31, 2022.

The Company's consolidated financial statements and related disclosures have therefore been prepared in accordance with the Company's designation as a public business entity. As the Company is a public business entity solely because of the application of Rule 3-09, it is not required to adopt forthcoming accounting standards on the effective date applicable to SEC filers. Further, the Company is not required to apply existing accounting standards applicable only to public entities, including those set forth in ASC 280, *Segment Reporting*.

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 our interest in funds withheld;
- Valuation of future policy benefits liabilities, including timing and extent of loss recognition, and insurance liabilities, at fair value;
- Estimates of liability for unpaid losses and loss adjustment expenses;
- Estimates of the remaining life of the underlying contracts, which is used as the basis for amortizing the value of business acquired ("VOBA"), deferred gains and deferred charge assets from long duration reinsurance contracts;

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- Estimates of the timing and amount of future cash flows, which is used as a basis for amortizing the deferred gains and deferred charge assets from the short duration reinsurance contracts;
- Estimates with respect to income taxes, including the valuation and recoverability of deferred income tax assets; and
- Estimates with respect to goodwill and other intangible assets and any related impairment.

Additional details regarding these and other estimates and assumptions are included within the significant accounting policies and the related disclosures that follow. These accounting estimates require the use of assumptions about matters, some of which are highly uncertain at the time of estimation. 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

Our operations are influenced by many factors, including but not limited to, general economic conditions, regulatory changes, market risks normally associated with investments, the financial condition of our cedants and risks impacting insurance liabilities.

The Company is regulated by various state, federal and international regulatory authorities where it is licensed to do business. Future changes in regulatory requirements could have an unanticipated impact on the Company.

Liquidity, interest rate, foreign exchange and credit spread risks are all market risks. 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 obligations. Interest rate risk can arise from a mismatch in the interest rate exposure of assets compared to liabilities. Changes in interest rates can affect the valuation of fixed maturity securities, financial liabilities, insurance contracts and derivative contracts. Foreign exchange risk can arise from a mismatch in the foreign currency exposure of assets compared to liabilities. Changes in foreign exchange rates can affect the valuation of non-U.S. dollar denominated assets and liabilities. Credit spreads measure an instrument's risk premium or yield relative to that of a comparable duration, default-free instrument. Changes in credit spreads can 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.

Market risk is monitored and managed using an asset-liability management framework. For both assets and liabilities, market risk exposures are measured in terms of sensitivities to changes in the relevant risk factors. In addition, the Company performs stress testing on these market risk factors to capture concentration risks to a single market risk factor change as well as simultaneous multiple market risk factor changes, to understand the net impact on exposure from impacts on both assets and liabilities.

The Company's insurance liabilities are exposed to policyholder behavior risk and mortality/longevity risk. 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 underwriting. The Company manages this risk through ongoing monitoring and assessment of such experience relative to underlying assumptions, which include those relative to mortality and morbidity.

Reclassifications

Certain prior period amounts have been reclassified to conform to the 2022 presentation.

3. Summary of Significant Accounting Policies

The following summarizes our significant accounting policies.

Fair value option

The fair value option ("FVO") provides entities with an alternative to use fair value as the initial and subsequent accounting measurement attribute 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. We have made this election as it improves our operational efficiency and better aligns the recognition and measurement of certain investments and other assets and liabilities associated with those investments. Refer to the investments, reinsurance and insurance liabilities sections below and Notes 6 -10 for more information on the Company's FVO elections.

Investments

Funds withheld - directly managed: We have elected the FVO on the entirety of our funds withheld - directly managed portfolio. Funds withheld - directly managed represents a reinsurance receivable collateralized by segregated portfolios of investments maintained by the ceding companies. While the investments maintained in the funds withheld - directly managed are legally owned by the ceding companies, the investments are separately identified from their general accounts and, pursuant to our contractual terms with those ceding companies, all realized and unrealized gains and losses and net investment income on the investments accrue to us. The Company is entitled to all economic rights and obligations on the collateral as if the Company held the investments directly. We have therefore elected to present funds withheld - directly managed within the total investments subheading on the consolidated balance sheets.

The Company has elected to report the net investment income and investment gains (losses) arising from the underlying investments maintained within the funds withheld - directly managed account in the same financial statement line that such investment income would have been recorded had the Company held the investments directly.

The change in fair value of funds withheld - directly managed, excluding alternative investments, is presented separately within the consolidated statements of income (loss). The change in fair value of alternative investments collateralizing the funds withheld - directly managed is recorded within net investment income.

Some of the reinsurance agreements contain an embedded derivative because the ceding companies are paying an interest rate attributable to the returns on the portfolio of investments which collateralize the reinsurance receivable that is not associated with the ceding companies own credit risk. The fair value of embedded derivatives in the reinsurance agreements is included in funds withheld - directly managed in the consolidated balance sheets. As the funds withheld - directly managed assets are settled on a quarterly basis, the fair value of the embedded derivatives are equal to the unrealized gain or loss on the segregated investment portfolio.

Fixed maturity securities: Fixed maturity securities classified as available for sale ("AFS") are carried at fair value. Unrealized gains and losses from AFS securities are reported as a separate component of accumulated other comprehensive income (loss) ("AOCI"), net of deferred income taxes. We have elected the FVO for certain securities within our fixed maturity securities portfolio. Realized and unrealized gains and losses on FVO securities are reported in investment gains (losses) on the consolidated statements of income (loss).

Investments in 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 related to fixed maturity securities, including amortization of premium and accretion of discount, are included in net investment income under the effective yield method. Prepayment premiums are also included in net investment income.

Interest income is recognized using the effective yield method and reflects amortization of premium and accretion of discount. Premiums and discounts arising from the purchase of bonds classified as available for sale are treated as yield adjustments over their estimated holding periods, until maturity, or call date, if applicable. For investments in

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certain structured securities, recognized yields are updated based on current information regarding the timing and amount of expected undiscounted future cash flows. For high credit quality structured securities, effective yields are recalculated based on actual payments received and updated prepayment expectations, and the amortized cost is adjusted to the amount that would have existed had the new effective yield been applied since acquisition with a corresponding charge or credit to net investment income. For structured securities that are not of high credit quality, the structured securities yields are based on expected cash flows which take into account both expected credit losses and prepayments.

Equity securities, at fair value: We have elected the FVO on the entirety of our equity securities portfolio. Accordingly, realized and unrealized gains and losses on these investments are reported in investment gains (losses) on the consolidated statements of income (loss). Dividend income is reported on the ex-dividend date.

Mortgage loans, at fair value: We have elected the FVO on our entire portfolio of residential and commercial mortgage loans. Realized and unrealized gains and losses on these investments are reported in Investment gains (losses).

Private equity funds, limited partnerships and limited liability companies ("LPs/LLCs"): LPs/LLCs interests are accounted for using either the equity method of accounting, or at fair value if we elect the FVO. 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 our LPs/LLCs. The carrying value of these investments is written down, or impaired, to fair value when a decline in value is considered to be other-than-temporary. In applying the equity method (including assessment for other-than-temporary impairment ("OTTI")), the Company uses financial information provided by the investee, generally on a one to three-month lag. Changes in fair value of other invested assets are reported in net investment income.

Policy loans: The 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.

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 two counterparties. Derivative positions are carried at fair value, generally by obtaining quoted market prices or through the use of valuation models.

Derivatives are used to manage the interest rate and currency characteristics of assets or liabilities. Additionally, derivatives may be used to reduce exposure to interest rate, credit, foreign currency and equity risks associated with assets held or expected to be purchased or sold, and liabilities incurred or expected to be incurred.

The Company designates all derivatives as a derivative that does not qualify for hedge accounting. Accordingly, all realized and unrealized changes in fair value of derivatives are recorded in current earnings within investment gains (losses) or foreign exchange gains on the consolidated statements of income (loss). Cash flows from derivatives are reported in the operating activities section in the consolidated statements of cash flows.

Derivatives are recorded either as assets, within other invested assets, or as liabilities, within derivative liabilities. The Company nets the fair value of all derivative financial instruments with counterparties for which a master netting arrangement has been executed.

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Short-term investments: These investments primarily consist of highly liquid debt instruments with a maturity of twelve months or less and greater than three months when purchased. These investments are generally carried at fair value or amortized cost that approximates fair value and include certain money market investments, funds managed similar to regulated money market funds, short-term debt securities issued by government sponsored entities and other highly liquid debt instruments.

As a result of the acquisitions made in 2022 (Note 4), and to conform to the 2022 presentation, the Company made a policy election to change its prior accounting policy to include only certain money market investments. The revised accounting policy is a more preferable approach and consistent with the prescribed guidance in ASC 230.

The Company assessed the retrospective application of the above accounting policy change and determined that the impacts were limited to updates to the prior year consolidated balance sheet (reclassification from short-term investments to cash equivalents) and the consolidated statement of cash flows, which also included reclassification from the purchases of and proceeds from short term investments to cash and cash equivalents. The cash and cash equivalents at the beginning of the period reflects increases of \$925 million and \$1 million as of December 31, 2021 and January 1, 2021, respectively.

OTTI: On a quarterly basis, the Company reviews its AFS portfolio for potential other-than-temporary impairments which would require that affected securities be written down to an adjusted cost basis with the amount of the write-down recorded as part of investment gains (losses) in the consolidated statements of income (loss). The Company reviewed its AFS investment portfolio for market value changes to identify changes caused by issuer credit deterioration, changes in market interest rates and changes in economic conditions. If this review indicated a decline in fair value that was other-than-temporary, the Company's carrying amount in the investment is reduced to its estimated fair value as an OTTI. In accordance with GAAP guidance the estimated credit versus non-credit components of the OTTI would be bifurcated. The credit component would be recorded in earnings and result in the establishment of a new cost basis for the security. The non-credit component would be reclassified as unrealized loss in other comprehensive income. The Company would not recognize impairment of securities due to changing of interest rates or market dislocations unless the Company had the intent to sell the securities prior to recovery or maturity.

The Company considers a number of factors in determining whether the impairment was other-than-temporary. These may include, but are not limited to: 1) actions taken by rating agencies; 2) default by the issuer; 3) the significance of the decline in fair value; 4) the intent and ability to hold the investment until recovery; 5) the time period during which the decline had occurred; 6) an economic analysis of the issuer's industry; and 7) the financial strength, liquidity, and recoverability of the issuer. Management performs a security-by-security review in evaluating the need for any other-than-temporary impairments. Although no set formula is used in this process, the investment performance, collateral position, and continued viability of the issuer are significant measures considered.

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, other debt instruments with maturities of three months or less when purchased and receivables related to securities purchased under agreements to resell (see also securities sold under agreements to purchase below).

Accrued investment income

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

Reinsurance

We assume short duration and long duration insurance and investment contracts under funds withheld, coinsurance and modified-coinsurance funds withheld arrangements. Certain of the Company's long duration insurance and investment contracts are also ceded to third-party reinsurers. We follow reinsurance accounting for assumed and ceded transactions that provide indemnification against loss or liability relating to insurance risk (risk transfer). To

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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. The mortality and timing risks related to certain life blocks of business, such as whole life, universal life-type, and pension risk transfer annuities with life contingencies were transferred to us and are subject to reinsurance accounting. 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 accounting, rather than reinsurance accounting. The general insurance lines of business qualify to be accounted for as retroactive reinsurance.

Revenues, benefits, losses and expenses are recorded net of amounts ceded to reinsurers. Reinsurance recoverables, including ceded claim and insurance liabilities and contractual balances due from ceding companies, are recognized as assets and are determined using assumptions consistent with those of the underlying policies other than certain reinsurance recoverables which we have elected the fair value option as discussed below. Reinsurance payables include unpaid claims which are based upon estimates of payments to be made for claims incurred whether reported or unreported and net settlements due to ceding companies and reinsurers.

We have elected the fair value option for certain of our reinsurance ceded balances, which are as follows:

Reinsurance recoverables: We have elected the fair option on certain reinsurance recoverables which are recorded to match the associated insurance liabilities, which are recorded at fair value. Accordingly, the fair value of the reinsurance recoverables for which we have elected the FVO, is determined by the fair value calculation of our insurance liabilities. See discussion regarding the significant accounting policies of insurance liabilities further below. Changes in reinsurance recoverables for which we have elected the FVO and the associated insurance liabilities are both recorded through policyholder benefits and changes in fair value of insurance liabilities within the consolidated statements of income (loss). For additional information about these reinsurance arrangements see Note 9.

We have elected the fair value option on the entirety of our modified coinsurance agreement receivables and payables. The modified coinsurance receivable represents reserve credits for insurance liabilities and is recorded to match the associated insurance liabilities, which are recorded at fair value. Accordingly, the fair value of our modified coinsurance receivable is determined by the fair value calculation of our insurance liabilities. See discussion regarding the significant accounting policies of insurance liabilities further below. Similarly, the modified coinsurance payable primarily represents the fair value of the assets backing the ceded insurance liabilities under the reinsurance agreement. Accordingly, the fair value of the modified coinsurance payable is calculated to match the fair value of the assets under the reinsurance agreement. The modified coinsurance agreement receivables and payables are presented on a net basis within reinsurance recoverables on the consolidated balance sheets.

Deposit asset: We have elected the fair value option on the entirety of our deposit asset, which represents assets, held in trust by the reinsurer, that back the insurance liabilities for certain of our fixed indexed annuities and fixed annuities with a guaranteed lifetime withdrawal income. The deposit is recorded to match the associated insurance liabilities, which are recorded at fair value. Accordingly, the fair value of our deposit asset is determined by the fair value calculation of our insurance liabilities.

Deferred charge assets ("Deferred charges")

For reinsurance transactions where, at contract inception, the value of the liability assumed (plus any ceding commission paid) exceeds the premium received, the Company recognizes a deferred charge asset for this difference.

The premium charged to ceding companies may be lower than our estimate of liabilities as these liabilities may not be settled for many years. As premium is received at inception, we expect to generate a profit from these reinsurance contracts as we may invest the premium for many years, thereby generating investment income. The deferred charge 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.

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An impairment assessment is performed for each deferred charge at the end of each reporting period. If an asset is deemed to be impaired it is written down within that reporting period, with the adjustment recorded within policyholder benefits and changes in fair value of insurance liabilities within the consolidated statements of income (loss).

Deferred charges are assessed for impairment on an individual contract basis by determining the rate of return that we are required to earn on the invested assets to ensure that all cash flows arising from the assumed liabilities are met in full over the projected remaining payout period. This required rate of return is compared against the modeled rate of return at inception, the forecasted yield and the actual inception-to-date rate of return in order to identify indicators that would lead us to record an impairment of the deferred charge. During the year ended December 31, 2022 we identified two reinsurance contracts requiring impairment. Refer to Note 11 for further discussion on the impairment recorded.

Funds withheld by ceding companies

Funds withheld by ceding companies represent funds that have been retained by ceding companies where we receive a fixed crediting rate. Funds withheld by ceding companies are carried at cost.

The Company has elected to report the net investment income and investment gains (losses) related to the funds withheld by ceding companies in the same financial statement line that such investment income would have been recorded had the Company held the investments directly.

Goodwill and other intangibles

Goodwill: Goodwill represents the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. It is the excess of the cost of an acquisition over the fair value of the assets acquired and liabilities assumed at the date of acquisition.

Other intangibles: Other intangibles consist of state insurance licenses identified as part of the Company's acquisitions discussed further in Note 4. These intangible assets have an indefinite useful life and are not required to be amortized.

We review the carrying amount of goodwill and other intangibles on an annual basis, or more frequently if events or changes in circumstances indicate that the carrying amount might not be recoverable. Goodwill impairment testing compares the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit to which the goodwill relates is less than the carrying amount of the reporting unit, an impairment charge is recognized for the amount by which the carrying amount exceeds the fair value of the reporting unit in an amount not to exceed the total amount of goodwill allocated to the reporting unit.

The impairment testing for other intangibles compares the fair value of the asset with its carrying amount. If the carrying amount of the intangible asset exceeds its fair value, an impairment loss is recognized in the amount of that excess.

Other assets

Other assets primarily consist of other investment-related receivables, policyholder receivables and deferred acquisition costs.

Separate account assets

Separate account assets represent segregated funds that are invested for certain contractholders. The contractholder has the option of directing funds to a wide variety of investment options, most of which invest in mutual funds. The investment risk on the variable portion of a contract is borne by the contractholder, except to the extent of minimum guarantees by the Company, which are not separate account liabilities. The assets of each account are legally segregated and are not subject to claims that arise out of any other business of the Company. The investment income and realized investment gains or losses from separate accounts generally accrue to the

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contractholders and are not included in the Company's results of operations. Mortality, policy administration and surrender charges assessed against the accounts are included in policy charges and fee income. Asset management and service fees charged to the accounts are included in other revenues. See Note 10 for additional information regarding separate account arrangements with contractual guarantees. See also separate account liabilities below.

Future policy benefits for life insurance and annuity contracts

Future policy benefits for life insurance and annuity contracts include retirement products whose payments depend on contract holder's survival such as structured settlements with life contingencies, single premium immediate annuities ("SPIA") with life contingencies, and pension risk transfer annuities; and traditional life insurance products such as whole life ("WL") and return of premium ("RoP") term, accident & health ("A&H") and long term care ("LTC").

For these long duration traditional products, locked-in assumptions apply. 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. Periodically, we are required to evaluate these locked-in assumptions. A loss recognition event occurs when there is a shortfall between the carrying amount of future policy benefit liabilities and estimated future policy benefit liabilities determined by applying current best estimate assumptions. If we determine a loss recognition event has occurred, we would record additional liabilities through a charge to future benefits expense. We would then replace the old locked-in assumption set with the current best estimate. Future reserves would be set by reviewing the updated best estimate assumptions periodically and making further adjustments where necessary. Other adjustments include unearned premium liabilities, incurred but not reported claims, and disabled lives reserves where A&H products such as disability income have claimants receiving ongoing benefits.

Policyholder contract deposits

The liability for policyholder contract deposits is recorded at accumulated or fund value (deposits received, plus accrued interest credited, less withdrawals, charges and fees). Amounts collected on investment-oriented products are not recognized as revenues, because they are recorded directly to policyholder contract deposits upon receipt.

Policyholder contract deposits are primarily comprised of deferred annuities and annuities issued in structured settlement arrangements, single premium immediate annuities ("SPIA"), single premium whole life contracts, contracts with no life contingent features and universal life-type contracts. The liability for these products represents an estimate of the present value of future benefits using an interest rate determined at the treaty inception date.

For universal life-type contracts that are determined to have profits in earlier years and losses in subsequent years from the insurance benefits, an additional liability 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 us for benefits to be provided in future periods.

Insurance liabilities, at fair value

We have elected the fair value option on certain of our insurance liabilities, which primarily include liabilities for guaranteed benefits related to certain long-duration life and annuity contracts, which are discussed more fully in Note 10. These liabilities represent reserves for guaranteed minimum death benefits ("GMDB"), guaranteed minimum income benefits ("GMIB"), guaranteed minimum accumulation benefits ("GMAB"), guaranteed minimum withdrawal benefits ("GMWB") and guaranteed minimum income and withdrawal benefits ("GMIWB"). Changes in the fair value of insurance liabilities are reported in policyholder benefits and changes in fair value of insurance liabilities on the consolidated statements of income (loss).

The assumptions used in establishing reserves are generally based on the Company's experience, industry experience and/or other factors, as applicable. We evaluate, and update when applicable, our actuarial assumptions such as mortality and policyholder behavior assumptions, on a quarterly basis. Generally, we do not expect trends

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to change significantly in the short-term and, to the extent these trends may change, we expect such changes to be gradual over the long-term.

Liability for unpaid losses and loss adjustment expenses

Loss reserves and loss adjustment expenses ("LAE") represent estimates of unpaid claims, including estimates for claims incurred but not reported and loss adjustment expenses ("IBNR"), less applicable discount. We regularly review and update 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 previous estimates of ultimate loss are referred to as unfavorable or adverse development. Reserve changes that decrease previous estimates of ultimate cost are referred to as favorable development. Prior year development can refer to either favorable or unfavorable development.

Discounting of loss reserves: We discount total workers' compensation liabilities using a discount rate calculated from the U.S. Treasury rates plus a liquidity premium, along with the use of payout patterns specific to our primary and excess workers' compensation portfolios. We lock in this discount rate at the inception of the contract, and no periodical updates are made. The locked in discount rate on the Company's current workers' compensation is 2.31%.

During the year ending December 31, 2022, the Company made a policy election to change its prior accounting policy where the discount rate was updated periodically along with the updated payout patterns. In our view, the revised accounting policy is a more preferable approach as changes in interest rates do not represent changes in amounts or timing of cash flows and the underlying deferred charge or gain would have been measured based on discount rates that existed at the time of the reinsurance contract.

The Company assessed the retrospective application of the above accounting policy change and determined that there were no material impacts to the December 31, 2022 or December 31, 2021 financial statements. Note that the beginning carrying value of the deferred gain at 2021 (as disclosed in Note 11) was revised from \$2 million to \$162 million to reflect the balance sheet reclassification impact of the accounting policy change with an offsetting impact to the liability for losses and LAE.

Premium Deficiency: The Company recognizes a premium deficiency reserve if the expected unpaid ultimate losses and loss adjustment expenses from future insured events exceed the related unearned premiums and other liabilities established and anticipated investment income. Any future expected losses on unearned premium are recorded as an increase to loss and loss adjustment expense reserves within the consolidated balance sheets and included within policyholder benefits and changes in fair value of insurance liabilities within the consolidated statements of income (loss).

Collateral deposit liability

The Company has contractually assumed certain environmental protection plan ("EPP") and clean-up cost cap ("CCC") exposures. EPP and CCC products are designed to incorporate elements of program funding (investment risk on EPP) along with cost overrun protection (insurance risk on CCC) for the remediation of known environmental contamination issues.

The Company recognizes proceeds received under EPP programs as a collateral deposit liability, given insurance risk is not transferred under such funding programs. As losses funded by the policyholder are paid, the collateral deposit liability is reduced and as interest, estimated by applying the effective yield method, is accrued, the collateral deposit liability is increased.

Long-term debt

Long-term debt is recorded within the consolidated balance sheets as proceeds received less unamortized issuance costs. Debt issuance costs are capitalized and amortized over the estimated life of the debt.

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Value of business acquired ("VOBA") and Deferred gain from reinsurance contracts

VOBA: The VOBA intangible liability 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 at the time of the acquisition.

The fair value estimate incorporated the following market participant based assumptions:

- Projections of future liability cash flows;
- A risk-free discount rate, representing the time value of money excluding non-performance risk;
- An adjustment to the risk-free discount rate to reflect the Company's credit rating and claims paying ability (i.e. non-performance risk); and
- The inclusion of a market risk margin to account for the inherent uncertainty in the liability cash flows.

This VOBA liability is amortized over the lives of the reinsured policies of up to 70 years, in relation to expected benefit payments or insurance in-force amounts for insurance contracts. The amortization is included within policyholder benefits and changes in fair value of insurance liabilities within the consolidated statements of income (loss).

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

Deferred gain - short duration: Retroactive reinsurance contracts provide indemnification with respect to past loss events. For these contracts, the difference between the consideration received in excess of the liabilities assumed under the reinsurance contract, represents a net cost of reinsurance liability and 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.

We monitor subsequent development on losses that occur during the retroactive period and will revise the deferred gain balance on a cumulative basis. 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 and changes in fair value of insurance liabilities within the consolidated statements of income (loss).

Loaned securities and repurchase agreements

Cash proceeds from securities lending transactions are primarily used to earn spread income, and are typically invested in cash equivalents, short-term investments or fixed maturities. Securities lending transactions are used primarily to earn spread income or to facilitate trading activity. As part of securities lending transactions, the Company transfers U.S. and foreign debt and equity securities, as well as U.S. government and government agency securities, and receives cash as collateral. Securities lending transactions are treated as financing arrangements and are recorded at the amount of cash received. The Company obtained collateral in an amount equal to 102% and 105% of the fair value of the domestic and foreign securities, respectively. The Company monitors the market value of the securities loaned on a daily basis with additional collateral obtained as necessary. Substantially all of the Company's securities lending transactions are with large brokerage firms and large banks. Income and expenses associated with securities lending transactions used to earn spread income are reported as net investment income.

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Securities sold under repurchase agreements represents liabilities associated with securities repurchase agreements that are used primarily to earn spread income. As part of securities repurchase agreements, the Company transfers U.S. government and government agency securities to a third-party and receives cash as collateral. For securities repurchase agreements, the cash received is typically invested in cash equivalents, short-term investments or fixed maturities. Receivables associated with securities purchased under agreements to resell are generally reflected as cash equivalents. As part of securities resale agreements, the Company invests cash and receives as collateral U.S. government securities or other debt securities.

Securities repurchase and resale agreements that satisfy certain criteria are treated as secured borrowing or secured lending arrangements. These agreements are carried at the amounts at which the securities will be subsequently resold or reacquired, as specified in the respective transactions. For securities purchased under agreements to resell, the Company's policy is to take possession or control of the securities either directly or through a third-party custodian. These securities are valued daily and additional securities or cash collateral is received, or returned, when appropriate to protect against credit exposure. Securities to be resold are the same, or substantially the same, as the securities received. The majority of these transactions are with large brokerage firms and large banks. For securities sold under repurchase agreements, 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 105% of the fair value of the securities sold. Securities to be repurchased are the same, or substantially the same, as those sold. The majority of these transactions are with highly rated money market funds. Income and expenses related to these transactions executed within the insurance companies used to earn spread income are reported as net investment income.

Separate account liabilities

Separate account liabilities primarily represent the contractholders' account balances in separate account assets and to a lesser extent borrowings of the separate account, and will be equal and offsetting to total separate account assets. See also separate account assets above.

Other liabilities

Other liabilities primarily consist of accrued expenses, technical overdrafts, deferred revenue and payables resulting from purchases of securities that had not yet settled at the balance sheet date. Other liabilities may also include derivative instruments for which fair values are determined as described in the Investments section above.

Income Taxes

The Company operates as a partnership for U.S. federal income tax purposes and also owns a number of subsidiaries that are subject to U.S. federal and state income tax. During 2021, the Company also formed several non-US. entities, including entities in Bermuda and the U.K. The partners report their share of the underlying partnership's income or loss on their local country income tax returns. In addition, for those subsidiaries that are subject to U.S. federal and state income taxes at the entity level, the related tax provision attributable to these operations is reflected in the consolidated statements of comprehensive income. Under Bermuda law, any Bermuda domiciled companies are not required to pay any income taxes in Bermuda on either operating income or capital gains and, as such, there is no related tax provision associated with these operations. These Bermuda subsidiaries operate in Bermuda and intend to operate the business in such a manner that they are not considered to be treated as engaged in the conduct of a trade or business in the U.S. The U.S. tax code, regulations and court decisions do not definitively identify activities that constitute being engaged in a trade or business in the U.S. and, as such, the Internal Revenue Service, or "IRS," may assert that the Company's Bermuda subsidiaries are engaged in a trade or business in the U.S. The U.K. subsidiary is a holding company and its activity for 2022 is limited to immaterial general operating expenses. There is no related tax provision associated with this activity.

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

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Deferred tax assets and liabilities are recognized for the timing differences between the financial statement 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. Valuation allowances are established when necessary to reduce deferred tax assets to an amount that in management's opinion, is more likely than not to be realized.

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. 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.

The Company's framework for assessing the recoverability of deferred tax assets requires consideration of all available evidence, including: (i) the nature, frequency, and severity of cumulative financial reporting losses in recent years; (ii) the predictability of future operating profitability of the character necessary to realize the net deferred tax asset; (iii) the carry forward periods for the net operating loss, capital loss and foreign tax credit carry forwards, including the effect of reversing taxable temporary differences; and (iv) prudent and feasible tax planning strategies that would be implemented, if necessary, to protect against the loss of the deferred tax asset.

Insurance Revenue and Expense Recognition

Premiums for short-duration contracts are recorded as written on the inception date of the policy. For short-duration insurance contracts, premiums are generally earned on a pro-rata basis over the terms of the related policies. For traditional long-duration insurance contracts (including term and whole life contracts and certain annuities), premiums are earned when due. Estimates for premiums due but not yet collected are accrued. For annuities and structured settlements without significant mortality or morbidity risk (investment contracts) and universal life-type contracts (long-duration contracts with terms that are not fixed or guaranteed), premiums received are reported as policyholder contract deposits, insurance liabilities and/or separate account liabilities. Revenues from these contracts are reflected in policy charges and fee income consisting primarily of fees assessed against the policyholders' account balances for policy administration charges and surrender charges. Policy charges are recognized as revenues in the period in which they are assessed against policyholders, unless the charges are designed to compensate us for the services to be provided in the future, in which case they are deferred.

In addition to fees, the Company earns investment income from the investments in the Company's general account portfolio. Fees assessed that represent compensation to the Company for services to be provided in future periods and certain other fees are generally recorded when received. Benefits and expenses for these products include claims in excess of related account balances and expenses of contract administration.

Revenues for variable deferred annuity contracts consist of charges against contractholder account values or separate accounts for mortality and expense risks, administration fees, surrender charges and an annual maintenance fee per contract. Revenues for mortality and expense risk charges and administration fees are recognized as assessed against the contractholder. Surrender charge revenue is recognized when the surrender charge is assessed against the contractholder at the time of surrender. Liabilities for the variable investment options on annuity contracts represent the account value of the contracts and are included in separate account liabilities.

Foreign exchange gains

Financial statement accounts expressed in foreign currencies are translated into U.S. dollars. Functional currency assets and liabilities are translated into U.S. dollars generally using rates of exchange prevailing at the balance sheet date and the related translation adjustments are recorded as a separate component of other comprehensive income (loss), net of any related taxes. Functional currencies are generally the currencies of the local operating environment. Other foreign currency assets and liabilities that are considered monetary items are translated at exchange rates in effect at the balance sheet date. Foreign currency revenues and expenses are translated either

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at transaction date exchange rates or using a weighted average exchange rate for the reporting period. These exchange gains and losses are recognized in foreign exchange gains within the consolidated statements of income (loss).

Asset management and service fees

Asset management and services fees principally includes asset-based asset management fees, which are recognized in the period in which the services are performed.

Other revenues

Other revenues are primarily comprised of third party administration fees.

Business combinations

The Company uses the acquisition method of accounting for all business combination transactions, and accordingly, recognizes the fair values of assets acquired, liabilities assumed and any noncontrolling interests in our consolidated financial statements. The allocation of fair values may be subject to adjustment after the initial allocation for up to a one-year period as more information becomes available relative to the fair values as of the acquisition date. The consolidated financial statements include the results of operations of any acquired company since the acquisition date.

Statement of Cash Flows presentation of funds withheld - directly managed

Withdrawals from our funds withheld - directly managed reinsurance arrangements are based on statutory levels of the associated assets and liabilities. The excess (shortfall) under these agreements is settled on a periodic basis and can be settled in either cash or securities depending on the specific reinsurance agreement. The portion settled in cash is reflected in cash from operations with the securities portion being reflected as a non-cash transaction. The Company presents activity within funds withheld - directly managed as well as activities related to the reinsurance arrangements as operating cash flows.

Accounting Standards Adopted During 2022

ASU 2016-02 Leases:

In February 2016, the FASB issued ASU No. 2016-02 which is intended to increase transparency and comparability of accounting for lease transactions. ASU 2016-02 requires lessees to recognize leases on the balance sheet as right-of-use assets ("ROU") and lease liabilities and requires both quantitative and qualitative disclosures regarding key information about leasing arrangements. Lessor accounting is largely unchanged. On January 1, 2022, the Company adopted the guidance prospectively. Adoption of the ASU 2016-02 did not have a material impact on the Company's consolidated financial statements.

The Company elected not to separate lease and non-lease components in its lease contracts and accounts for them as a single lease component. The Company also elected not to record a ROU asset for short-term leases that have a term of 12 months or less and do not contain purchase options that the Company is reasonably certain to exercise. The cost of short-term leases is recognized in the consolidated statements of income on a straight-line basis over the lease term. Operating lease ROU assets and lease liabilities are included in other assets and other liabilities, respectively, in the consolidated balance sheets. Finance lease assets and liabilities are included in other assets and long-term debt, respectively, in the consolidated balance sheets. The Company uses the risk-free rate, factoring in the lease term, to determine the lease liability, which is measured at the present value of future lease payments. The ROU asset is initially measured at the amount of the lease liability plus any prepaid rent and remaining initial direct costs, less any remaining lease incentives and accrued rent. The ROU asset is subject to impairment, during the lease term, in a manner consistent with the impairment of long-lived assets. The lease terms include periods covered by options to extend or terminate the lease depending on whether the Company is reasonably certain to exercise such options.

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ASU 2019-12 Simplifying the Accounting for Income Taxes:

In December 2019, the FASB issued ASU No. 2019-12 which eliminates certain exceptions for recognizing deferred taxes for investments, performing intraperiod tax allocation and calculating income taxes in interim periods. ASU 2019-12 also clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

Future Adoption of Accounting Standards

ASU 2020-03 Codification Improvements to Financial Instruments:

In March 2020, the FASB issued ASU 2020-03 which makes narrow-scope improvements to various topics within the codification relating to financial instruments, inclusive of the new credit losses standard as described below. The amendments related to certain specific issues covered by the ASU were effective immediately upon the issuance of the ASU, and had no impact on our consolidated financial statements and disclosures. Other specific issues covered by the ASU related to the measurement of credit losses on financial instruments will become effective upon our adoption of ASU 2016-13 and the related ASUs as further described below.

ASUs 2016-13, 2018-19, 2019-04, 2019-05, 2019-10, 2019-11, 2020-02 Financial Instruments - Credit Losses - Measurement of Credit Losses on Financial Instruments:

In June 2016, the FASB issued an accounting standard that introduced a new credit loss methodology, the Current Expected Credit Losses ("CECL") methodology, which requires earlier recognition of credit losses while also providing additional transparency about credit risk. The CECL methodology utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans, reinsurance receivables, and other financial assets measured at amortized cost. The allowance for credit losses is adjusted each period for changes in expected lifetime credit losses. The CECL methodology represents a significant change from prior U.S. GAAP and replaced the prior multiple existing impairment methods, which generally required that a loss be incurred before it was recognized. For AFS debt securities, if the fair value is less than cost and the Company intends to hold the security or it is more-likely-than-not that the Company will not be required to sell the security, the Company would record any applicable credit-related impairment through an allowance for credit losses and adjust subsequent periods for changes in credit risk. The Company is evaluating the effect that ASU 2016-13 will have on its consolidated financial statements and related disclosures. The impact of the ASU 2016-13 will depend upon the state of the economy, forecasted macroeconomic conditions and the Company's assets at the date of adoption. The Company will adopt the standard on its effective date, January 1, 2023. The Company is continuing its assessment of the accounting standard adoption and its impact to the Company's consolidated financial statements.

ASU 2018-12 Targeted Improvements to the Accounting for Long-Duration Contracts and ASU 2020-11 Effective Date and Early Application:

In August 2018, the FASB issued ASU 2018-12, an accounting standard update with the objective of making targeted improvements to the existing recognition, measurement, presentation, and disclosure requirements for long-duration contracts issued by an insurance entity. In November 2019, the FASB issued ASU 2019-09, an amendment to ASU 2018-12 extending the effective date of ASU 2018-12 for all entities, except for public business entities that meet the definition of a Securities and Exchange Commission (SEC) filer, by two years. In November 2020, the FASB issued ASU 2020-11, *Effective Date and Early Application*, an amendment to ASU 2018-12, to defer the effective date of ASU 2018-12 by one year in response to implementation disruptions due to COVID-19.

The changes to the measurement, recognition, presentation and disclosure as provided by the new accounting standard update are summarized below:

- Requires the review and update of future policy benefit assumptions at least annually for traditional and limited pay long duration contracts, with the recognition and separate presentation of any resulting re-measurement gain or loss (except for discount rate changes as noted below) in the income statement;

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- Requires the discount rate assumption to be updated at the end of each reporting period using an upper medium grade (low-credit risk) fixed income instrument yield that maximizes the use of observable market inputs and recognizes the impact of changes to discount rates in other comprehensive income (loss);
- Requires the measurement of all market risk benefits associated with deposit (or account balance) contracts at fair value through the income statement with the exception of instrument-specific credit risk changes, which will be recognized in other comprehensive income (loss);
- Requires the amortization of deferred acquisition costs (DAC) over the expected term of the related contracts on a constant-level basis; and
- Requires significant disclosures, including disclosures of disaggregated roll-forwards of policy benefits, account balances, market risk benefits, separate account liabilities and information about significant inputs, judgments and methods used in measurement and changes thereto and impact of those changes.

ASU 2018-12 permits two adoption methods for the liability for future policy benefits and deferred acquisition costs: (1) a modified retrospective transition method in which the guidance is applied to contracts in force as of the beginning of the earliest period presented on the basis of their existing carrying amounts, adjusted for the removal of any related amounts in AOCI; or, (2) a full retrospective transition method. The Company will adopt ASU 2018-12 effective January 1, 2025 using the modified retrospective transition method where permitted, and apply the guidance as of January 1, 2023 (and record transition adjustments as of January 1, 2023) in the Company's 2025 consolidated financial statements.

The Company has created a governance framework and a plan to support implementation of the updated standard. The Company continues to make progress in its implementation process that includes, but is not limited to, refining significant accounting policy decisions, employing appropriate internal controls, modifying actuarial models and systems, revising reporting processes and developing informative qualitative and quantitative disclosures.

The Company expects that while the adoption of this new accounting guidance will have a significant impact on the Company's financial statements under U.S. GAAP, it does not expect adoption of the updated standard to impact its overall cash flows, subsidiaries' dividend capacity or their ability to meet applicable regulatory capital standards, nor does the Company anticipate adoption to affect its existing debt covenants or strategies for capital deployment.

4. Acquisitions

Business Combinations

On January 1, 2022, the Company entered into a Stock Purchase Agreement with AIG Claims, Inc. ("AIG Claims"), a Delaware corporation, to purchase all outstanding shares of FPCS (formerly DSA P&C Solutions or Fortitude General). In addition, on January 1, 2022, the Company entered into a Stock Purchase Agreement with AIG Life Holdings, Inc. ("AIG Life"), a Texas corporation, to purchase all outstanding shares of FLAS. The Company paid the aggregate purchase price of \$1 and \$1 for FPCS and FLAS, respectively, in cash. A bargain purchase gain was recognized in the amount of \$1 million and \$1 million for FPCS and FLAS, respectively, representing the excess of the fair value of net assets acquired over the consideration paid. The bargain purchase gains are included in other revenues on the consolidated statements of income (loss). The Company did not incur any acquisition-related costs related to FPCS or FLAS subsequent to the date of acquisition.

On April 1, 2022, the Company acquired FLIAC (previously PALAC). PALAC was a wholly-owned subsidiary of Prudential Annuities, Inc ("PAI"), an indirect wholly-owned subsidiary of Prudential Financial, Inc. ("Prudential Financial"), a New Jersey Corporation.

The total preliminary purchase consideration of the acquisition was \$1,762 million comprised of \$1,752 million cash transferred for the purchase price and a \$10 million estimated cash reimbursement to the seller for transaction costs incurred. A bargain purchase gain was initially recognized in the amount of \$5 million, representing the excess of the fair value of net assets acquired over the consideration paid. In December 2022, the Company made a measurement period adjustment that reduced the deferred tax asset that it previously recognized on its acquisition-date balance sheet by \$97 million.

The net impact of this adjustment resulted in a change from the preliminary bargain purchase gain of \$5 million that was recorded at April 1, 2022 to a goodwill balance of \$93 million as of December 31, 2022. There have been no

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goodwill impairments recorded subsequent to initial recognition. We will continue to evaluate the overall transaction through the one-year measurement period subsequent to acquisition date, as allowed under applicable accounting guidance, but do not expect any material changes.

Excluding the reimbursement to the seller for transaction costs included in the consideration as noted above, the Company has incurred acquisition-related expenses of \$21 million and \$7 million during the years ended December 31, 2022 and 2021, respectively, related to the FLIAC acquisition.

The following table summarizes the fair value of assets acquired and liabilities assumed, gross, at the acquisition date, inclusive of the measurement period adjustments discussed above, and represents amounts recognized for each major class of assets and liabilities, after application of push-down accounting.

	April 1, 2022 (in millions)
Assets:	
Total investments	\$ 10,807
Cash and cash equivalents	1,578
Reinsurance recoverables	318
Income taxes	255
Deposit asset	2,596
Other assets	96
Separate account assets	29,426
Total assets	45,076
Liabilities:	
Insurance liabilities	13,611
Other liabilities	370
Separate account liabilities	29,426
Total liabilities	43,407
Net assets acquired	1,669
Consideration	1,762
Goodwill	\$ 93

Asset Acquisitions

On January 3, 2022, pursuant to a stock purchase agreement, the Company acquired Rx Life in exchange for \$21 million. Rx Life, an Arizona domiciled life and annuity insurer with licensing throughout the United States, was renamed FRC on April 18, 2022. All coinsurance and yearly renewable term reinsurance agreements between Rx Life and reinsurers existing prior to the Company's acquisition of Rx Life were transferred to the Company. In aggregate, coverage provided to Rx Life by its reinsurance agreements results in the cession of 100% of Rx Life's insurance liabilities to policyholders to its former parent.

Under the asset acquisition method of accounting, the total acquisition price of \$21 million was allocated to FRC's net tangible assets based on their cost as of the acquisition date, which is also determined to be their fair values. The Company recorded intangible assets of \$14 million related to state insurance licenses upon acquisition of FRC.

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These intangible assets have an indefinite useful life and there have been no impairments recorded subsequent to initial recognition.

On May 12, 2022, pursuant to a stock purchase agreement, the Company acquired PLIC in exchange for \$20 million. PLIC, an Ohio domiciled property and casualty insurer with licensing throughout the United States, was renamed FCIC on July 27, 2022. All of PLIC's previous insurance policies were novated prior to the acquisition.

Under the asset acquisition method of accounting, the total acquisition price of \$20 million was allocated to FCIC's net tangible assets based on their cost as of the acquisition date, which is also determined to be their fair values. The Company recorded intangible assets of \$12 million related to state insurance licenses upon acquisition of FCIC. These intangible assets have an indefinite useful life and there have been no impairments recorded subsequent to initial recognition.

5. Significant Reinsurance Transactions

The Company acquires blocks of legacy reserves through legal entity acquisitions and reinsurance agreements. The following table summarizes the Company's significant run-off reinsurance transactions completed between January 1, 2021 and December 31, 2022. Values are shown in millions at the execution date of transaction.

Transaction	Execution Date	Total Liabilities Assumed	Total Assets Transferred	Deferred Gain (Charge)	Primary Nature of Transaction
2022 Inception:					
Reinsurance agreement with a U.S. based life insurance company	November 17, 2022	\$ 1,239	\$ 1,024	\$ (215)	Legacy block of fixed deferred annuities, with an effective date of October 1, 2022.
LPT reinsurance agreement with a Bermuda based reinsurance company	March 31, 2022	\$ 305	\$ 297	\$ (8)	Quota share participation on reinsurance treaties with terms from 2011 through 2020. Effective date of October 1, 2021.
Reinsurance agreement with an affiliated Japanese life insurance company	March 31, 2022	\$ 4,173	\$ 4,173	—	Legacy block of payout and deferred annuities on a coinsurance basis, with an effective date of March 31, 2022.
LPT reinsurance agreement with a Bermuda based reinsurance company	February 17, 2022	\$ 236	\$ 236	—	Small-business primary general liability policies for underwriting years 2013 through 2019, net of inuring reinsurance, with an effective date of February 25, 2021.
Total		\$ 5,953	\$ 5,730	\$ (223)	
2021 Inception:					
Reinsurance agreement with a U.S. based life insurance company	October 28, 2021	\$ 2,882	\$ 3,320	\$ 438	Legacy annuity closed block of business on a funds withheld basis, with an effective date of October 1, 2021.
Total		\$ 2,882	\$ 3,320	\$ 438	

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

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6. Investments

Fixed Maturity Securities Available for Sale

The following table presents the amortized cost or cost, gross unrealized gains, gross unrealized losses and fair value of our available for sale fixed maturity securities at December 31, (in millions):

	2022			
	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturity securities, available for sale:				
U.S. government and government sponsored entities	\$ 701	\$ —	\$ (314)	\$ 387
Obligations of states, municipalities and political subdivisions	89	—	(15)	74
Non-U.S. governments	45	1	(20)	26
Corporate debt	1,124	5	(221)	908
Mortgage-backed, asset-backed and collateralized:				
RMBS	44	—	(5)	39
CMBS	150	—	(10)	140
CDO / ABS	121	—	(8)	113
Total mortgage-backed, asset-backed and collateralized	315	—	(23)	292
Total fixed maturity securities, available for sale	\$ 2,274	\$ 6	\$ (593)	\$ 1,687

	2021			
	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturity securities, available for sale:				
U.S. government and government sponsored entities	\$ 691	\$ —	\$ (41)	\$ 650
Obligations of states, municipalities and political subdivisions	117	1	(1)	117
Non-U.S. governments	52	1	—	53
Corporate debt	990	41	(4)	1,027
Mortgage-backed, asset-backed and collateralized:				
RMBS	47	—	(1)	46
CMBS	265	1	(3)	263
CDO / ABS	109	1	—	110
Total mortgage-backed, asset-backed and collateralized	421	2	(4)	419
Total fixed maturity securities, available for sale	\$ 2,271	\$ 45	\$ (50)	\$ 2,266

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Fixed Maturity Securities Available for Sale in a Loss Position

The following table summarizes the fair value and gross unrealized losses on our available for sale securities, aggregated by major investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, (in millions):

	2022					
	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, available for sale:						
U.S. government and government sponsored entities	\$ 1	\$ —	\$ 386	\$ (314)	\$ 387	\$ (314)
Obligations of states and municipalities and other political	44	(9)	31	(6)	75	(15)
Non-U.S. governments	26	(20)	—	—	26	(20)
Corporate debt	702	(150)	200	(71)	902	(221)
Mortgage-backed, asset-backed and collateralized:						
RMBS	30	(3)	9	(2)	39	(5)
CMBS	53	(4)	87	(6)	140	(10)
CDO / ABS	87	(7)	20	(1)	107	(8)
Total mortgage-backed, asset-backed and collateralized	170	(14)	116	(9)	286	(23)
Total fixed maturity securities, available for sale	\$ 943	\$ (193)	\$ 733	\$ (400)	\$ 1,676	\$ (593)

	2021					
	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, available for sale:						
U.S. government and government sponsored entities	\$ 490	\$ (25)	\$ 158	\$ (16)	\$ 648	\$ (41)
Obligations of states and municipalities and other political	68	(1)	—	—	68	(1)
Non-U.S. governments	2	—	—	—	2	—
Corporate debt	417	(4)	8	—	425	(4)
Mortgage-backed, asset-backed and collateralized:						
RMBS	43	(1)	—	—	43	(1)
CMBS	187	(3)	—	—	187	(3)
CDO / ABS	40	—	—	—	40	—
Total mortgage-backed, asset-backed and collateralized	270	(4)	—	—	270	(4)
Total fixed maturity securities, available for sale	\$ 1,247	\$ (34)	\$ 166	\$ (16)	\$ 1,413	\$ (50)

At December 31, 2022, we held 702 individual fixed maturity securities that were in an unrealized loss position, 182 of which were in a continuous unrealized loss position for 12 months or more. At December 31, 2021 we held 264 individual fixed maturity securities that were in an unrealized loss position, 6 of which were in a continuous unrealized loss position for 12 months or more.

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We did not recognize the unrealized losses in earnings on these fixed maturity securities within the consolidated statements of income (loss) at December 31, 2022 or at December 31, 2021 because we neither intended to sell the securities nor did we believe that it was more likely than not that we will be required to sell these securities before recovery of their amortized cost basis.

The Company did not recognize any OTTI losses on fixed maturity securities for the years ended December 31, 2022 or 2021.

Contractual Maturities of Fixed Maturity Securities Available for Sale

The following table presents the amortized cost and fair value of fixed maturity securities available for sale by contractual maturity at December 31, (in millions):

	2022		2021	
	Total Fixed Maturity Securities, Available for Sale			
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 20	\$ 19	\$ 27	\$ 27
Due after one year through five years	214	204	135	135
Due after five years through ten years	184	153	86	85
Due after ten years	1,541	1,019	1,602	1,600
Mortgage-backed, asset-backed and collateralized	315	292	421	419
Total	\$ 2,274	\$ 1,687	\$ 2,271	\$ 2,266

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. Asset-backed, commercial mortgage-backed, residential mortgage-backed, and collateralized securities are shown separately in the table above, as they do not have a single maturity date.

Proceeds and gross gains and losses from voluntary sales

The following table presents the proceeds from voluntary sales and the gross gains and losses on those sales of AFS fixed maturity securities for the years ended December 31, (in millions):

	2022	2021
Proceeds from voluntary sales	\$ 620	\$ 1,396
Gross gains	46	54
Gross losses	(188)	(68)

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Other Invested Assets

The following table presents a breakdown of other invested assets by asset class at December 31, (in millions):

	2022	2021
LPs/LLCs:		
Equity Method:		
Private equity	\$ 842	\$ 679
Real estate-related	5	—
Fair Value:		
Private equity	934	—
Total LPs/LLCs⁽¹⁾	1,781	679
Derivatives	177	—
Other	11	—
Total other invested assets	\$ 1,969	\$ 679

⁽¹⁾ Includes related party balances of \$1,749 million and \$666 million as of December 31, 2022 and 2021, respectively.

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

Net Investment Income

The following table presents the components of net investment income for the years ended December 31, (in millions):

	2022	2021
Fixed maturity securities	\$ 353	\$ 76
Other invested assets	61	89
Short term investments and other investments	53	3
Funds withheld - directly managed	1,677	1,923
Gross investment income	2,144	2,091
Investment expenses	(51)	(42)
Net investment income	\$ 2,093	\$ 2,049

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Investment Gains (Losses)

The following table presents the components of investment gains (losses) for the years ended December 31, (in millions):

	2022	2021
Realized losses on fixed maturity securities	\$ (712)	\$ (15)
Unrealized losses on fixed maturity securities under the FVO	(403)	—
Unrealized losses on equity securities	(27)	—
Realized gains (losses) on funds withheld - directly managed	(995)	79
Net losses on derivative instruments	(913)	—
Other realized losses	(63)	—
Investment gains (losses)	\$ (3,113)	\$ 64

The amount of unrealized appreciation (depreciation) of fixed maturity securities, available for sale reclassified from accumulated other comprehensive income (loss) to investment gains (losses) upon the sale of securities was \$(4) million for the year ended December 31, 2022 and \$75 million for the year ended December 31, 2021.

Included in investment gains (losses) from funds withheld - directly managed for the years ended December 31, 2022 and 2021 are \$42 million of gains and \$24 million of gains, respectively, related to the transfer of securities from funds withheld - directly managed to fixed maturity securities, available for sale.

Loaned securities and repurchase agreements

In the normal course of business, the Company sells securities under agreements to repurchase and enters into securities lending transactions.

The following table sets forth, by type, the securities we have agreed to repurchase. The below amounts represent the cash received under the outstanding repurchase agreements at December 31, (in millions):

	2022			
	Remaining Contractual Maturities of the Agreements			
	Overnight & Continuous	Up to 30 days	30-90 days	Total
Corporate debt securities	\$ —	\$ 111	\$ 200	\$ 311

The market value of the securities initially posted as collateral under the repurchase agreements was \$315 million. Subsequent to our posting of collateral, the market value of the securities increased to \$326 million resulting in the receipt of \$11 million of additional funds from the counterparty.

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The following table sets forth the remaining contractual maturities of the Company's securities lending transactions by security type that was loaned. The amounts below represent cash collateral received for the loaned securities at December 31, (in millions):

	2022			
	Remaining Contractual Maturities of the Agreements			
	Overnight & Continuous	Up to 30 days	30-90 days	Total
Equity securities	\$ 106	\$ —	\$ —	\$ 106

The market value of the securities loaned was \$103 million as of December 31, 2022.

The Company did not have any loaned securities or repurchase agreements during the year ended December 31, 2021.

Securities Pledged, Restricted Assets and Special Deposits

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

In the normal course of its business activities, the Company accepts collateral that can be sold or repledged. The primary sources of this collateral are securities purchased under agreements to resell.

As of December 31, 2022 the Company had securities with fair value of \$15 million on deposit with governmental authorities or trustees as required by certain insurance laws. As of December 31, 2021, the Company had no securities on deposit with governmental authorities or trustees as required by certain insurance laws.

We utilize asset trust accounts to collateralize business with our reinsurance counterparties. As of December 31, 2022 and 2021 we held \$4,643 million and \$266 million, respectively, of assets in these trusts for the benefit of our counterparties.

As of December 31, 2022 and 2021, 90% and 94%, respectively, of the fixed maturity securities within the funds withheld - directly managed, serving as collateral for our reinsurance receivable, are classified as investment grade by the National Association of Insurance Commissioners ("NAIC").

Concentration of Credit Risk

Other than the funds withheld - directly managed balance attributable to the AIG affiliates, there are no significant concentrations of credit risk within the Company's invested assets. In the event of a ceding company's insolvency, we would need to assert a claim on the investments collateralizing our reinsurance receivable and used to settle our liabilities. However, we have the ability to offset amounts we owe to the ceding company, which reduces our risk of loss. In accordance with the terms of our reinsurance agreements, we are obligated to fund any shortfall between U.S. statutory book value of the investments collateralizing the reinsurance receivable and U.S. statutory insurance reserves. Likewise, if there is an excess between the U.S. statutory book value of investments collateralizing the reinsurance receivable and U.S. statutory insurance reserves, the ceding companies are required to fund the excess to our funds withheld account.

7. Derivatives and Hedging

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:

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- Interest rate contracts: futures, swaps, swaptions, forwards, options, caps and floors
- Equity contracts: futures, options and total return swaps
- Foreign exchange contracts: futures, options, forwards and swaps
- Credit contracts: single and index reference credit default swaps, credit default index swaptions and credit index options

See Note 3 for a detailed discussion of the accounting treatment for derivative instruments. See Note 8 for additional disclosures related to the fair value of our derivative instruments.

Interest Rate Contracts

Interest rate swaps, swaptions and futures are used by the Company to reduce risks from changes in interest rates, manage interest rate exposures arising from mismatches between assets and liabilities.

Swaps may be attributed to specific assets or liabilities or to a portfolio of assets or liabilities. Under interest rate swaps, 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.

In standardized exchange-traded interest rate futures transactions, the Company purchases or sells a specified number of contracts, the values of which are determined by the daily market values of underlying referenced investments. The Company enters into exchange-traded futures with regulated futures commission merchants who are members of a trading exchange.

Equity Contracts

Equity options, total return swaps, and futures are used by the Company to manage its exposure to the equity markets which impacts the value of assets and liabilities it owns or anticipates acquiring or selling.

Equity index options are contracts which will settle in cash based on differentials in the underlying indices at the time of exercise and the strike price. The Company uses combinations of purchases and sales of equity index options to hedge the effects of adverse changes in equity indices within a predetermined range.

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 Secured Overnight Financing Rate ("SOFR") plus an associated funding spread based on a notional amount. The Company generally uses total return swaps to hedge the effect of adverse changes in equity indices.

In standardized exchange-traded equity futures transactions, the Company purchases or sells a specified number of contracts, the values of which are determined by the daily market values underlying referenced equity indices. The Company enters into exchange-traded futures with regulated futures commission merchants who are members of a trading exchange.

Foreign Exchange Contracts

Currency derivatives, including currency swaps and forwards, are used by the Company to reduce risks from changes in currency exchange rates with respect to investments denominated in foreign currencies that the Company either holds or intends to acquire or sell.

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. The Company executes forward sales of the hedged currency in exchange for U.S. dollars at a specified exchange rate. The maturities of these forwards correspond with the future periods in which the non-U.S. dollar-denominated earnings are expected to be generated.

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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.

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 sells credit protection using credit derivatives in order to generate a credit spread for the benefit of the Company's investment portfolio.

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, excluding derivatives within our funds withheld - directly managed. 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 at December 31, (in millions):

Instrument Type	2022			2021		
	Notional	Gross Fair Value		Notional	Gross Fair Value	
		Assets	Liabilities		Assets	Liabilities
Interest rate swaps	\$ 14,648	\$ 276	\$ 670	\$ —	\$ —	\$ —
Foreign currency forwards	1,680	97	13	—	—	—
Foreign currency swaps	594	24	3	—	—	—
Credit default swaps	591	6	—	—	—	—
Equity futures	1,737	46	—	—	—	—
Total return swaps	—	23	49	—	—	—
Equity options	10,425	298	355	—	—	—
Total USD denominated derivatives	29,675	770	1,090	—	—	—
Foreign currency swaps	—	—	—	5	—	—
Total GBP denominated derivatives	—	—	—	5	—	—
Total Derivatives ⁽¹⁾	\$ 29,675	\$ 770	\$ 1,090	\$ 5	\$ —	\$ —

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

Offsetting Assets and Liabilities

The following table presents recognized assets and liabilities (excluding derivative instruments within our funds withheld - directly managed), that are offset in the consolidated balance sheets, and/or are subject to an

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enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in the consolidated balance sheets at December 31, (in millions):

	2022				
	Gross Amounts of Recognized Financial Instruments	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts Presented in the Consolidated Balance Sheets	Financial Instruments/ Collateral ⁽¹⁾	Net Amount
Offsetting of Financial Assets:					
Derivatives	\$ 512	\$ (335)	\$ 177	\$ (177)	\$ —
Offsetting of Financial Liabilities:					
Derivatives	\$ 832	\$ (632)	\$ 200	\$ —	\$ 200
Repurchase agreements	311	—	311	(311)	—
Securities lending transactions	106	—	106	(103)	3

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

The Company did not have any asset or liabilities, that are offset in the consolidated balance sheets at December 31, 2021.

For securities purchased under agreements to resell and 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 and resale agreements with the same counterparty, in the event of default, the Company would generally be permitted to exercise rights of offset.

The following tables provide the financial statement classification and impact of derivatives for the years ended December 31, (in millions):

Instrument Type	2022		2021	
	Investment gains (losses)	Foreign exchanges gains (losses)	Investment gains (losses)	Foreign exchanges gains (losses)
Interest rate swaps	\$ (797)	\$ —	\$ —	\$ —
Foreign currency forwards	—	26	—	—
Foreign currency swaps	(22)	98	—	—
Credit default swaps	4	—	—	—
Equity futures	277	—	—	—
Total return swaps	182	—	—	—
Equity options	(557)	—	—	—
Total USD denominated derivatives	(913)	124	—	—
Foreign currency swaps	—	—	—	—
Total GBP denominated derivatives	—	—	—	—
Total Derivatives	\$ (913)	\$ 124	\$ —	\$ —

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.

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

8. 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. We are responsible for the determination of the value of the investments carried at fair value and the supporting methodologies and assumptions.

The degree of judgment used in measuring the fair value of financial instruments generally inversely correlates with the level of observable valuation inputs. We maximize the use of observable inputs and minimize the use of unobservable inputs when measuring 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.

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 measurements based on unadjusted quoted prices 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.
- 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 or valuation models whose inputs are observable, directly or indirectly, for substantially the full term of the asset or liability.
- Level 3: Fair value measurements based on valuation techniques that use significant inputs that are both observable and unobservable. The circumstances for using these measurements include those in which there is little, if any, market activity for the asset or liability. Therefore, we must make certain assumptions about the inputs a hypothetical market participant would use to value that asset or liability.

In 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 in its entirety.

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 Company has elected the FVO on the funds withheld - directly managed portfolios. The fair value of the underlying assets collateralizing the funds withheld - directly managed is generally based on market observable

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inputs using industry standard valuation techniques but also requires 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, we obtain quoted prices in active markets for identical assets at the balance sheet date to measure fixed maturity securities at fair value. Market price data is generally obtained from dealer markets. We employ 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 for new financial products and recent pricing experience with various vendors. In addition, control processes are applied to the fair values received from independent third-party valuation service providers to determine the accuracy of these values.

These control processes are designed to assess whether the fair values received from independent third-party valuation service providers are accurately recorded, that their data inputs and valuation techniques are appropriate and consistently applied and that the assumptions used appear reasonable and consistent with the objective of determining fair value. We assess the reasonableness of individual security values received from independent third-party valuation service providers through various analytical techniques, review of various pricing integrity reports and pricing trends, back testing, and have procedures to escalate related questions internally and to the independent third-party valuation service providers for resolution. To assess the degree of pricing consensus among various valuation service providers for specific asset types, we conduct comparisons of prices received from available sources. We use these comparisons to establish a hierarchy for the fair values received from independent third-party valuation service providers to be used for particular security classes. We also validate prices for selected securities through reviews by members of management who have relevant expertise and who are independent of those charged with executing investing transactions.

When observable price quotations are not available, internally-developed valuations or indicative broker quotes are also used to determine fair value in circumstances, or where the Company ultimately concludes that pricing information received from the independent pricing services is not reflective of market activity. If the Company concludes the values from both pricing services and brokers are not reflective of market activity, it may override the information with an internally developed valuation. Fair value is 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. Fair values determined internally are also subject to management review to determine whether the valuation models and related inputs are reasonable. Pricing service overrides, internally-developed valuations and indicative broker quotes are generally included in Level 3 in the fair value hierarchy.

Equity securities

Equity securities consist principally of investments in common and preferred stock of publicly traded companies, privately traded securities, as well as mutual fund shares. The fair values of most publicly traded equity securities are based on quoted market prices in active markets for identical assets and are classified within Level 1 in the fair value hierarchy. Estimated fair values for most privately traded equity securities are determined using discounted cash flow, earnings multiple and other valuation models that require a substantial level of judgment around inputs and therefore are classified within Level 3. The fair values of mutual fund shares that transact regularly (but do not trade in active markets because they are not publicly available) are based on transaction prices of identical fund shares and are classified within Level 2 in the fair value hierarchy.

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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 an internally-developed methodology. Certain commercial mortgage loans are valued incorporating other factors, including the terms of the loans, the principal exit strategies for the loans, prevailing interest rates and credit risk.

Derivative instruments (Other invested assets and derivative 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 Company's exchange-traded futures and options include treasury and equity futures. Exchange-traded futures and options are valued using quoted prices in active markets and are classified within Level 1 in the fair value hierarchy.

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 fair values of European style option contracts are determined using Black-Scholes option pricing models. These models' key inputs include the contractual terms of the respective contract, along with significant observable inputs, including interest rates, currency rates, credit spreads, equity prices, index dividend yields, NPR, volatility and other factors.

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 our investments in private equity funds which we utilize NAV as an estimate of the fair value, which is a permitted practical expedient. Due to the time lag in the NAV reported by certain fund managers, we adjust the valuation for capital calls and distributions that occur between the date of the NAV and our consolidated financial statements.

Short-term investments

For short-term investments, amortized cost is used as the best estimate of fair value, and they are primarily classified as Level 2. All other instruments are valued using unadjusted quoted prices in active markets that are accessible for identical assets and are classified as Level 1.

Cash and Cash equivalents

Cash and cash equivalents include money market instruments and other highly liquid debt instruments. 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. All other instruments are primarily classified as Level 2, since due to their short term nature, amortized cost is used as the best estimate of fair value.

Reinsurance recoverables

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We have elected the fair option on certain reinsurance recoverables which are recorded to match the associated insurance liabilities, which are recorded at fair value. Accordingly, the fair value of the reinsurance recoverables for which we have elected the FVO, is determined by the fair value calculation of our insurance liabilities. See our discussion of the fair value determination for insurance liabilities below.

Deposit asset

We have elected the fair value option on the entirety of our deposit asset, which represents assets, held in trust by the reinsurer, that back the insurance liabilities for certain of our fixed indexed annuities and fixed annuities with a guaranteed lifetime withdrawal income. The deposit is recorded to match the associated insurance liabilities, which are recorded at fair value. Accordingly, the fair value of our deposit asset is determined by the fair value calculation of our insurance liabilities. See discussion of the fair value determination for insurance liabilities below.

Insurance liabilities, at fair value

We have elected the fair value option on certain of our insurance liabilities, which are primarily comprised of guarantees primarily associated with the living benefit features of certain variable annuity contracts. These are optional riders that are added to the base variable annuity contract, which includes Mortality and Expense charges ("M&E") and contract charges. The fair values of these liabilities are calculated as the present value of future expected benefit payments to customers, anticipated future trail commissions paid to agents and certain administrative expenses less the present value of future expected rider fees, M&E charges, contract charges and the anticipated future reimbursement of certain asset management fees. This methodology could result in either a liability or asset balance, given changing capital market conditions and various actuarial assumptions. Since there is no observable active market for the transfer of these obligations, the valuations are calculated using internally developed models with option pricing techniques. The models are based on a risk neutral valuation framework and incorporate premiums for risks inherent in valuation techniques, inputs, and the general uncertainty around the timing and amount of future cash flows. The determination of these risk premiums requires the use of management's judgment.

The significant inputs to the valuation models include capital market assumptions, such as interest rate levels and volatility assumptions, as well as actuarially determined assumptions, including contractholder behavior, such as lapse rates, benefit utilization rates, withdrawal rates, and mortality rates. Since many of these assumptions are unobservable and are considered to be significant inputs to the liability valuation, the insurance liabilities have been reflected within Level 3 in the fair value hierarchy.

Separate account assets and liabilities

Separate account assets include fixed maturity securities, treasuries, equity securities, mutual funds and commercial mortgage loans for which values are determined consistent with similar instruments described above under fixed maturity securities and equity securities. Separate account liabilities are recorded at the amount credited to the contractholder, which reflects the change in fair value of the corresponding separate account assets including contractholder deposits less withdrawals and fees.

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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 at December 31, (in millions):

	2022					
	Level 1	Level 2	Level 3	Fair Value Based on NAV as Practical Expedient	Netting ⁽¹⁾	Total
Assets:						
Fixed maturity securities, available for sale:						
U.S. government and government sponsored entities	\$ —	\$ 387	\$ —	\$ —	\$ —	\$ 387
Obligations of states, municipalities and political subdivisions	—	74	—	—	—	74
Non-U.S. governments	—	26	—	—	—	26
Corporate debt	—	908	—	—	—	908
RMBS	—	39	—	—	—	39
CMBS	—	140	—	—	—	140
CDO / ABS	—	113	—	—	—	113
Total fixed maturity securities, available for sale	—	1,687	—	—	—	1,687
Fixed maturity securities, securities at fair value						
U.S. government and government sponsored entities	—	702	—	—	—	702
Obligations of states, municipalities and political subdivisions	—	359	—	—	—	359
Non-U.S. governments	—	1,231	—	—	—	1,231
Corporate debt	—	4,269	212	—	—	4,481
RMBS	—	412	—	—	—	412
CMBS	—	363	—	—	—	363
CDO / ABS	—	1,097	290	—	—	1,387
Total fixed maturity securities, securities at fair value	—	8,433	502	—	—	8,935
Funds withheld - directly managed	607	21,583	8,572	2,241	—	33,003
Equity securities	175	—	—	—	—	175
Mortgage loans	—	—	334	—	—	334
Other invested assets	—	513	—	1,780	(335)	1,958
Short term investments	17	245	—	—	—	262
Cash and cash equivalents	2,158	58	—	—	—	2,216
Reinsurance recoverables	—	—	253	—	—	253
Deposit asset	—	—	607	—	—	607
Separate account assets	—	23,601	—	—	—	23,601
Total assets	\$ 2,957	\$ 56,120	\$ 10,268	\$ 4,021	\$ (335)	\$ 73,031
Liabilities:						
Insurance liabilities, at fair value	\$ —	\$ —	\$ 5,546	\$ —	\$ —	\$ 5,546
Derivative liabilities	—	832	—	—	(632)	200
Separate account liabilities	—	23,601	—	—	—	23,601
Total liabilities	\$ —	\$ 24,433	\$ 5,546	\$ —	\$ (632)	\$ 29,347

⁽¹⁾"Netting" amounts represent offsetting considerations as disclosed in Note 7.

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	2021					
	Level 1	Level 2	Level 3	Fair Value Based on NAV as Practical Expedient	Netting ⁽¹⁾	Total
Assets:						
Fixed maturity securities, available for sale:						
U.S. government and government sponsored entities	\$ —	\$ 650	\$ —	\$ —	\$ —	\$ 650
Obligations of states, municipalities and political subdivisions	—	117	—	—	—	117
Non-U.S. governments	—	53	—	—	—	53
Corporate debt	—	1,027	—	—	—	1,027
RMBS	—	46	—	—	—	46
CMBS	—	263	—	—	—	263
CDO / ABS	—	110	—	—	—	110
Total fixed maturity securities available for sale	—	2,266	—	—	—	2,266
Short term investments	248	33	12	—	—	293
Cash and cash equivalents	854	141	—	—	—	995
Other invested assets	—	—	—	679	—	679
Funds withheld - directly managed	343	34,154	7,451	2,000	—	43,948
Total assets	\$ 1,445	\$ 36,594	\$ 7,463	\$ 2,679	\$ —	\$ 48,181

⁽¹⁾"Netting" amounts represent offsetting considerations as disclosed in Note 7.

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 us, such as data from independent third-party valuation service providers and from internal valuation models. Weighted averages are calculated by weighting each input by the relative fair value of the respective assets and liabilities. Table shows values at December 31, (in millions):

	2022				
	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)	Impact of increase in the input on fair value
Assets:					
Fixed maturities:					
Corporate debt	\$ 212	Discounted Cash Flow	Discount rate	4.33% - 8.46% (6.55%)	Decrease
CDO / ABS	290	Discounted Cash Flow	Discount rate	2.20%-13.77% (6.56%)	Decrease
Mortgage loans:					
Commercial	35	Trade price	Trade price	N/A	Increase
Residential	138	Trade price	Trade price	N/A	Increase
	161	Level yield	Market yield	5.75% - 9.97% (8.40%)	Increase
Deposit asset	607	Fair values are determined using the same unobservable inputs as insurance liabilities, at fair value.			
Reinsurance recoverables	253	Fair values are determined using the same unobservable inputs as insurance liabilities, at fair value.			

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2022					
	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)	Impact of increase in the input on fair value
Liabilities:					
Insurance liabilities, at fair value \$	5,546	Discounted Cash Flow	Lapse rate	1% - 20%	Decrease
			Spread over risk-free	0.00% - 2.43%	Decrease
			Utilization rate	92.5% - 100%	Increase
			Withdrawal rate	See table footnote ⁽¹⁾ below.	
			Mortality rate	0% - 16%	Decrease
			Equity volatility curve	19.5% - 26%	Increase

⁽¹⁾The withdrawal rate assumption estimates the magnitude of annual contractholder withdrawals relative to the maximum allowable amount under the contract. These assumptions vary based on the age of the contractholder, the tax status of the contract and the duration since the contractholder began lifetime withdrawals. As of December 31, 2022, the minimum withdrawal rate assumption is 77% and the maximum withdrawal rate assumption may be greater than 100%. The fair value of the liability will generally increase the closer the withdrawal rate is to 100% and decrease as the withdrawal rate moves further away from 100%.

2021					
	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)	Impact of increase in the input on fair value
Assets:					
Short term investments	\$ 12	Discounted Cash Flow	Yield	2.04%	Increase

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 at December 31, (in millions):

2022							
Assets							
	Fixed maturity securities, securities at fair value	Funds withheld - directly managed	Mortgage loans	Other invested assets	Deposit asset	Reinsurance recoverables	Total assets
Beginning balance	\$ —	\$ 7,451	\$ —	\$ 12	\$ —	\$ —	\$ 7,463
Purchases	476	—	341	—	—	—	817
Acquisitions (Note 4)	—	—	—	—	2,596	318	2,914
Sales, maturities, redemptions	(28)	—	(7)	(12)	—	—	(47)
Investment gains / (losses) included in net income (loss) ⁽¹⁾	(24)	—	—	—	(117)	(65)	(206)
Change in fair value of funds withheld included in net income (loss)	—	1,121	—	—	—	—	1,121
Transfers into Level 3	78	—	—	—	—	—	78
Other	—	—	—	—	(1,872)	—	(1,872)
Ending balance	\$ 502	\$ 8,572	\$ 334	\$ —	\$ 607	\$ 253	\$ 10,268

⁽¹⁾ Fixed maturity securities, securities at fair value includes changes in unrealized gains (losses) of (\$24) million reported in investment gains (losses) on the consolidated statements of income (loss) for instruments still held at December 31, 2022.

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	2021			
	Assets			
	Fixed maturity securities, available for sale	Funds withheld - directly managed	Other invested assets	Total assets
Beginning balance	\$ 25	\$ 7,228	\$ 5	\$ 7,258
Purchases	—	—	37	37
Sales, maturities, redemptions	(7)	—	(30)	(37)
Realized gains / (losses) included in net income (loss)	—	—	—	—
Change in fair value of funds withheld included in net income (loss)	—	223	—	223
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	(18)	—	—	(18)
Other	—	—	—	—
Ending balance	\$ —	\$ 7,451	\$ 12	\$ 7,463

The following is a reconciliation for all the Level 3 liabilities measured at fair value on a recurring basis at December 31, (in millions):

	2022	
	Liabilities	
	Insurance liabilities, at fair value	Total liabilities
Beginning balance	\$ —	\$ —
Acquisitions (Note 4)	13,611	13,611
Incurring Losses:		
Reduction in estimates of ultimate losses	(8,094)	(8,094)
Increase in estimates of ultimate losses	1,937	1,937
Change in fair value (discount rate)	(2,265)	(2,265)
Paid losses	315	315
Other	42	42
Ending balance	\$ 5,546	\$ 5,546

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 occur.

Change in Fair Value of Insurance Contracts

The components of the change in fair value of our insurance contracts are reported in several line items within revenues and benefits, losses and expenses in our consolidated statements of income (loss) and comprehensive income (loss). The revenue items include premiums, policy charges and fee income, and asset management and service fees, which were \$19 million, \$365 million, and \$71 million, respectively, for the year ended December 31, 2022. The benefits, losses and expenses items include policyholders' benefits and changes in fair value of insurance liabilities and commission expense, which were \$(1,010) million and \$65 million, respectively, for the year ended December 31, 2022. Policyholders' benefits and changes in fair value of insurance liabilities includes the

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following changes in fair value of the assets and liabilities for which we have elected the fair value option for the years ended December 31, (in millions):

	2022	2021
Assets:		
Reinsurance recoverables	\$ (15)	\$ —
Modified coinsurance receivable	(5,640)	—
Deposit asset	(1,989)	—
Liabilities:		
Insurance liabilities	\$ (8,065)	\$ —

Changes in the modified coinsurance payable are reported in policyholders' benefits and changes in fair value of insurance liabilities, however, they are not included in the above chart as they relate to the investment portfolio within the modified coinsurance agreement.

Fair Value Information About Financial Instruments Not Measured at Fair Value

The following table presents the carrying amounts and estimated fair values of our 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 at December 31, (in millions):

	2022				Carrying Value
	Estimated Fair Value				
	Level 1	Level 2	Level 3	Total	
Assets:					
Other invested assets - policy loans	\$ —	\$ —	\$ 11	\$ 11	\$ 11
Liabilities:					
Policyholder contract deposits associated with investment-type contracts	\$ —	\$ —	\$ 10,650	\$ 10,650	\$ 12,146
Long-term debt ⁽¹⁾	—	732	—	732	745
Collateral deposit liability	—	—	184	184	181
Loaned securities and repurchase agreements	—	417	—	417	417

⁽¹⁾ Carrying value of long-term debt represents borrowing outstanding as further detailed in Note 12.

	2021				Carrying Value
	Estimated Fair Value				
	Level 1	Level 2	Level 3	Total	
Liabilities:					
Policyholder contract deposits associated with investment-type contracts	\$ —	\$ —	\$ 8,179	\$ 8,179	\$ 7,055
Long-term debt ⁽¹⁾	—	253	—	253	250
Collateral deposit liability	—	—	213	213	188

⁽¹⁾ Carrying value of long-term debt represents borrowing outstanding as further detailed in Note 12.

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

Other invested assets - policy loans

The carrying amount approximates fair value.

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Policyholder contract deposits associated with investment-type contracts

Policyholder contract deposits associated with investment-type contracts are 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 US 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.

Long-term debt

The fair value of long-term debt is estimated using a discounted cash flow calculation based on projected interest and principal cash flows discounted at a risk adjusted discount rate for the duration of such debt.

Collateral 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 and the addition of a risk margin.

Loaned securities and repurchase agreements

Due to the short-term nature of these transactions, the carrying value approximates fair value.

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9. Reinsurance

The following table shows the effects of reinsurance on the consolidated statements of income (loss) for the years ended December 31, (in millions):

	2022	2021
Premiums:		
Direct	\$ 26	\$ —
Assumed	225	280
Ceded	(7)	—
Net premiums	\$ 244	\$ 280
Policy charges and fee income:		
Direct	\$ 398	\$ —
Assumed	84	76
Ceded	(33)	—
Net policy charges and fee income	\$ 449	\$ 76
Policyholder benefits and changes in fair value of insurance liabilities:		
Direct	\$ 256	\$ —
Assumed	898	1,060
Ceded	(71)	—
Net policyholders benefits	1,083	1,060
Changes in fair value of insurance liabilities	(1,195)	—
Net policyholder benefits and changes in fair value of insurance liabilities	\$ (112)	\$ 1,060
Interest credited to policyholder account balances:		
Direct	\$ —	\$ —
Assumed ⁽¹⁾	321	194
Ceded	—	—
Net interest to policyholder account balances	\$ 321	\$ 194

⁽¹⁾ Includes related party balances of \$31 million for the year ended December 31, 2022.

The following table shows the effects of reinsurance on the consolidated balance sheets as of December 31, (in millions):

	2022	2021
Deposit asset - ceded	\$ 607	\$ —
Reinsurance recoverables:		
Assumed ⁽¹⁾	110	—
Ceded	353	—
Future policy benefits - assumed	26,940	27,771
Policyholder account balances - assumed ⁽¹⁾	12,096	7,055
Liability for unpaid losses and loss adjustment expenses - assumed	3,613	3,310
Reinsurance payables:		
Assumed ⁽¹⁾	752	609
Ceded	44	—

⁽¹⁾ Assumed includes related party balances of \$110 million, \$4.1 billion and \$144 million within reinsurance recoverables, policyholder account balances and reinsurance payables, respectively, as of December 31, 2022.

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Prior to the Company's acquisition of FLIAC on April 1, 2022, FLIAC ceded certain of its variable and fixed indexed annuities, fixed annuities with a guaranteed lifetime withdrawal income feature and the majority of its New York business, both the living benefit guarantees and base contracts, to entities affiliated with Prudential Financial. Reinsurance ceded arrangements do not discharge the Company as the primary insurer. Ceded balances would represent a liability of the Company in the event the reinsurers were unable to meet their obligations to the Company under the terms of the reinsurance agreements. The Company believes a material reinsurance liability resulting from such inability of reinsurers to meet their obligations is unlikely.

In the second quarter of 2022, in accordance with applicable state law, a program was instituted to novate a significant portion of the policies ceded from FLIAC to Pruco Life Insurance Company ("Pruco Life"), a Prudential Financial affiliated entity. The novation program does not have an impact on net equity or net income, but has resulted in the reduction of certain activity/balances associated with these policies. During the year ended December 31, 2022, approximately \$6.7 billion of account value, which generally approximates fair values of insurance liabilities, was transferred out of FLIAC as a result of the novation program, which represents approximately 66% of the insurance liabilities ceded to Pruco Life as of April 1, 2022.

10. Insurance Liabilities

Long Duration Lines of Business

Liabilities for long-duration contracts are classified as future policy benefits, policyholder contract deposits or insurance liabilities. Future policy benefits include retirement products whose payments depend on contract holder's survival such as structured settlements with life contingencies, immediate annuities with life contingencies, and pension risk transfer annuities; and traditional life insurance products such as WL and RoP term, A&H and LTC. Policyholder contract deposits apply to investment contracts such as structured settlements and SPIA with non-life contingent benefits, deferred annuity contracts in the accumulation phase and the fund values of single premium whole life and universal life-type insurance contracts. Insurance liabilities include certain of the Company's liabilities for long-duration contracts carried at fair value following election of the FVO. Our insurance liabilities are primarily comprised of guarantees associated with certain variable annuity contracts.

Future Policy Benefits

Future policy benefits include liability cash flows that are long-duration and relatively stable. Reserves for traditional life, accident and health and life-contingent annuity payout contracts represent an estimate of the present value of future benefits less the present value of future net premiums. Future policy benefits also include liabilities for annuities issued in structured settlement arrangements whereby a claimant has agreed to settle a general insurance claim in exchange for fixed payments over a fixed determinable period of time with a life contingency feature.

Life, annuity and accident and health reserves are established using assumptions for investment yields, mortality, morbidity, lapses and expenses, including a provision for adverse deviation where applicable. We review the adequacy of the life reserves regularly using best estimate assumptions for mortality, morbidity, lapse, expenses and investment yield. If financial performance significantly deteriorates to the point where a premium deficiency exists, then we would record additional liabilities.

The following table presents future policy benefits by product line at December 31, (in millions):

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	2022	2021
Structured settlements	\$ 16,163	\$ 16,472
Pension risk transfer annuities	3,210	3,498
Traditional whole life	3,326	3,356
Single premium immediate annuities	1,423	1,593
Term life insurance	2,093	2,023
Long term care	428	450
Accident and health	352	379
Total	\$ 26,995	\$ 27,771

Policyholder Contract Deposits

Policyholder contract deposits investment contracts include SPIA and structured settlement contracts with period certain payment streams (i.e. not depending on longevity), deferred annuity contracts in the accumulation phase and the fund values of single premium whole life and universal life-type insurance contracts.

- Non-life contingent structured settlement cash flows consist of certain payments with set payment patterns such as level payment, compound increase, fixed amount increase or one-time lump sum payments. The non-life contingent cash flows are thus highly predictable;
- Non-life contingent SPIA cash flows also consist of certain level payments over a specified duration with a range from five to thirty years or more;
- Deferred annuities cash flows are designed to collect premiums and accrue credited interest over an extended period for payout at a later date;
- Single premium whole life and universal life-type products are interest sensitive and provide permanent coverage for life insurance with the potential to accumulate cash value.

The following table presents policyholder contract deposits by product line at December 31, (in millions):

	2022	2021
Structured settlements – non-life contingent	\$ 2,115	\$ 2,267
Interest sensitive universal life	1,477	1,533
Interest sensitive whole life	578	—
Deferred annuities	4,386	3,148
Single premium immediate annuities – non-life contingent	3,590	107
Total	\$ 12,146	\$ 7,055

Interest crediting rates for the Company's policyholder contract deposits range from 1.0% to 5.0%.

Insurance Liabilities, at fair value

Our insurance liabilities are primarily comprised of guarantees associated with certain variable annuity contracts, including guaranteed minimum accumulation benefits ("GMAB"), guaranteed withdrawal benefits ("GMWB"), guaranteed minimum death benefits ("GMDB") and guaranteed minimum income and withdrawal benefits ("GMIWB"). Insurance liabilities also include registered index-linked annuities and fixed annuities, which includes

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both fixed indexed and fixed deferred annuities, certain other variable annuities, variable universal, fixed payout annuity products, individual annuities and supplementary contracts with life contingencies.

The following represents the major components of our insurance liabilities as of December 31, (in millions):

Insurance Liabilities	2022	2021
Variable annuity contracts with guaranteed benefits	\$ 2,938	\$ —
Registered index-linked and Fixed annuity contracts	2,306	—
Other insurance contracts	302	—
Total insurance liabilities	\$ 5,546	\$ —

The GMAB features provide the contractholder with a guaranteed return of initial account value or an enhanced value if applicable. The most significant of the Company's GMAB features are the guaranteed return option features, which includes an automatic rebalancing element that reduces the Company's exposure to these guarantees.

The GMDB features provide certain guaranteed benefits in the event of the death of the contractholder. The GMI features provide guaranteed minimum periodic payments regardless of market volatility.

The GMWB features provide the contractholder with access to a guaranteed remaining balance if the account value is reduced to zero through a combination of market declines and withdrawals. The guaranteed remaining balance is generally equal to the protected value under the contract, which is initially established as the greater of the account value or cumulative deposits when withdrawals commence, less cumulative withdrawals. The contractholder also has the option, after a specified time period, to reset the guaranteed remaining balance to the then-current account value, if greater. The contractholder accesses the guaranteed remaining balance through payments over time, subject to maximum annual limits.

The GMIWB features, taken collectively, provide a contractholder two optional methods to receive guaranteed minimum payments over time, a "withdrawal" option or an "income" option. The withdrawal option (which was available under only one of the GMIWBs) guarantees that a contractholder can withdraw an amount each year until the cumulative withdrawals reach a total guaranteed balance. The income option (which varies among the Company's GMIWBs) in general guarantees the contractholder the ability to withdraw an amount each year for life (or for joint lives, in the case of any spousal version of the benefit) where such amount is equal to a percentage of a protected value under the benefit. The contractholder also has the potential to increase this annual amount, based on certain subsequent increases in account value that may occur. The GMIWB can be elected by the contractholder upon issuance of an appropriate deferred variable annuity contract or at any time following contract issue prior to annuitization. Certain GMIWB features include an automatic rebalancing element that reduces the Company's exposure to these guarantees.

The Company also issued fixed deferred and fixed index annuity contracts that have a guaranteed credited rate, annuity benefit and withdrawal benefit. The Company also issued indexed variable annuity contracts for which the return, when the account value is allocated to the index strategies, is tied to the return of specific indices subject to applicable contractual minimums and maximums and also varying levels of downside protection. The contract also guarantees to the contractholder a return of no less than total deposits made to the contract adjusted for any partial withdrawals upon death. In certain of these indexed variable annuity contracts, the Company also contractually guarantees to the contractholder withdrawal benefits payable during specific periods.

The fair values of insurance liabilities associated with variable annuity contracts with guaranteed benefits are calculated as the present value of future expected benefit payments to customers, anticipated future trail commissions paid to agents and certain administrative expenses less the present value of future expected rider fees, mortality and expense charges, contract charges and the anticipated future reimbursement of certain asset management fees. This methodology could result in either a liability or asset balance, given changing capital market conditions and various actuarial assumptions. Since there is no observable active market for the transfer of these obligations, the valuations are calculated using internally developed models with option pricing techniques. The

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models are based on a risk neutral valuation framework and incorporate premiums for risks inherent in valuation techniques, inputs, and the general uncertainty around the timing and amount of future cash flows. The determination of these risk premiums requires the use of management's judgment.

The significant inputs to the valuation models include capital market assumptions, such as interest rate levels and volatility assumptions, as well as actuarially determined assumptions, including contractholder behavior, such as lapse rates, benefit utilization rates, withdrawal rates, and mortality rates. The actuarially determined assumptions are based on the Company's experience, industry data, and/or other factors, in the pricing of the acquisition.

The discount rates are determined using current market risk-free interest rates, including a spread. The spread over the risk-free rate (SOFR and LIBOR) swap curve represents the premium added to the proxy for the risk-free rate to reflect the Company's estimates of rates that a market participant would use to value the living benefits in both the accumulation and payout phases and index-linked interest crediting guarantees.

Short Duration Lines of Business

Our loss reserves cover excess workers' compensation, environmental impairment liabilities, legacy environmental and all other lines which consists of other casualty run-off exposures, including primary workers' compensation, general liability, professional liability medical malpractice, product liability, and accident and health exposures. In establishing retroactive reinsurance claim liabilities, we analyze historical aggregate paid and reported loss patterns and project losses into the future under various actuarial methodologies. We expect to pay claims for several decades for many lines of business. We monitor paid and reported claim activity and review ceding company reports and other information concerning the underlying losses. We reassess and revise the expected timing and amounts of ultimate losses periodically or when significant events are revealed through our monitoring and actuarial review processes.

The following table details our liabilities for unpaid loss and loss adjustment expenses at December 31, (in millions):

	2022			
	Case Reserves	IBNR	LAE	Total
Excess workers' compensation	\$ 658	\$ 1,003	\$ 96	\$ 1,757
Environmental impairment liabilities	349	254	81	684
Legacy environmental	202	130	159	491
All other lines	388	537	222	1,147
Liabilities for unpaid loss and allocated LAE, net of reinsurance	1,597	1,924	558	4,079
Discount for workers' compensation	(198)	(268)	—	(466)
Total liability for unpaid loss and loss adjustment expenses	\$ 1,399	\$ 1,656	\$ 558	\$ 3,613

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	2021			
	Case Reserves	IBNR	LAE	Total
Excess workers' compensation	\$ 723	\$ 1,028	\$ 118	\$ 1,869
Environmental impairment liabilities	416	296	90	802
Legacy environmental	237	116	166	519
All other lines	272	286	87	645
Liabilities for unpaid loss and allocated LAE, net of reinsurance	1,648	1,726	461	3,835
Discount for workers' compensation	(217)	(308)	—	(525)
Total liability for unpaid loss and loss adjustment expenses	\$ 1,431	\$ 1,418	\$ 461	\$ 3,310

The following table provides a roll forward of loss and loss adjustment expense reserves, excluding premium deficiency reserves, including detail on paid incurred losses from prior accident years and the current accident year for the years ended December 31, (in millions):

Liability for unpaid losses and loss adjustment expenses	2022	2021
Balance at beginning of period	\$ 3,310	\$ 3,593
Assumed business⁽¹⁾	541	—
Net losses incurred:		
Current period	3	5
Prior period ⁽²⁾	72	(111)
Total net losses incurred	75	(106)
Effect of change in discount	59	106
Net paid losses:		
Current period	—	—
Prior period	(372)	(283)
Total net paid losses	(372)	(283)
Balance at end of period	\$ 3,613	\$ 3,310

⁽¹⁾ Assumed business in 2022 includes \$2 million unallocated loss adjustment expenses (ULAE).

⁽²⁾ The (favorable) and unfavorable developments for the applicable periods were added to the basis of the respective deferred gain and deferred charge within the consolidated balance sheets consistent with our accounting policy described in Note 3.

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The following table details our prior accident year loss development for the years ended December 31, (in millions):

(Favorable) / Unfavorable prior year development	2022	2021
Excess workers' compensation	\$ (56)	\$ (70)
Environmental impairment liabilities	—	(81)
Legacy environmental	12	25
All other lines	116	15
Total prior year development	\$ 72	\$ (111)

The significant drivers of the prior year loss development are discussed below. 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. See Note 11 for additional information on the amortization of deferred gain.

Prior Year Loss Development - year ended December 31, 2022

During 2022, the Company recognized unfavorable prior year loss reserve development of \$72 million. This unfavorable development was comprised of \$56 million favorable development relating to excess workers' compensation, \$12 million unfavorable development within legacy environmental, \$2 million favorable development in all other lines assumed prior to 2022 and \$118 million unfavorable development from new deals assumed in 2022. In general, the prior year development was booked after taking into consideration the results from the actuarial analyses we performed for each line of business over the course of calendar year 2022, as well as a review of actual versus expected results during the calendar year.

With respect to individual lines of business detailed in the table above:

- **Excess Workers' Compensation:** The Company booked \$56 million in favorable prior year development. This favorable development was spread throughout a number of historical accident years, which we believe was a result of our continuing loss mitigation efforts for this line of business.
- **Legacy Environmental:** The Company booked \$12 million in unfavorable prior year development. This unfavorable development was a result of an increase in the Excess segment due to higher average severity assumptions offset by a lower frequency assumption for the Primary segment combined with a favorable settlement for the small party accounts associated with the Lower Passaic River site.
- **All Other Lines:** The Company booked \$2 million of favorable prior year development attributable to the Runoff Divisions loss portfolio. \$118 million of adverse development was recognized on business assumed in 2022 due to adverse development since the deals were originally priced.

Prior Year Loss Development - year ended December 31, 2021

With respect to individual lines of business detailed in the table above:

- **Excess Workers' Compensation:** The \$70 million favorable development was spread throughout a number of historical accident years, which we believe was a result of our continuing loss mitigation efforts for this line of business and is consistent with sector-wide trends for such coverage.
- **Environmental Impairment Liability:** The \$81 million favorable prior year development included \$77 million favorable development for the Pollution Legal Liability products, \$10 million favorable development from the PROPAC product (a combined professional liability and package policy for environmental contractors), \$8 million unfavorable development from the Cleanup Cost Cap product and \$2 million of favorable development from all other exposures. Such favorable development resulted from less than expected claim development and refined assumptions.

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- Legacy Environmental: The \$25 million unfavorable prior year development was the result of an increase in our Primary policy segment and a decrease in expected inuring reinsurance from recoveries from the cedant's external reinsurers.
- All Other Lines: The \$15 million unfavorable prior year development was allocated amongst different products and included \$15 million unfavorable development for Physicians & Surgeons professional liability, \$5 million unfavorable development for Lexington Commercial Automobile liability, and \$5 million favorable development for extra contractual obligations.

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

With respect to the cumulative incurred and cumulative paid information presented below, all information for retroactive reinsurance agreements is presented prospectively from the date at which the reserves were assumed. As the reserves are effectively re-underwritten at the date the reserves are assumed, we believe that the historical loss development prior to being assumed by us is not relevant to our own experience managing these reserves. In addition, the information required to prepare the loss development on a retrospective basis is not always available to us. We analyze the loss development tables on a prospective basis by the year in which we assume the reserves such that the impact of the assumed reserves from 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 so no further loss development tables have been provided for these lines of business.

Reserves assumed in the year ended December 31, 2018 - All lines of business assumed prior to 2022

(in millions)	Incurred Loss and allocated LAE						As of December 31, 2022	
	For the years ended December 31,							
Accident Year	Net reserves assumed (unaudited)	2018 (unaudited)	2019 (unaudited)	2020 (unaudited)	2021 (unaudited)	2022	Total of IBNR Liabilities Plus Expected Development on Reported Losses	Cumulative Number of Reported Claims
Prior	\$ 4,386	\$ 4,511	\$ 4,496	\$ 4,482	\$ 4,392	\$ 4,341	\$ 1,851	14,379
2013	159	149	169	171	155	148	35	228
2014	206	156	147	141	135	134	33	318
2015	368	268	257	244	242	244	49	454
2016	146	140	155	138	140	147	36	425
2017	123	158	150	107	116	122	13	415
2018	9	49	68	57	49	52	10	349
2019			26	33	33	29	5	147
2020				22	23	20	11	224
2021					5	6	6	17
2022						3	5	4
	\$ 5,397					\$ 5,246	\$ 2,054	16,960
Cumulative Paid Losses and Allocated LAE during the above period						(1,748)		
Discount as of December 31, 2022						(466)		
Liabilities for losses and LAE						\$ 3,032		

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Cumulative Paid Losses and Allocated Loss Adjustment Expenses years ended December 31, (in millions):

Accident Year	Cumulative paid loss and allocated LAE				
	2018 (unaudited)	2019 (unaudited)	2020 (unaudited)	2021 (unaudited)	2022
Prior	\$ 274	\$ 581	\$ 742	\$ 973	1,199
2013	19	44	56	62	71
2014	25	38	64	69	80
2015	65	97	145	162	174
2016	18	46	64	70	94
2017	30	57	52	58	65
2018	9	22	31	37	38
2019		2	16	20	21
2020			2	4	6
2021				—	—
2022				—	—
				\$	1,748

Excess Workers' Compensation

Excess workers' compensation has a long tail and is one of the most challenging lines of business from an actuarial reserving perspective, particularly when the excess coverage is provided above a self-insured retention layer. The class is highly sensitive to small changes in assumptions (for example, the rate of medical inflation or the longevity of injured workers) which can have a significant effect on the ultimate reserve cost estimate. Excess workers' compensation business was written over qualified self-insurance from the 1970's through 2012. In this book of business, the claims are not handled (or administered) by the ceding company personnel, but are administered by the client's designated third party administrators ("TPAs"). However, claims personnel affiliated with FRL maintain an oversight role over these TPAs and claims.

Loss and loss adjustment expense liability estimates for excess workers' compensation exposures are subject to additional uncertainties, due to the following:

- Claim settlement time is longer than most other casualty lines, due to the lifetime benefits that can be expected to pay out on certain claims;
- Coverage statutes that vary by state; and
- Future medical inflation costs are difficult to estimate.

A combination of traditional methods (paid and incurred loss development) and non-traditional methods (individual claim annuity model, report year incurred loss development, and IBNR count/severity methods) are used to estimate loss and loss expense liability estimates. Loss data is segmented so as to reflect the anomalies in the historical data due to the various loss mitigation initiatives employed over the last several years.

The last material claim related to this business occurred more than 10 years ago and there were no incurred losses and allocated loss adjustment expenses related to the last 10 accident years. The total actual paid losses were \$56 million and \$64 million for the years ending December 31, 2022 and 2021, respectively.

Environmental Impairment Liability

Environmental impairment includes pollution legal liability, contractor's pollution liability, errors and omissions, and underground storage tank policies written prior to 2016. The process of establishing reserves for environmental impairment claims is subject to greater uncertainty than the establishment of reserves for liabilities relating to other types of insurance claims. As a result of the significant uncertainty inherent in determining environmental impairment liabilities and establishing related reserves, the use of conventional reserving methodologies frequently has to be supplemented by reviewing each of the outstanding claims on a claim-by-claim basis in establishing the

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reserves. Additional consideration is given by evaluating the exposure presented by each policyholder, the anticipated cost of resolution, if any, for each policyholder, available coverage, and the relevant judicial interpretations and historical value of similar exposures in establishing the reserves. Prior to June 2, 2020, the environmental impairment liability line of business included unearned premium relating to multi-year policies written prior to June 1, 2016. Therefore, for calendar years ended December 31, 2017, 2018 and 2019, losses incurred for accident years subsequent to June 1, 2016 were attributable to incurred losses as these multi-year policy premiums earned out over the life of the contract. As further discussed in Note 11, a substantial modification occurred which resulted in incurred loss activity for all accident years being classified as retroactive reinsurance.

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 our claims system identifies a unique claim identifier to each reported claim that we receive.

(in millions)	Incurred Loss and allocated LAE						As of December 31, 2022	
	For the years ended December 31,							
Accident Year	Net reserves assumed (unaudited)	2018 (unaudited)	2019 (unaudited)	2020 (unaudited)	2021 (unaudited)	2022	Total of IBNR Liabilities Plus Expected Development on Reported Losses	Cumulative Number of Reported Claims
Prior	\$ 823	\$ 822	\$801	\$ 813	\$ 773	\$ 768	182	1,305
2013	115	106	131	134	115	111	26	162
2014	137	93	89	85	77	79	24	193
2015	186	154	149	137	123	121	31	227
2016	89	91	95	86	83	88	25	324
2017	122	157	149	107	116	122	13	415
2018	9	48	67	56	49	52	9	349
2019			26	33	33	29	5	147
2020				22	23	20	11	224
2021					5	6	6	17
2022						3	3	4
	\$ 1,481					\$ 1,399	\$ 335	3,367
Cumulative Paid Losses and Allocated LAE during the above period						(715)		
Liabilities for losses and LAE						\$ 684		

Cumulative Paid Losses and Allocated Loss Adjustment Expenses for the years ended December 31, (in millions) :

Accident Year	Cumulative paid loss and allocated LAE				
	2018 (unaudited)	2019 (unaudited)	2020 (unaudited)	2021 (unaudited)	2022
Prior	\$ 106	\$ 198	\$ 217	\$ 283	370
2013	8	27	35	39	46
2014	8	11	32	35	39
2015	24	35	73	77	78
2016	14	25	38	42	52
2017	30	57	52	58	65
2018	9	22	31	37	38
2019		2	16	20	21
2020			2	4	6
2021				—	—
2022					—
				\$	715

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Legacy Environmental

Legacy Environmental exposure consists of indemnity claims asserting property damage from toxic waste, hazardous substances, and other environmental pollutants, and claims to cover the cleanup costs of hazardous waste and pollution sites. The vast majority of these Legacy Environmental claims emanate from policies written in 1985 and prior years. Commencing in 1985, standard general liability policies contained an absolute exclusion for pollution-related damage. Environmental Impairment Liability exposures underwritten on a claims-made basis, which were written generally starting 1986, are not included in this line of business.

Loss and loss adjustment expense liability estimates for mass torts, such as Legacy Environmental exposures, are subject to additional uncertainties, due to the following:

- Case law is not fully developed;
- Coverage interpretation varies by state;
- The pool of plaintiffs and defendants is expanding significantly;
- The process of estimating provisions for premises and operations coverage is highly judgmental;
- "State of the art" analysis is a moving target; and
- Environmental reform could have a significant effect on ultimate liabilities.

To estimate loss and loss adjustment expenses reserve liability estimates, traditional methods (paid and incurred loss development, paid and incurred Cape Cod methods) are used to project historical report years to estimate incurred but not enough reported ("IBNER") reserves, and count/severity methods are used to project future report years to estimate "pure" incurred but not reported reserves. For some large accounts and sites, reserves are based on claim department estimates and analysis. After this ground-up analysis is completed, we review the reasonability of our estimates by calculating certain ratios, such as survival ratios (defined as the ratio of indicated/carried reserves to a three year average payment) and IBNR-to-case ratios, and compare these ratios against industry benchmarks. In addition, we perform a market share analysis as another measure to assess the reasonableness of our indicated/carried loss reserves.

All Other Lines

All Other Lines consist of various primary workers' compensation, general liability, professional liability, medical malpractice, products liability, commercial automobile liability, and accident and health exposures from business units that have been put into run-off. In general, loss and loss adjustment expense liabilities are estimated separately. Traditional loss estimation methods include paid and incurred loss development methods and generalized paid and incurred Cape Cod methods. We also look at an IBNR-to-Case ratio method for certain segments, a survival ratio method for some general liability segments, and an annuity model approach for some of the larger workers' compensation claims. Loss adjustment expense methods include both standard development methods and also the calendar year paid to paid method, which applies the paid to paid ratio to the loss reserves.

The last claim related to this business occurred more than 10 years ago and there were no incurred losses and allocated loss adjustment expenses related to the last 10 accident years. The total actual paid losses were \$39 million and \$45 million for the years ending December 31, 2022 and 2021.

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All Other Lines business assumed in 2022

The loss development tables below reflect general liability and professional liability exposures assumed by the Company during 2022. Individual claim level data required to create the cumulative number of reported claims is not available for these exposures.

(in millions)	Incurred Loss and allocated LAE		As of December 31, 2022	
	For the years ended December 31,			
Accident Year	Net reserves assumed (unaudited)	2022	Total of IBNR Liabilities Plus Expected Development on Reported Losses	Cumulative Number of Reported Claims
Prior	\$ 3	\$ 4	\$ 3	
2013	11	17	10	
2014	30	41	22	
2015	47	62	30	
2016	63	80	43	
2017	88	108	60	
2018	94	111	70	
2019	99	113	83	
2020	77	86	73	
2021	27	30	28	
2022	—	—	—	
	\$ 539	\$ 652	\$ 422	—
Cumulative Paid Losses and Allocated LAE during the above period			(78)	
Unallocated Loss Adjustment Expenses as of the above period			7	
Liabilities for losses and LAE			\$ 581	

Cumulative Paid Losses and Allocated Loss Adjustment Expenses for the year ended December 31, (in millions):

Accident Year	Cumulative paid loss and allocated LAE	
	2022	
Prior	\$	1
2013		3
2014		6
2015		8
2016		13
2017		16
2018		14
2019		11
2020		5
2021		1
2022		—
	\$	78

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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, 2022.

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	6.3%	14.4%	14.4%	10.8%	6.7%	6.9%	6.1%	4.1%	3.8%	2.6%
All Other Lines business assumed in 2022	0.2%	3.6%	8.0%	11.2%	13.3%	12.5%	10.2%	8.0%	6.4%	5.1%

Given the significant amount of loss and loss adjustment expense reserves in the 2012 and prior accident years, and different distributions among lines of business and accident year, we do not believe a total claim payout pattern is meaningful information.

Collateral Deposit Liability

For the year ended December 31, 2022 we incurred \$18 million of paid losses and \$11 million of interest credited to policyholders in relation to the collateral deposit liability. For the year ended December 31, 2021 we incurred \$26 million of paid losses and \$6 million of interest was credited to policyholders.

11. VOBA, Deferred Gains on Reinsurance and Deferred Charge Assets

VOBA liability

The following table presents the balances and changes in the VOBA liability for the years ended December 31, (in millions):

	2022	2021
Balance, beginning of period	\$ 4,053	\$ 4,291
Amortization	(229)	(238)
Balance, end of period	<u>\$ 3,824</u>	<u>\$ 4,053</u>

The following table provides the estimated future amortization for the 5 years indicated below for the years ended December 31, (in millions):

	Estimated future VOBA liability amortization	
2023	\$	184
2024		175
2025		170
2026		166
2027		155

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Deferred gains and Deferred charges

Long Duration Business

The table below shows the calculation of the deferred charges and related amortization on the policyholder contract deposits for the year ended December 31, (in millions):

	2022	2021
Beginning Carrying Value	\$ —	\$ —
Assumed business	215	—
Amortization	(2)	—
Ending Carrying Value	\$ 213	\$ —

The table below shows the calculation of the deferred gain and related amortization on the future policy benefits and policyholder contract deposits for the years ended December 31, (in millions):

	Future Policy Benefits		Policyholder Contract Deposits	
	2022	2021	2022	2021
Beginning Carrying Value	\$ 5	\$ 5	\$ 466	\$ 35
Assumed business	—	—	—	438
Amortization	(1)	—	(29)	(7)
Ending Carrying Value	\$ 4	\$ 5	\$ 437	\$ 466

Short Duration Business

The table below presents a roll forward of the deferred charges for the short-duration reinsurance agreements for the year ended December 31, (in millions):

	2022	2021
Beginning Carrying Value	\$ —	\$ —
Contract issuance	8	—
Amortization	(13)	—
Impairment of deferred charge	(47)	—
Net incurred losses deferred under retroactive accounting	118	—
Ending Carrying Value	\$ 66	\$ —

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The table below presents a roll forward of the deferred gains for the short-duration reinsurance agreements for the years ended December 31, (in millions):

	2022	2021 ⁽¹⁾
Beginning Carrying Value	\$ 260	\$ 162
Contract extinguishment	—	(157)
Contract replacement	—	234
Amortization	17	21
Effect of change in discount	(59)	(106)
Net incurred losses deferred under retroactive accounting	43	106
Other	(3)	—
Ending Carrying Value	\$ 258	\$ 260

⁽¹⁾ The beginning carrying value reflects an increase of \$160 million related to a change in accounting principle. Refer to further discussion in Note 3.

AIG had previously agreed to pay us for certain adverse development in property casualty related reserves, based on an agreed methodology, that may occur on or prior to December 31, 2023, up to a maximum payment of \$500 million (the "Adverse Development Cover" or "ADC"). The ADC was determined to represent contingent consideration as the cover is providing a contingent right to receive a return of a portion of the consideration paid.

Effective June 30, 2021, FRL entered into a Settlement, Release and Amendment Agreement with AIG whereby it was agreed that FGH would receive \$77 million as consideration for certain excess workers' compensation claim liabilities previously assumed under the LPT and the early termination of the ADC provided to the Company, as discussed above. The early termination of the ADC was accounted for as a substantial modification to the LPT agreements. Therefore, we derecognized the LPT with a \$157 million deferred gain and immediately recognized a replacement contract with a \$234 million deferred gain based on the excess of the fair value of the funds withheld assets over the sum of the Company's estimated loss reserves.

12. Debt Obligations and Credit Facilities

In November 2021, the Company entered into a credit facility (the "Credit Agreement"). The Credit Agreement contains a \$750 million term loan, of which \$750 million and \$250 million had been drawn as of December 31, 2022 and 2021, respectively. The previous term loan held prior to the execution of the Credit Agreement was repaid in full concurrent with the issuance of the new loan. In addition, the Credit Agreement provides for a \$750 million revolving credit facility. If the facility is undrawn the Company incurs a quarterly commitment fee of 0.30% per annum of the undrawn amount. There were no borrowings outstanding on the revolving credit facility as of December 31, 2022 or 2021. In November 2022, the Company issued a letter of credit for \$10 million to the Internal Revenue Service ("IRS") in connection with FRL electing 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 of FRL 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 letter of credit has reduced the available capacity on the revolving credit facility by \$10 million.

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A summary of outstanding debt obligations presented as long term debt within our consolidated balance sheets is set forth below at December 31, (in millions):

Facility	Origination Date	Term	2022		2021	
			Borrowing Outstanding	Fair Value	Borrowing Outstanding	Fair Value
Term Loan	November 22, 2021	3 years	\$ 750	\$ 732	\$ 250	\$ 253
Revolving credit facility	November 22, 2021	5 years	—	—	—	—
Total debt obligations			\$ 750	\$ 732	\$ 250	\$ 253

The table below provides a summary of the total interest expense for the years ended December 31, (in millions):

	2022	2021
Interest expense on debt obligations	\$ 28	\$ 7
Amortization of debt issuance costs	3	5
Total interest expense	\$ 31	\$ 12

Interest on the term loan is due quarterly at a rate of LIBOR + 1.875% subject to change to an alternative rate in the event that LIBOR is no longer considered to be an appropriate reference rate. The loan principal is subject to repayment on the maturity date in November 2024. The Company incurred costs of \$7 million in issuing the Credit Agreement during the year ended December 31, 2021. These costs included underwriters' fees, legal fees and other fees which are capitalized and presented as a direct deduction from the principal amount of the outstanding term loan. As of December 31, 2022 and 2021, \$5 million and \$7 million of the debt issuance costs were unamortized, respectively.

The Credit Agreement also specifies certain financial covenants which require: (1) the Company and its subsidiaries maintaining a total debt to total capitalization ratio less than 0.35:1; (2) FRL maintaining an enhanced capital ratio of at least 125% in conjunction with an investment grade rating; (3) the Company and its subsidiaries maintaining an adjusted consolidated net worth which shall not be less than the aggregate of 65% of adjusted consolidated net worth as of September 30, 2021 plus 50% of adjusted consolidated net income available for distribution to common shareholders after September 30, 2021 plus 50% of the proceeds of any common equity issuance of the Company made after the closing date. If an event of default occurs, the lenders under the Credit Agreement will be entitled to take various actions, including the termination of their commitments and the acceleration of amounts due. As of December 31, 2022 and 2021, the Company was in compliance with all covenants under the Credit Agreement.

13. Contingencies and Commitments

Litigation and Regulatory Matters

As of December 31, 2022 and 2021, 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.

Prior to the Company's acquisition of FLIAC on April 1, 2022, FLIAC received regulatory inquiries and requests for information from state and federal regulators, including a subpoena from the U.S. Securities and Exchange Commission, concerning the appropriateness of variable product sales and replacement activity. The Company is cooperating with regulators and may become subject to additional regulatory inquiries and other actions related to this matter.

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Commitments

The Company has commitments to purchase or fund investments, mostly private fixed maturity securities, mortgage loans and alternative investments. As of December 31, 2022 and 2021, the outstanding balance on commitments for mortgage loans was \$496 million and \$0, respectively. These amounts included unfunded commitments that were not unconditionally cancellable. The Company also made commitments to purchase or fund investments, mostly private fixed maturity securities and alternative investments. As of December 31, 2022 and 2021, \$2,538 million and \$2,427 million, respectively, of these commitments were outstanding. These amounts include unfunded commitments that are not unconditionally cancellable.

As of December 31, 2022 and 2021, these commitments include unfunded commitments of \$2,054 million and \$2,427 million, respectively, associated with investments owned by affiliates of Carlyle. See Note 15 for further information regarding related party investments.

As of December 31, 2021, the Company's unfunded commitment included a \$1 billion commitment to Carlyle Structured Credit temporarily warehoused by FRL. Of this, \$900 million was transferred to funds withheld - directly managed and \$13 million was funded by FRL in 2022.

14. Income Taxes

On October 1, 2021, the equity interests in FGH, a Delaware limited liability company, were contributed to FGP, in a tax-free transaction for U.S. tax purposes. On October 15, 2021, the Company formed FIL, a Bermuda exempted corporation. FIL then formed FIGH, a U.K. corporation, on October 29, 2021. Both FIL and FIGH operate as holding companies. On November 18, 2021, FIGH then formed FIRL, a Bermuda exempted corporation, and FIGS, also a Bermuda exempted corporation. FIRL will operate as a Bermuda composite reinsurer and will not make an election under section 953(d) of the U.S. Internal Revenue Code to be treated as a U.S. domestic insurance company for U.S. tax purposes. FIGS will operate as the non-U.S. service company for the group. While each of FIL, FIGH, FIRL and FIGS constitutes a controlled foreign corporation for U.S. tax purposes through their constructive ownership by FGH, there will be no amount of gross income included as U.S. taxable income. These entities generated \$13 million of pretax income during the year ended December 31, 2022.

During 2021 and prior years, FGH was the U.S. holding company of the following wholly owned subsidiaries; FRL, a Bermuda corporation, and FGS, a Delaware corporation. Upon formation, FGH elected to be treated as a corporation for U.S. tax purposes. 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, therefore, subject to income taxation in the U.S. FRL was treated as a non-life insurance company for U.S. tax purposes. FRL wholly owns FRI, a Delaware limited liability company that elected to be treated as a corporation for U.S. tax purposes and a member of the FGH consolidated tax return group.

On January 1, 2022, FGH acquired all of the outstanding stock of FLAS and FPCS in an all-cash transaction. Both entities are Delaware corporations that operate as third party administrators for the Life and P&C businesses, respectively. On January 3, 2022, FGH purchased all of the outstanding stock of FRC in an all-cash transaction. FRC is an Arizona based life insurance shell corporation with licenses in 42 states. On April 1, 2022, FGH acquired FLIAC for an all-cash purchase price. On May 12, 2022, FGH acquired FCIC for an all-cash purchase price. FCIC is an Ohio based P&C insurance shell corporation. Additionally, during 2022, FLIAC formed Grove Funding I, a Delaware corporation, as an investment vehicle. Further during 2022, FRI formed Grove Funding II, a Delaware corporation, as an investment vehicle.

For the 2021 tax year, FGH and its direct and indirect wholly owned subsidiaries formed a U.S. consolidated tax return group. Effective for 2022, however, FRL became a life insurance company for U.S. tax purposes once the total amount of its life reserves exceeded the 50% threshold under U.S. tax law. Thereupon, FRL (and, consequently, FRI) deconsolidated from the FGH consolidated tax return group. FRL will be eligible to rejoin the consolidated return group no later than the 2027 tax year and the entity will file a separate tax return in the interim. FRI will also deconsolidate from the FGH consolidated tax return group, but form a new consolidated return group with Grove Funding II. FRI (and Grove Funding II) will rejoin the FGH consolidated tax return group once its immediate parent company, FRL, is eligible to rejoin. FLIAC is required to remain outside the consolidated return group for five full years under U.S. tax law and will be eligible to join the FGH consolidated return group beginning

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with the 2028 tax year. In the meantime, FLIAC will file a separate tax return. Grove Funding I, as investment company, is not eligible to consolidate with FLIAC and will also file a separate tax return until FLIAC joins the group in 2028, at which time it will become a member of the FGH consolidated tax return group. FLAS, FPCS, FRC, and FCIC will join the FGH consolidated tax return group, effective the day after each entity was acquired.

The Company's tax provision for the year ended December 31, 2022 has been prepared based on the multiple filing groups noted above, while the tax provision for the year ended December 31, 2021 has been prepared based on the single consolidated tax return filing group.

Acquisition-Related Tax Elections

In conjunction with the acquisition of FLIAC, the Company and Prudential Financial agreed to make a joint election under Section 338(h)(10) of the U.S. Internal Revenue Code and under any similar provisions of state or local law (the "Section 338(h)(10) Election") with respect to the purchase of the shares of FLIAC. Under this election, the parties agreed to treat the transaction for federal income tax purposes as if it had been structured as an asset sale and purchase. As a result of this election, the tax basis of the FLIAC's assets and liabilities were reset to fair value at the time of the acquisition, which resulted in the elimination of previously established current and deferred income tax balances and the establishment of new balances that reflect the updated tax basis, including tax deductible VOBA. See Note 4 for further information regarding the acquisition and the associated updated income tax balances.

U.S. Tax Law Changes

On November 15, 2021, the U.S. enacted the Infrastructure Investment and Jobs Act to improve infrastructure in the U.S. The tax provisions of the Infrastructure Investment and Jobs Act have not had and are currently not expected to have a material impact on the Company's U.S. federal tax liabilities.

On August 16, 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 is still evaluating the implications of this new law for the 2023 tax year, but there are no implications for the year ended December 31, 2022.

Effective Tax Rate

The following table presents the income tax expense (benefit) for the years ended December 31, (in millions):

	2022	2021
Income tax expense (benefit):		
Current	\$ 136	\$ 290
Deferred	(2,122)	(351)
Total income tax benefit	\$ (1,986)	\$ (61)

FGH Parent, L.P.
Notes to Consolidated Financial Statements

As of and for the year ended December 31, 2022 (not covered by the auditor's report) and as of and for the year ended December 31, 2021 (not covered by the auditor's report)

Our 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% to income / (loss) before tax due to the following, as shown in the following reconciliation for the years ended December 31, (in millions):

	2022	2021
Loss before taxes	\$ (9,603)	\$ (273)
U.S. federal income tax benefit at statutory rate	(2,018)	(57)
Valuation allowance	37	—
Dividends received deduction, net of proration	(5)	—
Non-US loss	(3)	—
Prior year tax return adjustments	—	(3)
Other permanent items	3	(1)
Total income tax benefit	\$ (1,986)	\$ (61)

FGH Parent, L.P.
Notes to Consolidated Financial Statements

As of and for the year ended December 31, 2022 (not covered by the auditor's report) and as of and for the year ended December 31, 2021 (not covered by the auditor's report)

Deferred Taxes

The following table presents the components of the net deferred tax assets (liabilities) as of December 31, (in millions):

	<u>2022</u>	<u>2021</u>
Deferred tax assets:		
VOBA	\$ 928	\$ 851
Loss on funds withheld - directly managed	814	—
Reinsurance settlement	351	—
Life policy reserves	—	249
Basis difference on investments	215	—
Deferred gain on reinsurance	161	154
Deferred policy acquisition costs	39	28
Non-life reserves	31	23
Capital loss	26	—
Net operating loss	22	—
Employee benefits	10	5
Deferred revenue	9	—
Other	—	—
Total deferred tax assets	2,606	1,310
Deferred tax liabilities:		
Gain on funds withheld - directly managed	—	(697)
Reinsurance settlement	—	(274)
Life policy reserves	(2)	—
Reinsurance modification	(22)	(24)
Basis difference in investments	—	(12)
Other	(7)	(1)
Total deferred tax liabilities	(31)	(1,008)
Net deferred tax asset before valuation allowance	2,575	302
Valuation allowance	(37)	—
Net deferred tax asset	\$ 2,538	\$ 302

The difference between the increase in the deferred tax asset balance of \$2.2 billion and the deferred tax benefit recognized for the year of \$2.1 billion, which totals approximately \$114 million, represents the current year deferred tax asset of \$92 million recorded in AOCI and \$22 million of deferred tax assets acquired during the year. Refer to Note 4 for further discussion on the Company's acquisitions.

Capital Loss Carryforwards and Net Operating Loss

During 2022, the Company generated a capital loss carryforward of \$125 million, which represents a \$26 million deferred tax asset. This capital loss will be carried forward for five years and utilized against any future capital gains generated during that period. As discussed below, the capital loss carryforward is subject to a valuation allowance because it is not more likely than not that the attribute will be utilized during the carryforward period.

During 2022, the Company generated a net operating loss of \$103 million, which can be carried forward indefinitely. The Company expects the net operating loss to be fully utilized in the near term.

Valuation Allowance on Deferred Tax Assets

The evaluation of the recoverability of our deferred tax asset and the need for a valuation allowance requires us 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:

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

Although realization is not assured, management believes it is more likely than not that the deferred tax assets, net of valuation allowances, will be realized.

For the year ended December 31, 2022, the Company established a valuation allowance of \$37 million with respect to realized and unrealized capital losses on our fixed maturity securities portfolio. A portion of the deferred tax asset relates to unrealized capital losses for which the carryforward period has not yet begun, and as such, when assessing its recoverability, we consider our ability and intent to hold the underlying securities to recovery, otherwise a valuation allowance is established.

For the year ended December 31, 2021, based on all available evidence, management believed that it was more likely than not that its net deferred tax asset will be realized. Therefore, the Company did not record a valuation allowance against its net deferred tax asset for this period.

Accounting for Uncertainty in Income Taxes

The Company filed federal tax returns for the short year ended December 31, 2020 and the full year 2021 and both returns are open for examination. We also periodically evaluate 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. We recognize interest and penalties related to uncertain tax benefits in U.S. Federal income tax expense. As of December 31, 2022 and 2021, 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.

15. Related Party Transactions

Carlyle Affiliated Entities

We maintain 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 recorded expenses related to these agreements of \$18 million and \$8 million for the years ended December 31, 2022 and 2021, respectively.

The Company invests in limited partnerships where a Carlyle affiliate is the general partner of the funds and other

FGH Parent, L.P.
Notes to Consolidated Financial Statements

As of and for the year ended December 31, 2022 (not covered by the auditor's report) and as of and for the year ended December 31, 2021 (not covered by the auditor's report)

structured investments managed by Carlyle affiliates. The Company's investments in funds and other structured investments managed by Carlyle were valued at \$1,749 million and \$666 million as of December 31, 2022 and 2021, respectively, and were primarily of private credit fixed income assets and limited partnership interests or investments in limited partnerships. We recorded net investment income (losses) related to these investments of \$56 million and \$84 million for the years ended December 31, 2022 and 2021, respectively.

Additionally, as of December 31, 2022 and 2021, we held investments originated by Carlyle of \$1,719 million and \$2,192 million, respectively, that are included within funds withheld - directly managed within the consolidated balance sheets.

On April 1, 2022, certain of our subsidiaries entered into a Strategic Advisory Services Agreement (the "Strategic Advisory Services Agreement"), pursuant to which an affiliate of Carlyle will provide such subsidiaries with strategic advisory and consulting services. Under the Strategic Advisory Services Agreement, the Carlyle affiliate will be entitled to advisory fees and certain expense reimbursements. The Company recorded expenses related to the Strategic Advisory Service Agreement of \$58 million during the year ended December 31, 2022 and had a \$15 million payable as of December 31, 2022.

For the year ended December 31, 2022, the Company incurred \$10 million of costs with an affiliate of Carlyle, for services provided in connection with the Company's acquisition of FLIAC.

For the year ended December 31, 2021, the Company incurred \$3 million of costs with an affiliate of Carlyle, relating to placement services performed as part of entering into the Credit Agreement in each respective year. These costs are deferred and subject to amortization over the term of the Credit Agreement, as discussed in Note 12.

T&D Affiliated Entities:

On March 31, 2022 FRL entered into a reinsurance agreement with an affiliate of T&D, through which FRL assumed a legacy block of payout and deferred annuities on a coinsurance basis.

On October 1, 2022 FRL entered into a reinsurance agreement with an affiliate of T&D, whereby FRL will assume a quota share of USD and AUD denominated single premium whole life products issued to the Japanese market under a coinsurance basis.

The Company reported assumed reinsurance recoverables, policyholder contract deposits and reinsurance payables of \$110 million, \$4,078 million and \$144 million, respectively, as of December 31, 2022 in the consolidated balance sheets in connection with these reinsurance agreements. The Company recorded assumed interest credited to policyholder account balances in the consolidated statements of income (loss) in connection with these reinsurance agreements of \$31 million for the year ended December 31, 2022.

16. Owners' Equity

On March 31, 2022, the Company announced an agreement with its existing equity holders, including Carlyle FRL and T&D, pursuant to which it had secured commitments for up to \$2.1 billion of additional equity capital. Of the \$2.1 billion of secured commitments, T&D and Carlyle FRL made capital contributions of approximately \$262.5 million and \$786.6 million on April 27, 2022 and May 16, 2022, respectively. As of December 31, 2022, the Company had issued 1,349,283 Class A and 210,753 Class B limited partnership units, of which 901,189 Class A units and 210,753 Class B units (71.28%) were owned by Carlyle FRL, 404,519 Class A units (25.93%) were owned by T&D and 43,575 Class A units (2.79%) were owned by AIG.

As of December 31, 2021, the Company had issued 1,000,000 Class A limited partnership units, of which 715,000 units (71.5%) were owned by Carlyle FRL, 250,000 units (25%) were owned by T&D and 35,000 units (3.5%) were owned by AIG.

The agreement among the Company's equity holders includes certain consent rights that are reserved to the Class A and Class B unit holders. The agreement requires the written consent of (x) each Class A unit holder that holds at least 25% of the issued and outstanding units in the Company, (y) each Class B unit holder that holds at least 50%

FGH Parent, L.P.
Notes to Consolidated Financial Statements

As of and for the year ended December 31, 2022 (not covered by the auditor's report) and as of and for the year ended December 31, 2021 (not covered by the auditor's report)

of the issued and outstanding and (z) Carlyle FRL, prior to taking or agreeing to take certain actions with respect to the Company or its subsidiaries. The actions requiring prior written consent include: (i) amend, waive or fail to diligently enforce any rights under or terminate, any investment advisory agreement or similar arrangement with Carlyle Investment Management L.L.C. or its affiliates, or enter into, amend, modify, waive or fail to diligently enforce any rights under or terminate any investment advisory agreement or similar arrangement with any other person; (ii) effect or take steps towards liquidation, dissolution, winding up or other insolvency proceeding of the Company or its subsidiaries; (iii) amend or repeal organizational documents of the Company and its subsidiaries, or otherwise alter the legal form of the Company or its jurisdiction of organization; (iv) dispose of assets with consideration in excess of 10% of the equity in the Company, acquire assets with consideration in excess of 20% of the equity in the Company, or enter into reinsurance transactions of more than 10% (for inbound) and 5% (for outbound) of combined reserves of the Company's subsidiaries; (v) enter into, amend, waive or fail to diligently enforce any material rights or exercise any rights to renew or terminate, any agreement, transaction or arrangement with any equity holder in the Company (other than Carlyle FRL) and their affiliates, other than transactions on an arms' length basis in the ordinary course as determined by the Board of Directors (acting by a simple majority of disinterested Directors); (vi) subject to certain exceptions, issue or sell equity interest; (vii) change the nature of the business of the Company or its subsidiaries; (viii) effect a sale of the Company; and (ix) approve material changes in the Company's accounting policies.

The following table shows the balance and changes in each component of AOCI for the years ended December 31, 2022 and 2021 (in millions):

	Unrealized gains (losses) of fixed maturity securities, available for sale	Changes in own credit risk related to insurance liabilities	Total Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2020	\$ 93	\$ —	\$ 93
Change in OCI before reclassifications	(124)	—	(124)
Income tax (expense) benefit	26	—	26
Balance, December 31, 2021	(5)	—	(5)
Change in OCI before reclassifications	(576)	140	(436)
Income tax (expense) benefit	121	(29)	92
Balance, December 31, 2022	\$ (460)	\$ 111	\$ (349)

17. Statutory Requirements

FRL and FIRL

Under the Bermuda Insurance Act, FRL and FIRL (together referred to as "Bermuda insurance subsidiaries") are registered as Class 4 and Class E composite reinsurance companies. Our Bermuda insurance subsidiaries are subject to the following statutory reporting requirements:

1. Statutory financial statements ("SFS"): The SFS framework is consistent with U.S. GAAP reporting requirements adjusted for prudential filters. These adjustments include the elimination of non-admitted assets not considered admissible for solvency purposes, the inclusion of certain assets and liabilities that are generally off-balance sheet under U.S. GAAP and adjustments for directions or permitted practices by the BMA. Our Bermuda insurance subsidiaries have obtained permission under Section 6C of the Bermuda Insurance Act to value the funds withheld - directly managed, where applicable, and fixed maturity securities available for sale investment portfolios pertaining to long-term business at amortized cost rather than fair value within the statutory financial statements for the years ended December 31, 2022 and 2021.

FGH Parent, L.P.
Notes to Consolidated Financial Statements

As of and for the year ended December 31, 2022 (not covered by the auditor's report) and as of and for the year ended December 31, 2021 (not covered by the auditor's report)

2. Economic Balance Sheet ("EBS"): Under the EBS framework, assets and liabilities are mainly assessed and included 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 insurer's insurance related balances valued based on a best estimate liability plus a risk margin. The best estimate liability may be calculated by applying the standard approach or the scenario approach. Under the standard approach the discount rate for insurance reserves is a rate prescribed by the BMA. Under the scenario 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.

Our Bermuda insurance subsidiaries are 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 our Bermuda insurance subsidiaries' 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"). Our Bermuda insurance subsidiaries are 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 (capital add-ons) if it deems necessary. The BMA has not imposed any additional capital requirements on our Bermuda insurance subsidiaries for the years ended December 31, 2022 and 2021. At December 31, 2022 and 2021, our Bermuda insurance subsidiaries 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 our Bermuda insurance subsidiaries fail to maintain statutory economic capital and surplus at least equal to their respective TCL, such failure will likely result in increased regulatory oversight by the BMA.

The statutory economic capital and surplus and related requirements based upon the EBS and BSCR for the years ended December 31, 2022 and 2021 (in millions) are detailed below. The values as of December 31, 2022 reflect our best estimate of the statutory economic capital and surplus and related requirement as of the date these consolidated financial statements were available to be issued.

	2022	2021
FRL		
Statutory economic capital and surplus	\$ 4,246	\$ 3,983
Required statutory economic capital and surplus	1,922	1,758
FIRL		
Statutory economic capital and surplus	\$ 253	N/A
Required statutory economic capital and surplus	\$ 18	N/A

Under the Bermuda Insurance Act, our Bermuda insurance subsidiaries are 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 our Bermuda insurance subsidiaries to fail to meet such margin or ratio. Our Bermuda insurance subsidiaries are prohibited from declaring or paying in any fiscal period dividends of more than 25% of their 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 our Bermuda insurance subsidiaries from reducing their prior period statutory capital by 15% or more without prior approval of the BMA. As our Bermuda insurance subsidiaries reinsure run-off business, they are required to seek BMA approval for any dividends or distributions.

FGH Parent, L.P.
Notes to Consolidated Financial Statements

As of and for the year ended December 31, 2022 (not covered by the auditor's report) and as of and for the year ended December 31, 2021 (not covered by the auditor's report)

FRL declared and paid dividends of \$0.8 billion and \$1.1 billion to FGH during the years ended December 31, 2022 and 2021, respectively. FIRC did not declare or pay any dividends to FGH during the years ended December 31, 2022 and 2021.

FLIAC, FRC and FCIC

FLIAC, FRC and FCIC (together referred to as our "U.S. insurance subsidiaries") are required to prepare statutory financial statements in accordance with statutory accounting principles prescribed or permitted by the subsidiary's respective state department. Prescribed statutory accounting practices include publications of the NAIC, as well as state laws, regulations and general administrative rules. Statutory accounting practices primarily differ from U.S. GAAP by charging policy acquisition costs to expense as incurred, establishing future policy benefit liabilities using different actuarial assumptions and valuing investments, deferred taxes and certain assets on a different basis.

FLIAC, FRC and FCIC reported statutory net income (loss) of \$159 million, (\$0.2) million and \$0.3 million, respectively, for the year ended December 31, 2022. FLIAC, FRC and FCIC reported statutory surplus of \$724 million, \$10 million and \$8 million, respectively, at December 31, 2022.

Our U.S. insurance subsidiaries do not utilize prescribed or permitted practices that vary materially from the statutory accounting practices prescribed by the NAIC.

FLIAC and FRC are subject to Arizona law, which limits the amount of dividends that insurance companies can pay to stockholders. The maximum dividend, which may be paid in any twelve-month period without notification or approval, is limited to the lesser of 10% of statutory surplus, as of December 31 of the preceding year, or the net gain from operations of the preceding calendar year. Cash dividends may only be paid out of surplus derived from realized net profits. Based on these limitations, FLIAC and FRC are not permitted to pay dividends in 2023 without prior notification.

FLIAC did not declare or pay any dividends to FGH during the year ended December 31, 2022. FRC did not declare or pay dividends during the year ended December 31, 2022.

FCIC is subject to Ohio law, which requires notification to the Director of the Ohio Department of Insurance ("ODI") for all dividends. The maximum dividend that can be paid by insurance companies domiciled in Ohio without prior approval of the ODI is subject to restriction and cannot exceed the greater of 10% of the prior year end surplus or the prior year's net income. FCIC did not declare or pay dividends during the year ended December 31, 2022.

18. Subsequent Events

We have evaluated the impact of subsequent events through March 10, 2023, the date at which the consolidated financial statements were available to be issued and determined there are no items to disclose.

FGH Parent, L.P.

Consolidated Financial Statements

As of December 31, 2020 and for the period from June 2, 2020 to December 31, 2020 (Successor Partnership), and the period from January 1, 2020 to June 1, 2020 (Predecessor Company)

FGH Parent, L.P.
Consolidated Financial Statements
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Report of Independent Auditors

To the Board of Directors of FGH Parent, L.P.

We have audited the accompanying consolidated financial statements of FGH Parent, L.P. and its subsidiaries (Successor Partnership), which comprise the consolidated balance sheet as of December 31, 2020 and the related consolidated statements of income (loss), of comprehensive income (loss), of changes in owners' and members' equity and of cash flows for the period from June 2, 2020 to December 31, 2020.

Management's Responsibility 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; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of FGH Parent, L.P. and its subsidiaries (Successor Partnership) as of December 31, 2020 and the results of their operations and their cash flows for the period from June 2, 2020 to December 31, 2020 in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The accompanying consolidated balance sheet of FGH Parent, L.P. and its subsidiaries (Successor Partnership) as of December 31, 2022 and 2021, and the related consolidated statements of income (loss), of comprehensive income (loss), of changes in owners' and members' equity and of cash flows for the year then ended are presented for purposes of complying with Rule 3-09 of SEC Regulation S-X; however, Rule 3-09 does not require the 2022 and 2021 financial statements to be audited and they are therefore not covered by this report.

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, 2020 and prior on pages 35-39 be presented to supplement the basic financial statements. Such information, 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.

/s/ PricewaterhouseCoopers LLP
Nashville, Tennessee
March 10, 2023

Report of Independent Auditors

To the Board of Directors of Fortitude Group Holdings, LLC

We have audited the accompanying consolidated statements of (loss) income, of comprehensive (loss) income, of changes in owners' and members' equity and of cash flows of Fortitude Group Holdings, LLC and its subsidiaries (Predecessor Company) for the period from January 1, 2020 to June 1, 2020.

Management's Responsibility 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; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Fortitude Group Holdings, LLC and its subsidiaries (Predecessor Company) for the period from January 1, 2020 to June 1, 2020 in accordance with accounting principles generally accepted in the United States of America.

/s/ PricewaterhouseCoopers LLP
Nashville, Tennessee
November 12, 2021

FGH Parent, L.P.
Consolidated Balance Sheet
(in millions, except units data)

	Successor Partnership
	December 31,
	2020
Assets:	
Investments:	
Funds withheld by ceding companies, at fair value	\$ 42,968
Fixed maturity securities available for sale, at fair value (Amortized cost: 2020 - \$3,431)	3,549
Other invested assets, at fair value	313
Short term investments	10
Total investments	46,840
Cash	187
Tax receivable	26
Other assets	20
Total assets	47,073
Liabilities:	
Future policy benefits for life insurance and annuity contracts	28,400
Policyholder contract deposits	4,510
Value of business acquired	4,291
Liability for unpaid losses and loss adjustment expenses	3,593
Collateral deposit liability	208
Deferred gain from reinsurance contracts	202
Reinsurance payable	581
Deferred income taxes, net	75
Long term debt	245
Other liabilities	40
Total liabilities	42,145
Contingencies, commitments and guarantees (Note 11)	
Equity:	
Owners' equity - 1,000,000 units issued at December 31, 2020	3,185
Retained earnings	1,650
Accumulated other comprehensive income	93
Total equity	\$ 4,928
Total liabilities and equity	\$ 47,073

See accompanying Notes to Consolidated Financial Statements.

FGH Parent, L.P.
Consolidated Statements of Income
(in millions)

	Successor Partnership	Predecessor Company
	Period from June 2, to December 31, 2020	Period from January 1, to June 1, 2020
Revenues:		
Premiums	\$ 169	\$ 126
Policy fees	48	31
Net investment income	966	316
Change in fair value of funds withheld	1,633	1,461
Net investment gains	86	63
Net foreign exchange gains	17	—
Total revenues	2,919	1,997
Benefits, losses and expenses:		
Policyholder benefits and losses incurred	609	1,579
Interest credited to policyholder account balances	124	84
General operating expenses	90	67
Interest expense	6	1
Total benefits, losses and expenses	829	1,731
Income before income tax expense	2,090	266
Income tax expense	440	55
Net income	\$ 1,650	\$ 211

See accompanying Notes to Consolidated Financial Statements.

FGH Parent, L.P.
Consolidated Statements of Comprehensive Income
(in millions)

	Successor Partnership	Predecessor Company
	Period from June 2, to December 31, 2020	Period from January 1, to June 1, 2020
Net income	\$ 1,650	\$ 211
Other comprehensive (loss) income:		
Change in unrealized gains of fixed maturity securities, available for sale	118	28
Change in foreign currency translation adjustments	—	(30)
Total other comprehensive (loss) income	118	(2)
Less:		
Deferred income tax benefit (expense) on change in unrealized gains of fixed maturity securities, available for sale	(25)	(6)
Deferred income tax on change in foreign currency translation adjustments	—	6
Total deferred income tax benefit (expense) on other comprehensive (loss) income	(25)	—
Total other comprehensive (loss) income, net of tax	93	(2)
Comprehensive income	\$ 1,743	\$ 209

See accompanying Notes to Consolidated Financial Statements.

FGH Parent, L.P.
Consolidated Statements of Changes in Owners' and Members' Equity
(in millions)

Predecessor Company	Members' Equity	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income	Total Members' Equity
Balance, December 31, 2019	\$ 2,620	\$ 3,135	\$ 101	\$ 5,856
Net income	—	211	—	211
Dividends (Note 14)	—	(2)	—	(2)
Other comprehensive loss	—	—	(2)	(2)
Balance, June 1, 2020	\$ 2,620	\$ 3,344	\$ 99	\$ 6,063

Successor Partnership	Owners' Equity	Retained Earnings	Accumulated Other Comprehensive Income	Total Owners' Equity
Balance, June 2, 2020 (Note 4)	\$ 3,185	\$ —	\$ —	\$ 3,185
Net income	—	1,650	—	1,650
Other comprehensive income	—	—	93	93
Balance, December 31, 2020	\$ 3,185	\$ 1,650	\$ 93	\$ 4,928

See accompanying Notes to Consolidated Financial Statements.

FGH Parent, L.P.
Consolidated Statements of Cash Flows
(in millions)

	Successor Partnership	Predecessor Company
	Period from June 2, to December 31, 2020	Period from January 1, to June 1, 2020
Cash flows from operating activities		
Net income	\$ 1,650	\$ 211
Adjustments to reconcile net income to net cash used in operating activities:		
Change in fair value, Other invested assets	(17)	177
Amortization of value of business acquired	(121)	—
Amortization of deferred gain from reinsurance contracts	23	(37)
Accretion of net premiums, discounts, and other	31	3
Investment gains	(36)	(28)
Deferred income tax (benefit) expense	505	(140)
Net foreign exchange gain	(17)	—
Changes in operating assets and liabilities:		
Funds withheld by ceding companies	(1,705)	(605)
Future policy benefits for life insurance and annuity contracts	(359)	849
Policyholder contract deposits	(208)	(105)
Liability for unpaid losses and loss adjustment expenses	(142)	(124)
Deferred gain from reinsurance contracts	—	72
Unearned premiums	—	(9)
Collateral deposit liability	(13)	—
Income taxes	(134)	178
Reinsurance payable	185	(533)
Other, net	27	(35)
Net cash used in operating activities	\$ (331)	\$ (126)
Cash flows from investing activities		
Proceeds from:		
Sale of fixed maturity securities, available for sale	774	131
Maturities of fixed maturity securities, available for sale	142	97
Sales and maturities of other invested assets	145	1,024
Sales and maturities of short term investments	447	971
Purchases of:		
Fixed maturity securities, available for sale	(915)	(918)
Other invested assets	(129)	(158)
Short term investments	(373)	(924)
Net cash provided by investing activities	\$ 91	\$ 223
Net cash provided by financing activities	\$ —	\$ —
Net (decrease) increase in cash	(240)	97
Cash at the beginning of the period ⁽¹⁾	428	85
Cash at the end of the period	\$ 187	\$ 182

⁽¹⁾ Includes cash proceeds from long-term debt obligations issued on June 2, 2020 concurrent with the business combination. Refer to Note 4 and Note 10.

FGH Parent, L.P.
Consolidated Statements of Cash Flows (continued)
(in millions)

	Successor Partnership	Predecessor Company
	Period from June 2, to December 31, 2020	Period from January 1, to June 1, 2020
Supplementary information		
Cash paid for interest	\$ 4	\$ —
Cash paid for taxes, net of refunds	\$ 71	\$ 18
Non-cash transactions:		
Premiums and deposits on policies reinsured through funds withheld arrangements	\$ 170	\$ 118
Claims, withdrawals and surrenders on policies reinsured through funds withheld arrangements	\$ 1,485	\$ 1,050
Non-cash dividend paid to AIG Inc. (Note 14)	\$ —	\$ 2
Receipt of securities from funds withheld arrangements	\$ 314	\$ 270

See accompanying Notes to Consolidated Financial Statements.

FGH Parent, L.P.**Notes to Consolidated Financial Statements****1. Organization and Nature of Operations**Current Organizational Structure

FGH Parent, L.P. (the "Partnership") is a Bermuda limited partnership and is the ultimate group holding entity of the following wholly owned direct and indirect subsidiaries:

- Fortitude Group Holdings, LLC ("FGH"), a holding company, formed under the laws of the State of Delaware, United States of America. FGH was the ultimate group holding company prior to the formation of the Partnership.
- Fortitude Reinsurance Company Ltd. ("FRL"), a Bermuda domiciled company registered under the Insurance Act 1978 and related regulations, as amended (the "Bermuda Insurance Act") as a Class 4 and Class E composite reinsurance company and is primarily a reinsurer of general insurance and life insurance run-off business.
- Fortitude Life & Annuity Solutions, Inc. ("FLAS"), a licensed third party administrator for life and annuity business in the State of Nevada, is incorporated in the State of Delaware. Effective May 7, 2020, FLAS was no longer consolidated by the Partnership. Refer to Note 14 for detail on the transfer of FLAS to American International Group Inc. ("AIG").
- Fortitude P&C Solutions, Inc. ("FPCS"), a licensed third party administrator for property and casualty business in the State of Illinois, is incorporated in the State of Delaware. Effective May 7, 2020, FPCS was no longer consolidated by the Partnership. Refer to Note 14 for detail on the transfer of FPCS to AIG.
- Fortitude Group Services, Inc. ("FGS"), a management services company, which is incorporated in the State of Delaware, United States of America.
- Fortitude Re Investments, LLC. ("FRI"), an investment holding company, which is organized in the State of Delaware, United States of America.

The Partnership is owned by Carlyle FRL, L.P. ("Carlyle FRL"), an investment fund advised by an affiliate of The Carlyle Group Inc. ("Carlyle"), an SEC-registered global investment firm, T&D United Capital Co., Ltd. ("T&D"), a wholly-owned subsidiary of T&D Holdings, Inc., a listed Japanese insurance group, and AIG, an SEC-registered company, with interests of 71.5%, 25.0% and 3.5%, respectively.

Unless the context indicates otherwise, the terms "the Partnership" "we," "us" or "our" refers to the consolidated group of FGH Parent, L.P. and subsidiaries.

Prior Organizational Structure

On August 8, 2018, the shares of FRL were contributed into FGH by AIG in consideration for 10,000 membership units of FGH such that FRL became a wholly owned subsidiary of FGH. AIG completed the sale of 19.9% of the total issued membership units ("2018 Sale") in FGH to TC Group Cayman Investment Holdings, L.P., an affiliate of Carlyle on November 13, 2018. As of December 31, 2018, AIG had contributed capital of \$2,620 million to FRL to support its operations and local capital requirements.

On November 25, 2019, FGH entered into a membership interest purchase agreement with AIG, Carlyle, Carlyle FRL, T&D and T&D Holdings, Inc., pursuant to which Carlyle FRL agreed to purchase from AIG a 51.6% ownership interest in FGH and T&D agreed to purchase from AIG a 25% ownership interest in FGH ("2019 Sale"). At closing, Carlyle contributed its existing 19.9% interest in FGH to Carlyle FRL. The closing of the 2019 Sale was complete with effect from June 2, 2020 whereupon 7,150 membership units of FGH (71.5%) were owned by Carlyle FRL, 2,500 membership units (25%) were owned by T&D and 350 membership units (3.5%) were owned by AIG.

In accordance with the terms of the 2019 Sale, FGH, AIG and Carlyle FRL agreed, effective upon the closing of the transaction: (i) AIG's investment commitment targets into various Carlyle strategies and vehicles, minimum investment management fee payments and make-whole fee condition were assumed by FGH and (ii) the purchase price was subject to a post-closing price adjustment pursuant to which AIG would pay FRL for certain adverse development in property casualty related reserves, based on an agreed methodology, that may occur on or prior to December 31, 2023, up to a maximum payment of \$500 million. The adverse development price adjustment and the subsequent early termination of the adverse development cover are further described in Note 8.

2. Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). All material intercompany transactions have been eliminated. All amounts are presented in United States dollars.

In December 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-12 *Definition of a Public Business Entity* which provides a single definition of the term 'public business entity'. The definition within ASU 2013-12 includes a business entity that is required to file or furnish financial statements with the U.S. Securities and Exchange Commission ("SEC"), including when financial statements are included in another entity's filing. As described in Note 1 and Note 14, prior to June 2, 2020, 19.9% of the membership units of the Fortitude Group Holdings, LLC ("FGH") were owned directly by TC Group Cayman Investment Holdings, L.P. ("TCGCIH"). Subsequent to June 2, 2020 and through December 31, 2020, 19.9% of the membership units of FGH Parent L.P. were owned indirectly by Carlyle, through Carlyle's interest in Carlyle FRL. Carlyle is required under SEC Regulation S-X, Rule 3-09 ("Rule 3-09"), *Separate Financial Statements of Subsidiaries Not Consolidated and 50 Percent or Less Owned Person*, to file the Partnership's consolidated financial statements as of December 31, 2020 and for the period from June 2, 2020 to December 31, 2020 and the period from January 1, 2020 to June 1, 2020 on an audited basis within its Form 10-K for the year ended December 31, 2020.

The Partnership's consolidated financial statements and related disclosures have therefore been prepared in accordance with the Partnership's designation as a public business entity. As the Partnership is a public business entity solely because of the application of Rule 3-09 it is not required to adopt forthcoming accounting standards on the effective date applicable to SEC filers. Further, the Partnership is not required to apply existing accounting standards applicable only to public entities, including those set forth in ASC 280, *Segment Reporting*.

Legal Entity Restructuring

The Restructuring and 2019 Sale were accounted for under the acquisition method of accounting. As the Restructuring represented both the formation of the Partnership and the transfer of the membership units of FGH to the Partnership between entities under the control of the same parent company (Carlyle FRL), the Restructuring constituted a transaction between entities under common control. When accounting for an exchange of equity between entities under common control, the receiving entity, FGH Parent L.P., shall initially measure the recognized assets and liabilities at the historical cost of the parent entity. If the carrying amounts of the assets and liabilities transferred differ from the historical cost of the parent of the entities under common control, then the financial statements of the receiving entity shall reflect the transferred assets and liabilities at the historical cost of the parent as of the date of the transfer. Prior to June 2, 2020, the basis of all identifiable assets acquired and liabilities assumed of Carlyle FRL is fair value which differed from that of Fortitude Group Holdings, LLC. Therefore, ASC Topic 805 necessitates the "pushdown" of the Carlyle FRL basis as of June 2, 2020 to the Partnership.

The application of "pushdown" accounting creates a new basis of accounting for all assets and liabilities based on fair value. As a result, the Partnership's results of operations and cash flows subsequent to the Restructuring are not comparable with those prior to June 2, 2020, and therefore have been segregated to indicate pre-acquisition and post-acquisition periods. The pre-acquisition period to June 1, 2020 is referred to as the Predecessor Company, named "Fortitude Group Holdings, LLC" ("FGH"). The post-acquisition period, June 2, 2020 and forward, includes the impact of acquisition accounting and is referred to as the Successor Partnership, named "FGH Parent, L.P.". Similarly, since the Restructuring was among entities under common control, the successor period financial statements are permitted to be presented as a Partnership despite the transaction occurring in a period subsequent to those periods presented herein.

Refer to Note 4 for additional information on the application of "pushdown" accounting. The new basis of accounting will be the basis of the accounting records in the preparation of future consolidated financial statements and related disclosures after June 2, 2020.

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 Partnership'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 our interest in funds withheld by ceding companies;
- Valuation of future policy benefit liabilities including timing and extent of loss recognition;

- Estimates of liability for unpaid losses and loss adjustment expenses;
- Estimates of the remaining life of the underlying contracts, which is used as the basis for amortizing the value of business acquired and deferred gains from long duration reinsurance contracts;
- Estimates of the timing and amount of future cash flows, which is used as a basis for amortizing the deferred gains from the short duration reinsurance contracts; and
- Estimates with respect to income taxes, including the recoverability of deferred income tax assets.

Additional details regarding these and other estimates and assumptions are included within the significant accounting policies and the related disclosures that follow. These accounting estimates require the use of assumptions about matters, some of which are highly uncertain at the time of estimation. To the extent actual experience differs from the assumptions used, the Partnership's consolidated financial condition, results of operations and cash flows could be materially affected.

Our operations are influenced by many factors, including general economic conditions, the financial condition of our cedants, the monetary and fiscal policies of the government of Bermuda and other countries in which the Partnership operates and the policies of the Bermuda Monetary Authority (BMA). We are exposed to the market risks normally associated with a portfolio of fixed income securities, which include interest rate, liquidity, and credit spread risks as well as risks impacting reserves. Refer to Note 7 and Note 9 for additional information regarding these risks.

3. Summary of Significant Accounting Policies

The following summarizes our significant accounting policies.

(a) Investments and Cash

Funds withheld by ceding companies: Funds withheld by ceding companies represents a reinsurance receivable collateralized by segregated portfolios of investments maintained by the ceding companies. While the investments maintained in the funds withheld by ceding companies are legally owned by the ceding companies, the investments are separately identified from their general accounts and, pursuant to our contractual terms with those ceding companies, all future realized and unrealized gains and losses and net investment income on the investments accrue to us. The Partnership is entitled to all economic rights and obligations on the collateral as if the Partnership held the investments directly. We have therefore elected to present funds withheld by ceding companies within the total investments subheading on the balance sheet. The application of "pushdown accounting", as discussed in Note 2 and Note 4, permitted the Successor Partnership to elect the fair value option for eligible financial assets and liabilities with effect from June 2, 2020. The Successor Partnership made the irrevocable election to apply the fair value option to the funds withheld by ceding companies with effect from this date.

The Partnership has elected to report the net investment income and net investment gains arising from the underlying investments maintained within the funds withheld by ceding companies account in the same financial statement line that such investment income would have been recorded had the Partnership held the investments directly.

The change in fair value of funds withheld by ceding companies, excluding alternative investments, is presented separately within the consolidated statements of income. The change in fair value of alternative investments collateralizing the funds withheld by ceding companies is recorded within net investment income.

For the Predecessor Company, the reinsurance agreements contained an embedded derivative because the ceding companies are paying an interest rate attributable to the returns on the portfolio of investments which collateralize the reinsurance receivable that is not associated with the ceding companies own credit risk. The fair value of the embedded derivative on the reinsurance agreements was included in funds withheld by ceding companies in the consolidated balance sheets. As the funds withheld assets are settled on a quarterly basis the fair value of the embedded derivatives was equal to the unrealized gain or loss on the segregated investment portfolio.

Fixed maturity securities, available for sale: Fixed maturity securities classified as available for sale are carried at fair value. Unrealized gains and losses from available for sale investments in fixed maturity securities are reported as a separate component of accumulated other comprehensive income, net of deferred income taxes. Investments in fixed maturity securities are recorded on a trade-date basis. As discussed in Note 4, consistent with the application of "pushdown" accounting, the carrying value of the funds withheld by ceding companies and fixed maturity securities available for sale portfolios for the Successor Partnership was reset to fair value as of June 2, 2020.

Other invested assets: Other invested assets include private equity funds, certain fixed maturity securities and derivative instruments. We elected the fair value option for certain fixed maturity securities. We utilize net asset value ("NAV") as an estimate of fair value for our private equity funds, which is a permitted practical expedient. Derivative instruments are carried at fair value. Changes in fair value of other invested assets are reported in net investment income.

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

Cash: This consists of cash on hand, demand deposits and highly liquid debt instruments with an original maturity of three months or less.

(b) Reinsurance

Assumed reinsurance: We assume both life and annuity and general insurance reinsurance and investment contracts under modified co-insurance and funds withheld arrangements. The mortality and timing risks related to certain life blocks of business, such as whole life, universal life, and pension risk transfer annuities with life contingencies were transferred to us and are subject to reinsurance accounting. 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 accounting, rather than reinsurance accounting. The general insurance lines of business qualify to be accounted for as retroactive reinsurance.

Deferred Gain - Long Duration: The difference between the consideration received and the liabilities assumed under the reinsurance contract is recorded as a deferred gain from reinsurance contracts in the consolidated balance sheets. The deferred gain is amortized over the lives of the reinsured policies in relation to expected benefit payments or insurance in-force for insurance contracts. The amortization is included within "Policyholder benefits and losses incurred" within the consolidated statements of income.

Deferred Gain - Short Duration: Retroactive reinsurance contracts provide indemnification with respect to past loss events. For these contracts, the difference between the consideration received and the liabilities assumed under the reinsurance contract, represents a net cost of reinsurance liability and 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 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.

We monitor subsequent development on losses that occur during the retroactive period and will revise the deferred gain balance on a cumulative basis. 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 and losses incurred" within the consolidated statements of income.

Value of business acquired ("VOBA"): The VOBA intangible liability represents the difference between estimated fair value of future best estimate liability cash flows and the Partnership's liability for future policyholder benefits and contract deposits after adjusting for current assumptions measured as of the business combination date.

The fair value estimate incorporated the following market participant based assumptions:

- Projections of future liability cash flows;
- A risk-free discount rate, representing the time value of money excluding non-performance risk;
- An adjustment to the risk-free discount rate to reflect the Partnership's credit rating and claims paying ability to reflect non-performance risk; and
- The inclusion of a market risk margin to account for the inherent uncertainty in the liability cash flows.

This VOBA liability is amortized over the lives of the reinsured policies of up to 70 years, in relation to expected benefit payments or insurance in-force amounts for insurance contracts. The amortization is included within "Policyholder benefits and losses incurred" within the consolidated statements of income.

(c) Future policy benefits for life insurance and annuity contracts

Future policy benefits for life insurance and annuity contracts include retirement products whose payments depend on contract holder's survival such as structured settlements with life contingencies, single premium immediate annuities ("SPIA") with life contingencies, and pension risk transfer annuities; and traditional life insurance products such as whole life ("WL") and return of premium ("RoP") term, accident & health ("A&H") and long term care ("LTC").

For these long duration traditional products, "locked-in" assumptions apply. 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. Periodically, we are required to evaluate these "locked-in" assumptions. A loss recognition event occurs when there is a shortfall between the carrying amount of future policy benefit liabilities and estimated future policy benefit liabilities determined by applying current best estimate assumptions. If we determine a loss recognition event has occurred, we would record additional liabilities through a charge to future benefits expense. We would then replace the old "locked-in" assumption set with the current best estimate. These assumptions were "locked-in" at June 2, 2020 as the best estimate assumptions at that time during the application of purchase accounting, as discussed further in Note 4. Future reserves would be set by reviewing the updated best estimate assumptions periodically and making further adjustments where necessary. Other adjustments include unearned premium liabilities, incurred but not reported claims, and disabled lives reserves where Accident & Health products such as disability income have claimants receiving ongoing benefits.

(d) Policyholder contract deposits

The liability for policyholder contract deposits is recorded at accumulated or fund value (deposits received, plus accrued interest credited, less withdrawals, charges and fees). Amounts collected on investment-oriented products are not recognized as revenues, because they are recorded directly to policyholder contract deposits upon receipt.

Policyholder contract deposits are primarily comprised of deferred annuities and annuities issued in structured settlement arrangements, single premium immediate annuities ("SPIA") contracts with no life contingent features and universal life contracts. The liability for these products represents an estimate of the present value of future benefits using an interest rate determined at the treaty inception date. The liability for deferred annuities in the accumulation phase is set equal to the contracts' fund value.

For universal life contracts that are determined to have profits in earlier years and losses in subsequent years from the insurance benefits, an additional liability 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 us for benefits to be provided in future periods.

(e) Liability for unpaid losses and loss adjustment expenses

Loss reserves and loss adjustment expense ("LAE") represent estimates of unpaid claims, including estimates for claims incurred but not reported and loss adjustment expenses ("IBNR"), less applicable discount. We regularly review and update 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 previous estimates of ultimate loss are referred to as unfavorable or adverse development. Reserve changes that decrease previous estimates of ultimate cost are referred to as favorable development. Prior year development can refer to either favorable or unfavorable development.

Discounting of loss reserves: The Partnership discounts total workers' compensation liabilities using a discount rate calculated from the U.S. Treasury rates plus a liquidity premium, along with the use of payout patterns specific to our primary and excess workers' compensation portfolios. We lock in this discount rate at the inception of the contract, and no periodical updates are made. The locked in discount rate on the Company's current workers' compensation liabilities is 2.31%.

During the year ending December 31, 2022, the Company made a policy election to change its prior accounting policy where the discount rate was updated periodically along with the updated payout patterns. In our view, the revised accounting policy is a more preferable approach as changes in interest rates do not represent changes in

amounts or timing of cash flows and the underlying deferred charge or gain would have been measured based on discount rates that existed at the time of the reinsurance contract.

The Company assessed the retrospective application of the above accounting policy change and determined that there were no material impacts to the December 31, 2020 financial statements. Note that the ending carrying value of the deferred gain at December 31, 2020 (as disclosed in Note 8) was revised from \$2 million to \$162 million to reflect the balance sheet reclassification impact of the accounting policy change with an offsetting impact to the liability for losses and LAE.

Premium Deficiency: The Partnership recognizes a premium deficiency reserve if the expected unpaid ultimate losses and loss adjustment expenses from future insured events exceed the related unearned premiums and other liabilities established and anticipated investment income. Any future expected losses on unearned premium is recorded as an increase to loss and loss adjustment expense reserves within the consolidated balance sheets and included within policyholder benefits and losses incurred within the consolidated statements of income.

(f) Collateral Deposit Liability

The Partnership has contractually assumed certain environmental protection plan ("EPP") and clean-up cost cap ("CCC") exposures. EPP and CCC products are designed to incorporate elements of program funding (investment risk on EPP) along with cost overrun protection (insurance risk on CCC) for the remediation of known environmental contamination issues.

Effective with the contract modification described in Note 8, the Partnership recognizes proceeds received under EPP programs as a collateral deposit liability, given insurance risk is not transferred under such funding programs. As losses funded by the policyholder are paid, the collateral deposit liability is reduced and as interest, estimated by applying the effective yield method, is accrued, the collateral deposit liability is increased.

(g) Other assets and other liabilities

Other assets primarily consist of accrued interest receivable on fixed maturity securities and other investment-related receivables. Other liabilities primarily consist of expense accruals and other payables.

(h) Income Taxes

The income tax provision is calculated under the asset and liability method. We recognize deferred income tax assets and liabilities for the expected future tax effects attributable to temporary differences between the financial statement 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 financial statement 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. Valuation allowances are established when necessary to reduce deferred tax assets to an amount that in management's opinion, is more likely than not to be realized.

The Partnership 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 percent). The evaluation of the recoverability of the deferred tax asset and the need for a valuation allowance requires the Partnership 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.

The Partnership framework for assessing the recoverability of deferred tax assets requires consideration of all available evidence, including: (i) the nature, frequency, and severity of cumulative financial reporting losses in recent years; (ii) the predictability of future operating profitability of the character necessary to realize the net

deferred tax asset; (iii) the carry forward periods for the net operating loss, capital loss and foreign tax credit carry forwards, including the effect of reversing taxable temporary differences; and (iv) prudent and feasible tax planning strategies that would be implemented, if necessary, to protect against the loss of the deferred tax asset.

(i) Premiums and Policy Fees

We assume premiums and policy fee revenues from ceding insurance companies. Premiums for short-duration contracts are recorded as written on the inception date of the policy. For short-duration insurance contracts, premiums are generally earned on a pro-rata basis over the terms of the related policies. For traditional long-duration insurance contracts (including term and whole life contracts and certain annuities), premiums are earned when due. Estimates for premiums due but not yet collected are accrued. For annuities and structured settlements without significant mortality or morbidity risk (investment contracts) and universal life contracts (long-duration contracts with terms that are not fixed or guaranteed), premiums received are reported as policyholder contract deposits. Policy fees represent revenues recognized from insurance contracts consisting of policy charges for cost of insurance and policy administration charges. Policy fees are recognized as revenues in the period in which they are assessed against policyholders, unless the fees are designed to compensate us for the services to be provided in the future, in which case they are deferred.

(j) Foreign currency

Financial statement accounts expressed in foreign currencies are translated into U.S. dollars. Functional currency assets and liabilities are translated into U.S. dollars generally using rates of exchange prevailing at the balance sheet date and the related translation adjustments are recorded as a separate component of other comprehensive (loss) income, net of any related taxes. Functional currencies are generally the currencies of the local operating environment. Other foreign currency assets and liabilities that are considered monetary items are translated at exchange rates in effect at the balance sheet date. Foreign currency revenues and expenses are translated either at transaction date exchange rates or using a weighted average exchange rate for the reporting period. These exchange gains and losses are recognized in net foreign exchange gains within the consolidated statements of income.

(k) Statement of Cash Flows presentation of funds withheld by ceding companies

Withdrawals from our funds withheld reinsurance arrangements are based on statutory levels of the associated assets and liabilities. The excess (shortfall) under these agreements is settled on a periodic basis and can be settled in either cash or securities depending on the specific reinsurance agreement. The portion settled in cash is reflected in cash from operations with the securities portion being reflected as a non-cash transaction. The Partnership presents activity within funds withheld by ceding companies as well as activities related to the reinsurance arrangements as operating cash flows.

(l) Long term debt

Long term debt is recorded within the consolidated balance sheets as proceeds received less unamortized issuance costs. Debt issuance costs are capitalized and amortized over the estimated life of the debt.

Accounting Standards Adopted During 2020

ASU 2018-13 Fair Value Measurement Disclosure:

In August 2018, the FASB issued ASU 2018-13 which modifies the disclosure requirements of fair value measurements as part of the disclosure framework project with the objective to improve the effectiveness of disclosures in the notes to the consolidated financial statements. ASU 2018-13 removes the following disclosure requirements from Topic 820: (1) the amount and reasons for transfer between Level 1 and Level 2 of the fair hierarchy, (2) the policy for transfers between levels and (3) the valuation processes for Level 3 fair value measurements. We adopted the ASU on its effective date, January 1, 2020. The adoption did not have a material impact on the consolidated statements of income, consolidated financial position, consolidated cash flows or required disclosures.

ASU 2020-03 Codification Improvements to Financial Instruments:

In March 2020, the FASB issued ASU 2020-03 which makes narrow-scope improvements to various topics within the codification relating to financial instruments, inclusive of the new credit losses standard as described below. The amendments related to certain specific issues covered by the ASU were effective immediately upon the issuance of the ASU, while certain specific issues covered by the ASU relating to the credit losses standard will become effective upon our adoption of ASU 2016-13 and the related ASUs as further described below on the effective date of January 1, 2023.

ASU 2020-04 Reference Rate Reform:

In March 2020, the FASB issued ASU 2020-04 which contains guidance designed to simplify how entities account for contracts that are modified to replace the London Inter-bank Offered Rate ("LIBOR") with alternative reference rates. The amendments within the ASU provide entities the option to apply expedients and exceptions to contract modifications that are made until December 31, 2022, if certain criteria are met. An entity that makes the elections under the provisions of the ASU would not have to remeasure the contracts at the modification date or reassess a previous accounting determination. The ASU was effective upon its issuance and can be applied through to December 31, 2022. We adopted the ASU upon its issuance and as we transition from LIBOR to alternative reference rates, we will elect the expedients and exceptions for contract modifications as permitted by the ASU. The adoption of this standard did not have a material impact on the consolidated statements of income, consolidated financial position, consolidated cash flows or required disclosures.

Future Adoption of Accounting Standards

ASUs 2016-13, 2018-19, 2019-04, 2019-05, 2019-10, 2019-11, 2020-02 Financial Instruments - Credit Losses - Measurement of Credit Losses on Financial Instruments:

In June 2016, the FASB issued an accounting standard that will change how entities account for credit losses for most financial assets, trade receivables and reinsurance receivables. The standard will replace the existing incurred loss impairment model with a new "current expected credit loss" model that generally will result in earlier recognition of credit losses. The standard will apply to financial assets subject to credit losses, including loans measured at amortized cost, reinsurance receivables and certain off-balance sheet credit exposures. Additionally, the impairment of available-for-sale debt securities, including purchased credit deteriorated securities, are subject to the new guidance and will be measured in a similar manner, except that losses will be recognized as allowances rather than reductions in the amortized cost of the securities. The standard will also require additional information to be disclosed in the notes to the financial statements.

We plan to adopt the standard on its effective date, January 1, 2023. We are continuing to develop our implementation plan to adopt the standard and to assess the impact on our financial condition. While we expect an increase in our allowances for credit losses, given the objective of the new standard, the amount of any change will be dependent upon the composition and credit quality of our fixed maturity portfolio at the adoption date as well as economic conditions and forecasts at that time.

ASU 2018-12 Targeted Improvements to the Accounting for Long-Duration Contracts and ASU 2020-11 Effective Date and Early Application:

In August 2018, the FASB issued an accounting standard update with the objective of making targeted improvements to the existing recognition, measurement, presentation, and disclosure requirements for long-duration contracts issued by an insurance entity. The changes to the measurement, recognition, presentation and disclosure as provided by the new accounting standard update are summarized below:

- Requires the review and update of future policy benefit assumptions at least annually for traditional and limited pay long duration contracts, with the recognition and separate presentation of any resulting re-measurement gain or loss (except for discount rate changes as noted below) in the income statement;
- Requires the discount rate assumption to be updated at the end of each reporting period using an upper medium grade (low-credit risk) fixed income instrument yield that maximizes the use of observable market inputs and recognizes the impact of changes to discount rates in other comprehensive income;

- Requires the measurement of all market risk benefits associated with deposit (or account balance) contracts at fair value through the income statement with the exception of instrument-specific credit risk changes, which will be recognized in other comprehensive income; and
- Requires significant disclosures, including disclosures of disaggregated roll-forwards of policy benefits, account balances, market risk benefits, separate account liabilities and information about significant inputs, judgments and methods used in measurement and changes thereto and impact of those changes.

We are evaluating the methods of adoption and impact of the standard on our consolidated statements of income, consolidated financial position, consolidated cash flows and required disclosures. The adoption of this standard is expected to have a significant impact on our results of operations and required disclosures, as well as systems, processes and controls. In November 2020, the FASB issued ASU 2020-11 *Effective Date and Early Application* to defer the effective date of the ASU by one year in response to implementation disruptions due to COVID-19. We plan to adopt the new standard no later than its revised effective date of January 1, 2025.

ASU 2019-12 Simplifying the Accounting for Income Taxes:

In December 2019, the FASB issued ASU No. 2019-12 which eliminates certain exceptions for recognizing deferred taxes for investments, performing intraperiod tax allocation and calculating income taxes in interim periods. ASU 2019-12 also clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. We are currently evaluating the impact of this guidance; however, it is not expected to have a material impact on the consolidated statements of income, consolidated financial position, consolidated cash flows or required disclosures. We plan to adopt the ASU on its effective date of January 1, 2022.

4. Business Combinations

As referenced in Note 2, the Partnership has applied "pushdown" accounting in accordance with the guidance in ASC Topic 805, *Business Combinations*, which included the initial recognition of the Partnership's assets and liabilities at fair value as of the acquisition date, June 2, 2020.

Concurrent with the application of "pushdown" accounting, discussed in Note 8, the Partnership applied contract modification accounting in accordance with the guidance set forth in ASC Topic 944, *Insurance Contracts*, and concluded the contribution of the adverse development cover constituted a substantial modification of the general insurance loss portfolio transfers (LPTs). Furthermore, and also concurrent with the application of "pushdown" and modification accounting, all letters of credit held with AIG were terminated and replaced with a \$250 million term loan as part of a syndicated banking facility agreement, effective June 2, 2020, as further described in Note 10.

The aggregate implied consideration of \$2,845 million was comprised of the sum of \$2,345 million of cash consideration (inclusive of a purchase price adjustment related to an adverse development cover with a fair value of \$130 million net of tax as further described in Note 1 and Note 8) and a \$500 million dividend related purchase price adjustment. A bargain purchase gain was recognized in the amount of \$340 million, representing the difference between the fair value of the net assets of the Partnership of \$3,185 million and the implied consideration of \$2,845 million. This bargain purchase gain was allocated to the Partnership as a component of owners' equity, as required in the application of "pushdown" accounting to reflect the transaction and the new basis of net assets recorded.

The following table summarizes the fair value of assets acquired and liabilities assumed at the acquisition date and represents amounts recognized by the Partnership for each major class of assets and liabilities, after application of "pushdown" accounting and the recognition of the impacts of the substantial modification to the general insurance LPTs and the issuance of the credit facility, both of which occurred concurrently with the business combination:

<i>(in millions)</i>	Successor Partnership June 2, 2020	
Assets:		
Investments:		
Funds withheld by ceding companies, at fair value	\$	40,985
Fixed maturity securities available for sale, at fair value		3,213
Other invested assets, at fair value		237
Short term investments		60
Total investments		44,495
Cash		428
Deferred income taxes, net		453
Other assets		109
Total assets	\$	45,485
Liabilities:		
Future policy benefits for life insurance and annuity contracts	\$	28,587
Policyholder contract deposits		4,358
Liability for unpaid losses and loss adjustment expenses		3,794
Value of business acquired		4,412
Collateral deposit liability		221
Deferred gain from reinsurance contracts		78
Payable to related party		396
Tax payable		108
Long term debt		245
Other liabilities		101
Total liabilities	\$	42,300
Net assets acquired	\$	3,185
Aggregate implied consideration		2,845
Bargain purchase gain	\$	340

The primary acquisition accounting adjustments arising from "pushdown" accounting related to the following as of June 2, 2020:

- The derecognition of the deferred gain from reinsurance contracts of \$2,467 million;
- The liability for future policy benefits for life insurance and annuity contracts were increased by \$1,778 million to reflect a current best estimate set of assumptions driven primarily by interest rate movements, represented by Gross Premium Value ("GPV"), as further discussed in Note 9;
- The derecognition of the unearned revenue reserve for the interest sensitive universal life line of business of \$111 million, as further discussed in Note 9;
- The recognition of the value of business acquired, representing the difference between the fair value of future policy benefits for life insurance and annuity contracts and policyholder contract deposits and their carried amount, as further discussed in Note 9;
- The substantial modification of the general insurance LPTs resulting in the recognition of a collateral deposit liability of \$221 million, the derecognition of unearned premium of \$207 million and the recognition of a deferred gain of \$78 million as of June 2, 2020, as further discussed in Note 8;
- The issuance of a \$250 million term loan net of \$6 million debt issuance costs as further discussed in Note 10 which occurred concurrently with the business combination; and
- The taxation impacts of the above.

Further, the cost basis of the funds withheld by ceding companies and fixed maturity securities available for sale was reset to fair value as of June 2, 2020, as further discussed in Note 7.

The bargain purchase gain is included in owners' equity and represents the difference between the fair value of net assets acquired and the consideration transferred on the acquisition date. It is attributable to appreciation in the fair value of the net assets of the Partnership over the time period between the date that the parties finalized the 2019 Sale terms and the closing date of June 2, 2020.

5. Significant Transactions

The Partnership acquires blocks of legacy reserves through legal entity acquisitions and reinsurance agreements. The following table summarizes significant transactions completed between February 12, 2018 and December 31, 2020. Values are shown in millions at the execution date of transaction.

Transaction	Execution Date	Total Liabilities Assumed	Total Assets Transferred	Deferred Gain	Primary Nature of Transaction
2020 Inception:					
Commutation and modified coinsurance agreement with American General Life Insurance Company ("AGL")	July 1, 2020	\$385	\$427	\$42	Partial commutation of interest rate sensitive life insurance policies and modified coinsurance assumption of certain deferred and single premium annuity policies and terminal funding arrangements.
Modified coinsurance agreement with the United States Life Insurance Company in the City of New York ("USL")					
	Total	\$385	\$427	\$42	

6. Fair Value Measurements

Fair Value Measurements on a Recurring Basis

We carry certain of our financial instruments at fair value. We define the fair value of a financial instrument 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. We are responsible for the determination of the value of the investments carried at fair value and the supporting methodologies and assumptions.

The degree of judgment used in measuring the fair value of financial instruments generally inversely correlates with the level of observable valuation inputs. We maximize the use of observable inputs and minimize the use of unobservable inputs when measuring 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.

Fair Value Hierarchy

Assets 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:

- Level 1: Fair value measurements based on quoted prices (unadjusted) in active markets that we have the ability to access for identical assets or liabilities. Market price data generally is obtained from exchange or dealer markets. We do not adjust the quoted price for such instruments.
- Level 2: Fair value measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.
- Level 3: Fair value measurements based on valuation techniques that use significant inputs that are unobservable. Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3. The circumstances for using these measurements include those in which there is little, if any, market activity for the asset or liability. Therefore, we must make certain assumptions about the inputs a hypothetical market participant would use to value that asset or liability.

In addition, certain of our other invested assets are measured at fair value using net asset value ("NAV") per share (or its equivalent) as a practical expedient and have not been classified within the fair value hierarchy above.

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 in its entirety.

The following is a description of the valuation methodologies used for financial instruments 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 by Ceding Companies

The reinsurance transactions entered into by FRL were structured as modified coinsurance and LPTs with funds withheld which are accounted for at fair value through the election of the fair value option as discussed in Note 3. The fair value of the underlying assets collateralizing the funds withheld by ceding companies is generally based on market observable inputs using industry standard valuation techniques but also requires certain significant unobservable inputs for specific asset classes. The level in the fair value hierarchy assigned to the funds withheld by ceding companies 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 Available for Sale

The methodology below is relevant for all fixed maturity securities including residential mortgage backed securities ("RMBS"), commercial mortgage backed securities ("CMBS"), collateralized debt obligations ("CDO"), other asset-backed securities ("ABS") and fixed maturity securities issued by government sponsored entities and corporate entities.

Whenever available, we obtain quoted prices in active markets for identical assets at the balance sheet date to measure fixed maturity securities at fair value. Market price data is generally obtained from dealer markets. We employ 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. In addition, control processes are applied to the fair values received from independent third-party valuation service providers to determine the accuracy of these values.

These control processes are designed to assess whether the fair values received from independent third-party valuation service providers are accurately recorded, that their data inputs and valuation techniques are appropriate and consistently applied and that the assumptions used appear reasonable and consistent with the objective of determining fair value. We assess the reasonableness of individual security values received from independent third-party valuation service providers through various analytical techniques, and have procedures to escalate related questions internally and to the independent third-party valuation service providers for resolution. To assess the degree of pricing consensus among various valuation service providers for specific asset types, we conduct comparisons of prices received from available sources. We use these comparisons to establish a hierarchy for the fair values received from independent third-party valuation service providers to be used for particular security classes. We also validate prices for selected securities through reviews by members of management who have relevant expertise and who are independent of those charged with executing investing transactions.

When our independent third-party valuation service providers are unable to obtain sufficient market observable information upon which to estimate the fair value for a particular security, fair value is determined either by requesting brokers who are knowledgeable about these securities to provide a price quote, which is generally non-binding, or by employing market accepted valuation models.

Other invested assets

Other invested assets include our investments in private equity funds, certain fixed maturity securities for which we have elected the fair value option and derivative instruments. We utilize NAV as an estimate of the fair value for our private equity funds, which is a permitted practical expedient. Due to the time lag in the NAV reported by certain fund managers, we adjust the valuation for capital calls and distributions that occur between the date of the NAV and our consolidated financial statements. Certain hedge funds may contain illiquid investments. For these illiquid investments fair value as indicated by NAV may differ from market clearing price under stressed market conditions.

Assets Measured at Fair Value on a Recurring Basis

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:

December 31, 2020 (in millions)	Successor Partnership				Total
	Level 1	Level 2	Level 3	Fair Value Based on NAV as Practical Expedient	
Assets:					
Fixed maturity securities, available for sale:					
U.S. government and government sponsored entities	\$ —	\$ 992	\$ —	\$ —	\$ 992
Obligations of states, municipalities and political subdivisions	—	142	—	—	142
Non-U.S. governments	—	83	—	—	83
Corporate debt	—	1,716	—	—	1,716
RMBS	—	136	25	—	161
CMBS	—	296	—	—	296
CDO / ABS	—	159	—	—	159
Total fixed maturity securities available for sale	\$ —	\$ 3,524	\$ 25	\$ —	\$ 3,549
Short term investments	—	5	5	—	10
Other invested assets	—	25	—	288	313
Funds withheld by ceding companies	266	33,721	7,228	1,753	42,968
Total	\$ 266	\$ 37,275	\$ 7,258	\$ 2,041	\$ 46,840

The level in the fair value hierarchy assigned to the funds withheld by ceding companies is based upon the observability of inputs used to value the underlying investment assets held at fair value within the funds withheld portfolio.

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 instruments relating to fixed maturity securities and other invested assets, which includes only those financial instruments for which information about the inputs is reasonably available to us, such as data from independent third-party valuation service providers and from internal valuation models. Weighted averages are calculated by weighting each input by the relative fair value of the respective financial instruments.

December 31, 2020 (in millions)	Successor Partnership				
	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)	Impact of increase in the input on fair value
Assets:					
RMBS	\$ 25	Discounted Cash Flow	Constant prepayment rate	4.57% - 15.00% (10.92%)	Increase/Decrease
			Constant default rate	0% - 6.60% (1.60%)	Decrease
			Severity	0% - 93.00% (37.44%)	Decrease
			Yield	0.89% - 3.42% (1.83%)	Increase
Short term investments	\$ 5	Discounted Cash Flow	Yield	2.42%	Increase

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

(in millions)	Successor Partnership Period from June 2, to December 31, 2020							
	Beginning balance	Purchases	Contributions	Sales, maturities, redemptions	Change in fair value	Transfers in	Transfers out	Ending balance
Assets								
Total fixed maturity securities available for sale	\$ 32	\$ 23	\$ —	\$ (33)	\$ —	\$ 3	\$ —	25
Total level 3 assets collateralizing funds withheld by ceding companies ⁽¹⁾	6,736	—	—	—	492	—	—	7,228
Other invested assets	145	—	—	(145)	—	—	—	—
Short term investments	—	10	—	(5)	—	—	—	5
Total Level 3 assets	\$ 6,913	\$ 33	\$ —	\$ (183)	\$ 492	\$ 3	\$ —	7,258

⁽¹⁾ The level 3 investments of the Successor Partnership presents total investments, accrued interest, cash, receivables and payables at fair value as a single instrument due to the Partnership's election of the fair value option on June 2, 2020.

(in millions)	Predecessor Company Period from January 1, to June 1, 2020							
	Beginning balance	Purchases	Contributions	Sales, maturities, redemptions	Change in fair value	Transfers in	Transfers out	Ending balance
Assets								
Total fixed maturity securities available for sale	\$ 37	\$ —	\$ —	\$ (1)	\$ —	\$ —	\$ (4)	32
Total level 3 investments collateralizing funds withheld by ceding companies ⁽²⁾	7,162	—	—	—	(451)	—	—	6,711
Other invested assets	1,234	—	—	(928)	(161)	—	—	145
Total Level 3 assets	\$ 8,433	\$ —	\$ —	\$ (929)	\$ (612)	\$ —	\$ (4)	6,888

⁽²⁾ The level 3 investments of the Predecessor Company presents total investments at fair value as a single instrument.

Fair Value Information About Financial Instruments Not Measured at Fair Value

The following table presents the carrying amounts and estimated fair values of our 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:

December 31, 2020 (in millions)	Successor Partnership				Carrying Value
	Estimated Fair Value			Total	
	Level 1	Level 2	Level 3		
Assets:					
Cash	\$ 187	\$ —	\$ —	\$ 187	187
Liabilities:					
Policyholder contract deposits associated with investment-type contracts	\$ —	\$ —	\$ 5,322	\$ 5,322	4,510
Long term debt	\$ —	\$ 260	\$ —	\$ 260	250 ⁽¹⁾
Collateral deposit liability	\$ —	\$ —	\$ 279	\$ 279	208

⁽¹⁾ Represents borrowing outstanding as further detailed in Note 10.

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

Cash: The carrying amount approximates fair value.

Policyholder contract deposits associated with investment-type contracts: Policyholder contract deposits associated with investment-type contracts are 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 US 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.

Long term debt: The fair value of long-term debt is estimated using a discounted cash flow calculation based on projected interest and principal cash flows discounted at a risk adjusted discount rate for the duration of such debt.

Collateral 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 and the addition of a risk margin.

7. Investments

Fixed Maturity Securities Available for Sale

The following table presents the amortized cost or cost, gross unrealized gains, gross unrealized losses and fair value of our available for sale securities:

December 31, 2020 (in millions)	Successor Partnership			Fair Value
	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Fixed maturity securities, available for sale:				
U.S. government and government sponsored entities	\$ 990	\$ 8	\$ (6)	\$ 992
Obligations of states, municipalities and political subdivisions	\$ 139	\$ 3	\$ —	\$ 142
Non-U.S. governments	81	2	—	83
Corporate debt	1,613	103	(1)	1,715
Mortgage-backed, asset-backed and collateralized:				
RMBS	161	2	(1)	162
CMBS	290	6	—	296
CDO / ABS	157	2	—	159
Total mortgage-backed, asset-backed and collateralized	608	10	(1)	617
Total fixed maturity securities, available for sale	\$ 3,431	\$ 126	\$ (8)	\$ 3,549

Fixed Maturity Securities Available for Sale in a Loss Position

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

December 31, 2020 <i>(in millions)</i>	Successor Partnership					
	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, available for sale:						
U.S. government and government sponsored entities	\$ 166	\$ (6)	\$ —	\$ —	\$ 166	\$ (6)
Obligations of states and municipalities and other political	22	—	—	—	22	—
Non-U.S. governments	—	—	—	—	—	—
Corporate debt	162	(1)	—	—	162	(1)
Mortgage-backed, asset-backed and collateralized:						
RMBS	52	(1)	—	—	52	(1)
CMBS	4	—	—	—	4	—
CDO / ABS	16	—	—	—	16	—
Total mortgage-backed, asset-backed and collateralized	\$ 72	\$ (1)	\$ —	\$ —	\$ 72	\$ (1)
Total fixed maturity securities, available for sale	\$ 422	\$ (8)	\$ —	\$ —	\$ 422	\$ (8)

At December 31, 2020 (Successor Partnership) we held 35 individual fixed maturity securities that were in an unrealized loss position, none of which were in a continuous unrealized loss position for 12 months or more.

We did not recognize the unrealized losses in earnings on these fixed maturity securities within the consolidated statements of income at December 31, 2020 (Successor Partnership) because we neither intended to sell the securities nor did we believe that it was more likely than not that we will be required to sell these securities before recovery of their amortized cost basis.

For fixed maturity securities with significant increases in unrealized losses, we perform fundamental credit analysis on a security-by-security basis, which includes consideration of credit enhancements, expected defaults on underlying collateral, review of relevant industry analyst reports and forecasts and other available market data.

Contractual Maturities of Fixed Maturity Securities Available for Sale

The following table presents the amortized cost and fair value of fixed maturity securities available for sale by contractual maturity:

December 31, 2020 (in millions)	Successor Partnership			
	Total Fixed Maturity Securities Available for Sale		Fixed Maturity Securities in a Loss Position Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	Due in one year or less	\$ 261	\$ 262	\$ 107
Due after one year through five years	429	438	33	33
Due after five years through ten years	257	264	31	30
Due after ten years	1876	1969	186	180
Mortgage-backed, asset-backed and collateralized	608	616	73	72
Total	\$ 3,431	\$ 3,549	\$ 430	\$ 422

Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Other Invested Assets

The following table presents a breakdown of other invested assets by asset class:

(in millions)	Successor Partnership	
	December 31, 2020	
Private equity funds	\$	288
Fixed maturity securities for which the fair value option has been elected		27
Derivative instruments		(2)
Total	\$	313

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

Summary of Total Investment Income

The following table presents a summary of net investment income, change in value of funds withheld and net investment gains by financial statement line item:

(in millions)	Successor Partnership			Predecessor Company		
	Period from June 2, to December 31, 2020			Period from January 1, to June 1, 2020		
	Funds withheld by ceding companies	Fixed maturity securities available for sale, other investments and short-term investments	Total	Funds withheld by ceding companies	Fixed maturity securities available for sale, other investments and short-term investments	Total
Net investment income	\$ 903	\$ 63	\$ 966	\$ 459	\$ (143)	\$ 316
Change in value of funds withheld	1,633	—	1,633	1,461	—	1,461
Net investment gains	63	23	86	36	27	63
Total investment income	\$ 2,599	\$ 86	\$ 2,685	\$ 1,956	\$ (116)	\$ 1,840

Net Investment Income

Net investment income from fixed maturity securities, available for sale, other invested assets and short-term investments, primarily represents income from the following sources:

- Interest income and related expense from fixed maturity investments, including amortization of premiums and accretion of discounts
- Changes in fair value of fixed maturity investments for which the fair value option was elected
- Investment expenses.

Net investment income from funds withheld by ceding companies includes income from the underlying assets collateralizing the funds withheld by ceding companies as follows:

- Interest income and related expenses from fixed maturity securities, including amortization of premiums and accretion of discounts
- Income, realized and unrealized gains and losses from alternative investments, including real estate joint ventures
- Interest income from commercial mortgage loans
- Dividend income from investments in preferred stock
- Investment expenses.

The following table presents the components of net investment income:

	Successor Partnership	Predecessor Company
	Period from June 2, to December 31, 2020	Period from January 1, to June 1, 2020
<i>(in millions)</i>		
Available for sale fixed maturity securities		
U.S. government and government sponsored entities	\$ 1	\$ 2
Obligations of states, municipalities and political subdivisions	1	2
Non-U.S. governments	1	1
Corporate debt	37	23
RMBS	2	2
CMBS	5	—
CDO / ABS	2	1
Total investment income for available for sale fixed maturity securities	\$ 49	\$ 31
Other invested assets	14	(173)
Short term investments and other investments	2	1
Funds withheld by ceding companies	923	484
Total investment income	\$ 988	\$ 343
Investment expenses	(22)	(27)
Net investment income	\$ 966	\$ 316

Included within net investment income from other invested assets for the period from January 1, 2020 to June 1, 2020 (Predecessor Company) is a loss of \$161 million in relation to the fair value movement and realized loss on the disposal of the Maiden Lane III B Notes ("MLIII-B Notes"), which were the subordinated tranches in the securitizations of various CDO's held by AIG.

Investment gains and losses include sales or full redemptions of available for sale fixed maturity securities, determined using the specific identification method. Investment gains and losses also include realized gains and losses recognized upon sale, transfer and periodic settlements of the investments which collateralize the funds

withheld by ceding companies reinsurance receivables. The following table presents the components of net investment gains:

<i>(in millions)</i>	Successor Partnership	Predecessor Company
	Period from June 2, to December 31, 2020	Period from January 1, to June 1, 2020
Available for sale fixed maturity securities		
U.S. government and government sponsored entities	\$ 3	\$ —
Obligations of states, municipalities and political subdivisions	1	—
Non-U.S. governments	—	1
Corporate debt	27	26
RMBS	—	—
CMBS	1	—
CDO/ABS	—	\$ —
Total available for sale fixed maturity securities	32	\$ 27
Derivative instruments	(9)	—
Funds withheld by ceding companies	63	36
Net investment gains	86	\$ 63

The amount of unrealized appreciation of fixed maturity securities, available for sale reclassified from accumulated other comprehensive income to net investment gains was less than \$1 million from June 2, 2020 to December 31, 2020 (Successor Partnership) and \$31 million for the period from January 1, 2020 to June 1, 2020 (Predecessor Company).

Included in net investment gains from funds withheld by ceding companies for the period from June 2, 2020 to December 31, 2020 (Successor Partnership) is \$38 million of losses related to the transfer of securities from funds withheld by ceding companies to fixed maturity securities, available for sale. \$16 million of losses related to transfers are included for the period from January 1, 2020 to June 1, 2020 (Predecessor Company).

Derivative Instruments

Included with the funds withheld by ceding companies and other invested assets are certain types of derivatives that the Partnership uses to mitigate the above noted market risks, including: interest rate swaps, interest rate swaptions, foreign currency swaps, credit default index swaptions, and credit index options.

Interest rate swaps and swaptions are used to protect from the potential adverse impact of declining interest rates on future policy benefits reserves. Foreign currency swaps are utilized to reduce the foreign exchange risk associated with certain non-U.S. dollar denominated investments. Credit default index swaptions and credit index options are used to mitigate credit risk in our investment portfolio.

The table below shows the notional amount and fair value of the derivative instruments held within the funds withheld by ceding companies:

<i>(In millions)</i>	Successor Partnership	
	December 31, 2020	
	Notional	Fair Value Asset / (Liability)
Interest rate swaps and swaptions	\$ 7,435	\$ 388
Credit default index swaptions and options	4,160	3
Foreign currency swaps	784	(30)
Total USD denominated derivatives	\$ 12,379	\$ 361
Interest rate swaps and swaptions	253	(4)
Total GBP denominated derivatives	\$ 253	\$ (4)
Total derivatives in funds withheld by ceding companies	\$ 12,632	\$ 357

The table below shows the notional amount and fair value of the derivative instruments held within other invested assets:

	Successor Partnership	
	December 31, 2020	
(In millions)	Notional	Fair Value Asset / (Liability)
Foreign currency swaps	\$ 75	\$ (2)
Total GBP denominated derivatives	75	(2)
Total derivatives in other invested assets	\$ 75	\$ (2)

The following table shows the derivative gains (losses) included in the change in fair value of funds withheld arising from fair value movements on derivative securities contained within the funds withheld by ceding companies investment portfolio for the applicable periods:

	Successor Partnership	Predecessor Company
	Period from June 2, to December 31, 2020	Period from January 1, to June 1, 2020
(in millions)		
Derivative gains (losses)	\$ (295)	\$ 784

Market Risks

Liquidity, interest rate, foreign exchange and credit spread risks are all market risks. Liquidity risk is the risk that the Partnership's financial condition will be adversely affected by the inability or perceived inability to meet short-term cash, collateral or other obligations. Interest rate risk can arise from a mismatch in the interest rate exposure of assets compared to liabilities. Changes in interest rates can affect the valuation of fixed maturity securities, financial liabilities, insurance contracts and derivative contracts. Foreign exchange risk can arise from a mismatch in the foreign currency exposure of assets compared to liabilities. Changes in foreign exchange rates can affect the valuation of non-U.S. dollar denominated assets and liabilities. Credit spreads measure an instrument's risk premium or yield relative to that of a comparable duration, default-free instrument. Changes in credit spreads can 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.

Market risk is monitored and managed using an asset-liability management framework. For both assets and liabilities, market risk exposures are measured in terms of sensitivities to changes in the relevant risk factors. In addition, the Partnership performs stress testing on these market risk factors to capture concentration risks to a single market risk factor change as well as simultaneous multiple market risk factor changes, to understand the net impact on exposure from impacts on both assets and liabilities.

Total assets and total liabilities exposed to foreign currency transaction risk are GBP 1,278 million and GBP 1,111 million, respectively, as of December 31, 2020 (Successor Partnership).

Concentration of Credit Risk

Other than the Funds withheld by ceding companies, at fair value balance attributable to the AIG affiliates, there are no significant concentrations of credit risk within the Partnership's cash and cash equivalents, fixed maturity investments or other invested assets balances. In the event of a ceding company's insolvency, we would need to assert a claim on the investments collateralizing our reinsurance receivable and used to settle our liabilities. However, we have the ability to offset amounts we owe to the ceding company, which reduces our risk of loss. In accordance with the terms of our reinsurance agreements, we are obligated to fund any shortfall between U.S. statutory book value of the investments collateralizing the reinsurance receivable and U.S. statutory insurance reserves. Likewise, if there is an excess between the U.S. statutory book value of investments collateralizing the reinsurance receivable and U.S. statutory insurance reserves, the ceding companies are required to fund the excess to our funds withheld account.

As of December 31, 2020 (Successor Partnership) 95% of the fixed maturity securities within the funds withheld by ceding companies, serving as collateral for our reinsurance receivable, are classified as investment grade by the National Association of Insurance Commissioners ("NAIC").

Restricted Assets

We utilize asset trust accounts to collateralize business with our reinsurance counterparties. As of December 31, 2020 we held \$117 million of collateral in trust within fixed maturity securities, available for sale.

8. Reinsurance

We assume short duration and long duration insurance and investment contracts under funds withheld and modified-coinsurance funds withheld arrangements. We follow reinsurance accounting for 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.

The following table shows the written and earned assumed premium for the applicable periods:

<i>(in millions)</i>	Premiums Written		Premiums Earned	
	Successor Partnership	Predecessor Company	Successor Partnership	Predecessor Company
	Period from June 2, to December 31, 2020	Period from January 1, to June 1, 2020	Period from June 2, to December 31, 2020	Period from January 1, to June 1, 2020
Assumed - short duration	\$ 1	\$ —	\$ —	\$ 8
Assumed - long duration	169	118	169	118
Total net premium	\$ 170	\$ 118	\$ 169	\$ 126

Long Duration Run-off Business

The table below shows the calculation of the deferred gain and related amortization on the future policy benefits and policyholder contract deposits for the applicable periods:

Deferred Gain on Long-Duration Business	Future Policy Benefits		Policyholder contract deposits	
	Successor Partnership	Predecessor Company	Successor Partnership	Predecessor Company
	Period from June 2 to December 31, 2020	Period from January 1 to June 1, 2020	Period from June 2 to December 31, 2020	Period from January 1 to June 1, 2020
<i>(in millions)</i>				
Beginning Carrying Value	\$ —	\$ 1,870	\$ —	\$ 362
Ceding commission from contract modification	—	60	—	12
Assumed business	5	—	37	—
Amortization of deferred gain	—	(22)	(2)	(9)
Ending Carrying Value	\$ 5	\$ 1,908	\$ 35	\$ 365

As further discussed in Note 4, the opening deferred gain balance of the Successor Partnership was derecognized as of June 2, 2020. Effective June 2, 2020, the investment management fee structure of the AIG reinsurance agreements was changed, contributing to \$72 million of ceding commission being paid to FRL.

Short Duration Run-off Business

The table below presents a roll forward of the deferred gain for the short-duration reinsurance agreements for the applicable periods:

Deferred Gain on Short Duration Business (in millions)	Successor Partnership	Predecessor Company
	Period from June 2 to December 31, 2020	Period from January 1 to June 1, 2020
Beginning Carrying Value	\$ 78	\$ 215
Amortization of deferred gain	25	(6)
Effect of change in discount ⁽¹⁾	(20)	(15)
Net incurred losses deferred under retroactive accounting	79	—
Ending Carrying Value	\$ 162	\$ 194

⁽¹⁾ Successor period reflects an increase of \$160 million related to a change in accounting principle. Refer to further discussion in Note 3.

Events occurring concurrently with pushdown accounting on June 2, 2020:

As referenced in Note 4, in connection with the 2019 Sale, Carlyle FRL, the Partnership and AIG agreed to a post-closing price adjustment pursuant to which AIG will pay us for certain adverse development in property casualty related reserves, based on an agreed methodology, that may occur on or prior to December 31, 2023, up to a maximum payment of \$500 million (the "Adverse Development Cover" or "ADC"). As discussed in Note 4, the ADC was determined to represent contingent consideration as the cover is providing a contingent right to receive a return of a portion of the consideration paid. As of June 2, 2020, the fair value was determined to be \$130 million, net of tax. The fair value approach for the ADC incorporated specific estimates for (a) the probabilistic expected loss to the reinsured layers, (b) a margin for adverse deviation (i.e. "risk margin"), and (c) a discount for the time value of money. The probabilistic expected loss and the risk margin considered multiple scenarios using both carried and indicated reserves as well as an ultimate time horizon as a measure of reserve risk variability.

The contribution of the ADC by Carlyle resulted in a substantial modification to the LPT, as the degree of insurance risk to which we are subject was substantially changed with no commensurate payment of premium to AIG. Therefore, we derecognized the LPT and immediately recognized a replacement contract with a deferred gain of \$78 million. This represented the excess of the fair value of the assumed liabilities, inclusive of the ADC, over the book value of these liabilities.

We concluded that it was not practicable to bifurcate the contract into the retroactive and prospective components arising from this substantial modification. Therefore, the replacement contract has been accounted for by the Successor Partnership on a retroactive basis in its entirety.

9. Insurance Liabilities

Long Duration Lines of Business

Liabilities for long-duration contracts are classified as either future policy benefits or policyholder contract deposits. Future policy benefits include retirement products whose payments depend on contract holder's survival such as structured settlements with life contingencies, SPIA with life contingencies, and pension risk transfer annuities; and traditional life insurance products such as whole life ("WL") and return of premium ("RoP") term, accident & health ("A&H") and long term care ("LTC"). Policyholder contract deposits apply to investment contracts such as structured settlements and SPIA with non-life contingent benefits, deferred annuity contracts in the accumulation phase (which are all outside their surrender charge period) and the fund values of universal life insurance contracts.

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 underwriting. The Partnership manages this risk through ongoing monitoring and assessment of such experience relative to underlying assumptions, which include underlying assumptions relative to mortality and morbidity. Interest rate risk arises from a mismatch in the interest rate exposure of assets and liabilities. As part of the funds withheld receivable from the AIG ceding companies, the Partnership has entered into interest rate swap and swaption agreements to mitigate the interest rate risk exposure within the life and annuity portfolio as further described in Note 7.

Future Policy Benefits

Future policy benefits include liability cash flows that are long-duration and relatively stable. Assumed reserves for traditional life, A&H, and life-contingent annuity payout contracts represent an estimate of the present value of future benefits less the present value of future net premiums. Assumed reserves also include liabilities for annuities issued in structured settlement arrangements whereby a claimant has agreed to settle a general insurance claim in exchange for fixed payments over a fixed determinable period of time with a life contingency feature.

Long duration run-off business assumed subjects us to mortality, longevity and morbidity risks. Life, annuity and accident and health reserves are established using assumptions for investment yields, mortality, morbidity, lapses and expenses, including a provision for adverse deviation where applicable. We review the adequacy of the life reserves regularly using best estimate assumptions for mortality, morbidity, lapse, expenses and investment yield. If financial performance significantly deteriorates to the point where a premium deficiency exists, then we would record additional liabilities.

The following table presents future policy benefits by product line:

<i>(In millions)</i>	Successor Partnership	
	At December 31, 2020	
Future policy benefits for life insurance and annuity contracts		
Structured settlements	\$	16,798
Pension risk transfer annuities		3,638
Traditional whole life		3,451
Single premium immediate annuities		1,781
Term life insurance		1,896
Long term care		447
Accident and health		389
Total	\$	28,400

The application of "pushdown" accounting required us to establish future policy benefits as of June 2, 2020 using a current best estimate set of assumptions which replaced the previous "locked-in" assumptions. The Predecessor Company was required to include the deferred gain on reinsurance contracts in its evaluation of whether or not a loss recognition event has occurred. Due to the derecognition of the deferred gain through the application of "pushdown" accounting, the Successor Partnership's evaluation of loss recognition resulted in an update of assumptions and an increase to the liability for future policy benefits of \$1,778 million as of June 2, 2020, primarily driven by interest rate movements.

The following table sets out the charge for loss recognition reserves recognized by line of business within the consolidated statements of income for the applicable periods:

<i>(In millions)</i>	Successor Partnership		Predecessor Company	
	Period from June 2, 2020 to December 31, 2020		Period from January 1, 2020 to June 1, 2020	
Loss recognition charges by line of business				
Structured settlements	\$	—	\$	762
Pension risk transfer annuities		—		247
Traditional whole life		9		—
Long term care		—		1
Accident and health		—		2
Total	\$	9	\$	1,012

For the 2020 predecessor period, we recorded out-of-period adjustments relating to 2019 that affected the consolidated statements of income. The adjustments primarily related to the recognition of an additional \$49 million loss recognition charge in 2020 related to the correction of a 2019 assumption. For context, total loss recognition charges recorded in the 2020 predecessor period were \$1.01 billion, including the impact of this adjustment. As a result, the consolidated 2020 predecessor pre-tax income is understated by \$58 million or \$46 million post-tax. We

evaluated the out-of-period adjustments and determined they were not material to all of the consolidated financial statement periods presented herein.

Policyholder Contract Deposits

Policyholder contract deposits investment contracts include SPIA and structured settlement contracts with period certain payment streams (i.e. not depending on longevity), deferred annuity contracts in the accumulation phase (which are all outside their surrender charge period) and the fund values of universal life insurance contracts.

- Non-life contingent structured settlement cash flows consist of certain payments with set payment patterns such as level payment, compound increase, fixed amount increase or one-time lump sum payments. The non-life contingent cash flows are thus highly predictable;
- Non-life contingent SPIA cash flows also consist of certain level payments over a specified duration with a range from five to thirty years or more;
- Deferred annuities cash flows are designed to collect premiums and accrue credited interest over an extended period for payout at a later date; and
- Universal life products are interest sensitive and provide permanent coverage for life insurance with the potential to accumulate cash value.

The following table presents policyholder contract deposits by product line:

<i>(In millions)</i>	Successor Partnership	
Policyholder contract deposits	At December 31, 2020	
Structured settlements – non-life contingent	\$	2,428
Interest sensitive universal life		1,616
Deferred annuities		328
Single premium immediate annuities – non-life contingent		138
Total	\$	4,510

VOBA liability

The following table presents the balances and changes in the VOBA liability for the applicable periods:

<i>(in millions)</i>	Successor Partnership	
	Period from June 2 to December 31, 2020	
Balance, beginning of period	\$	4,412
Amortization		(121)
Balance, end of period	\$	4,291

The following table provides the estimated future amortization for the 5 years indicated below:

<i>(in millions)</i>	Successor Partnership				
	Year ended December 31,				
	2021	2022	2023	2024	2025
Estimated future VOBA liability amortization	\$ 204	\$ 194	\$ 187	\$ 178	\$ 173

Short Duration Lines of Business

Our loss reserves cover excess workers' compensation, environmental impairment liabilities, legacy environmental and all other lines which consists of other casualty run-off exposures, including primary workers' compensation, general liability, medical malpractice, product liability, and accident and health exposures. In establishing retroactive reinsurance claim liabilities, we analyze historical aggregate paid and reported loss patterns and project losses into the future under various actuarial methodologies. We expect to pay claims for several decades for many lines of business. We monitor paid and reported claim activity and review ceding company reports and other information concerning the underlying losses. We reassess and revise the expected timing and amounts of ultimate losses periodically or when significant events are revealed through our monitoring and actuarial review processes.

The following table details our liabilities for unpaid loss and loss adjustment expenses for the applicable periods:

<i>(in millions)</i>	Liability for unpaid losses and loss adjustment expenses			
	Successor Partnership			
	December 31, 2020			
	Case Reserves	IBNR	LAE	Total
Excess workers' compensation	\$ 736	\$ 1,149	\$ 118	\$ 2,003
Environmental impairment liabilities	467	407	103	977
Legacy environmental	234	127	178	539
All other lines	285	311	109	705
Liabilities for unpaid loss and allocated LAE, net of reinsurance	\$ 1,722	\$ 1,994	\$ 508	\$ 4,224
Discount for workers' compensation ⁽¹⁾	(253)	(378)	—	(631)
Total liability for unpaid loss and loss adjustment expenses	\$ 1,469	\$ 1,616	\$ 508	\$ 3,593

⁽¹⁾ Reflects a decrease in total discount for workers' compensation of \$160 million related to a change in accounting principle. Refer to further discussion in Note 3.

The following table provides a roll forward of loss and loss adjustment expense reserves, excluding premium deficiency reserves, including detail on paid incurred losses from prior accident years and the current accident year for the applicable periods:

Liability for unpaid losses and loss adjustment expenses <i>(in millions)</i>	Successor Partnership	Predecessor Company
	Period from June 2 to December 31, 2020	Period from January 1 to June 1, 2020
Balance at beginning of period	\$ 3,794	\$ 3,914
Net losses incurred:		
Current period	20	12
Prior period ⁽¹⁾	(93)	—
Total net losses incurred	(73)	12
Effect of change in discount ⁽²⁾	20	15
Net paid losses:		
Current period	(2)	(10)
Prior period	(146)	(137)
Total net paid losses	(148)	(147)
Balance at end of period	\$ 3,593	\$ 3,794

⁽¹⁾ The favorable development for the applicable periods was added to the basis of the deferred gain within the consolidated balance sheets consistent with our accounting policy described in Note 3(b).

⁽²⁾ Successor period reflects a decrease of \$160 million related to a change in accounting principle. Refer to further discussion in Note 3.

The following table details our prior accident year loss development for the applicable periods:

(Favorable) / Unfavorable prior year development <i>(in millions)</i>	Successor Partnership	Predecessor Company
	Period from June 2 to December 31, 2020	Period from January 1 to June 1, 2020
Excess workers' compensation	\$ (50)	\$ —
Environmental impairment liabilities	(56)	—
Legacy environmental	23	—
All other lines	(10)	—
Total prior year development	\$ (93)	\$ —

The significant drivers of the prior year loss development are discussed below. 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. Refer to Note 7 for additional information on the amortization of deferred gain.

Prior Year Loss Development - period from June 2, 2020 to December 31, 2020 (Successor Partnership)

With respect to individual lines of business detailed in the table above:

- Excess Workers' Compensation: The \$50 million favorable development was spread throughout a number of historical accident years, which we believe was a result of our continuing loss mitigation efforts.
- Environmental Impairment Liability: The \$56 million of favorable development was split amongst different products within this line of business, including \$8 million from the Cleanup Cost Cap product, \$7 million for the Pollution Legal Liability products for all terms, \$20 million from other pollution products, \$11 million from the PROPAC product (a combined professional liability and package policy for environmental contractors), and \$10 million from all other exposures.
- Legacy Environmental: The \$23 million in unfavorable prior year development was a result of a decrease in expected inuring reinsurance from recoveries from the cedant's external reinsurers.
- All Other Lines: The \$10 million of favorable prior year development related to the healthcare products liability line of business.

Prior Year Loss Development - period from January 1, 2020 to June 1, 2020 (Predecessor Company)

The Predecessor Company did not incur any prior year loss development during this period.

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

With respect to the cumulative incurred and cumulative paid information presented below, all information for retroactive reinsurance agreements is presented prospectively from the date at which the reserves were assumed. As the reserves are effectively re-underwritten at the date the reserves are assumed, we believe that the historical loss development prior to being assumed by us is not relevant to our own experience managing these reserves. In addition, the information required to prepare the loss development on a retrospective basis is not always available to us. We analyze the loss development tables on a prospective basis by the year in which we assume the reserves such that the impact of the assumed reserves from year to year does not distort the loss development tables.

The loss development table for the aggregate reserves that we initially assumed from AIG on February 12, 2018, as further described in Note 5, is presented below. In addition, 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 so no further loss development tables have been provided for these lines of business.

Reserves assumed in the year ended December 31, 2018 - All lines of business

(in millions)	Successor Partnership			
	Incurred Loss and allocated LAE			
	For the years ended December 31,			
Accident Year	Net reserves assumed (unaudited)	2018 (unaudited)	2019 (unaudited)	2020 (unaudited)
2011 and Prior	\$ 4,141	\$ 4,309	\$ 4,303	\$ 4,293
2012	245	202	193	189
2013	159	149	169	171
2014	206	156	147	141
2015	368	268	257	245
2016	146	140	155	138
2017	123	158	150	107
2018	9	49	68	57
2019	—	—	26	33
2020	—	—	—	22
	<u>\$ 5,397</u>			<u>\$ 5,396</u>
Cumulative Paid Losses and Allocated LAE during the above period				(1,172)
Discount as of December 31, 2020 ⁽¹⁾				(631)
Liabilities for losses and LAE				<u>\$ 3,593</u>

⁽¹⁾ Reflects a decrease in total discount for workers' compensation of \$160 million related to a change in accounting principle. Refer to further discussion in Note 3.

Cumulative Paid Losses and Allocated Loss Adjustment Expenses:

(in millions)	Successor Partnership			
	Cumulative paid loss and allocated LAE			
	For the years ended December 31,			
Accident Year	2018 (unaudited)	2019 (unaudited)	2020 (unaudited)	
2011 and Prior	252	553	728	
2012	22	28	14	
2013	19	44	56	
2014	25	38	64	
2015	65	97	145	
2016	18	46	64	
2017	30	57	52	
2018	9	22	31	
2019	—	2	16	
2020	—	—	2	
			<u>\$ 1,172</u>	

Excess Workers' Compensation

Excess workers' compensation has a long tail and is one of the most challenging lines of business from an actuarial reserving perspective, particularly when the excess coverage is provided above a self-insured retention layer. The class is highly sensitive to small changes in assumptions (for example, the rate of medical inflation or the longevity of injured workers) which can have a significant effect on the ultimate reserve cost estimate. Excess workers' compensation business was written over qualified self-insurance from the 1970's through 2012. In this book of

business, the claims are not handled (or administered) by the ceding company personnel, but are administered by the client's designated third party administrators ("TPAs"). However, claims personnel affiliated with FRL maintain an oversight role over these TPAs and claims.

Loss and loss adjustment expense liability estimates for excess workers' compensation exposures are subject to additional uncertainties, due to the following:

- Claim settlement time is longer than most other casualty lines, due to the lifetime benefits that can be expected to pay out on certain claims;
- Coverage statutes that vary by state; and
- Future medical inflation costs are difficult to estimate.

A combination of traditional methods (paid and incurred loss development) and non-traditional methods (individual claim annuity model, report year incurred loss development, and IBNR count/severity methods) are used to estimate loss and loss expense liability estimates. Loss data is segmented so as to reflect the anomalies in the historical data due to the various loss mitigation initiatives employed over the last several years.

The last material claim related to this business occurred more than 10 years ago and there were no incurred losses and allocated loss adjustment expenses related to the last 10 accident years. The total actual paid losses were \$50 million for the year ending December 31, 2020.

Environmental Impairment Liability

Environmental impairment includes pollution legal liability, contractor's pollution liability, errors and omissions, and underground storage tank policies written prior to 2016. The process of establishing reserves for environmental impairment claims is subject to greater uncertainty than the establishment of reserves for liabilities relating to other types of insurance claims. As a result of the significant uncertainty inherent in determining environmental impairment liabilities and establishing related reserves, the use of conventional reserving methodologies frequently has to be supplemented by reviewing each of the outstanding claims on a claim-by-claim basis in establishing the reserves. Additional consideration is given by evaluating the exposure presented by each policyholder, the anticipated cost of resolution, if any, for each policyholder, available coverage, and the relevant judicial interpretations and historical value of similar exposures in establishing the reserves. Prior to June 2, 2020, the environmental impairment liability line of business included unearned premium relating to multi-year policies written prior to 2016. Therefore, for calendar years ended December 31, 2017, 2018 and 2019, losses incurred for accident years subsequent to 2016 were attributable to incurred losses as these multi-year policy premiums earned out over the life of the contract. As further discussed in Note 8, with effect from June 2, 2020, a substantial modification occurred which resulted in incurred loss activity for all accident years being classified as retroactive reinsurance.

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 our claims system identifies a unique claim identifier to each reported claim that we receive.

<i>(in millions)</i>	Successor Partnership			
	Incurred Loss and allocated LAE			
	For the years ended December 31,			
	Net reserves assumed (unaudited)	2018 (unaudited)	2019 (unaudited)	2020 (unaudited)
Accident Year				
2011 and Prior	\$ 628	\$ 648	\$ 636	\$ 646
2012	195	174	165	167
2013	115	106	131	134
2014	137	93	89	85
2015	186	154	149	137
2016	89	91	95	86
2017	122	157	149	107
2018	9	48	67	56
2019	—	—	26	33
2020	—	—	—	22
	\$ 1,481			\$ 1,473
Cumulative Paid Losses and Allocated LAE during the above period				(496)
Liabilities for losses and LAE				\$ 977

Cumulative Paid Losses and Allocated Loss Adjustment Expenses:

<i>(in millions)</i>	Successor Partnership			
	Cumulative paid loss and allocated LAE			
	For the years ended December 31,			
	2018 (unaudited)	2019 (unaudited)	2020 (unaudited)	
Accident Year				
2011 and Prior	\$ 84	\$ 171	\$ 206	
2012	22	27	11	
2013	8	27	35	
2014	8	11	32	
2015	24	35	73	
2016	14	25	38	
2017	30	57	52	
2018	9	22	31	
2019	—	2	16	
2020	—	—	2	
			\$ 496	

Legacy Environmental

Legacy Environmental exposure consists of indemnity claims asserting property damage from toxic waste, hazardous substances, and other environmental pollutants, and claims to cover the cleanup costs of hazardous waste and pollution sites. The vast majority of these Legacy Environmental claims emanate from policies written in 1985 and prior years. Commencing in 1985, standard general liability policies contained an absolute exclusion for pollution-related damage. Environmental Impairment Liability exposures underwritten on a claims-made basis, which were written generally starting 1986, are not included in this line of business.

Loss and loss adjustment expense liability estimates for mass torts, such as Legacy Environmental exposures, are subject to additional uncertainties, due to the following:

- Case law is not fully developed;
- Coverage interpretation varies by state;
- The pool of plaintiffs and defendants is expanding significantly;
- The process of estimating provisions for premises and operations coverage is highly judgmental;
- “State of the art” analysis is a moving target; and
- Environmental reform could have a significant effect on ultimate liabilities.

To estimate loss and loss adjustment expenses reserve liability estimates, traditional methods (paid and incurred loss development, paid and incurred Cape Cod methods) are used to project historical report years to estimate incurred but not enough reported (“IBNER”) reserves, and count/severity methods are used to project future report years to estimate “pure” incurred but not reported reserves. For some large accounts and sites, reserves are based on claim department estimates and analysis. After this ground-up analysis is completed, we review the reasonability of our estimates by calculating certain ratios, such as survival ratios (defined as the ratio of indicated/carried reserves to a three year average payment) and IBNR-to-case ratios, and compare these ratios against industry benchmarks. In addition, we perform a market share analysis as another measure to assess the reasonableness of our indicated/carried loss reserves.

The last claim related to this business occurred more than 10 years ago and there were no incurred losses and allocated loss adjustment expenses related to the last 10 accident years. The total actual paid losses were \$38 million for the year ending December 31, 2020.

All Other Lines

All Other Lines consist of various primary workers’ compensation, general liability, medical malpractice, products liability, commercial automobile liability, and accident and health exposures from business units that have been put into run-off. In general, loss and loss adjustment expense liabilities are estimated separately. Traditional loss estimation methods include paid and incurred loss development methods and generalized paid and incurred Cape Cod methods. We also look at an IBNR-to-Case ratio method for all lines, a survival ratio method for the general liability line, and an annuity model approach for some of the larger workers’ compensation claims. Loss adjustment expense methods include both standard development methods and also calendar year paid to paid method, which applies the paid to paid ratio to the loss reserves.

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, 2020 (Successor Partnership).

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	19.8%	13.4%	11.2%	8.4%	7.8%	6.9%	5.7%	3.3%	2.4%	2.1%

Given the significant amount of loss and loss adjustment expense reserves in the 2011 and prior accident years, and different distributions among lines of business and accident year, we do not believe a total claim payout pattern is meaningful information.

Collateral Deposit Liability

For the the period from June 2, 2020 to December 31, 2020 we incurred \$17 million of paid losses and \$1 million of interest was credited to policyholders in relation to the collateral deposit liability.

10. Debt Obligations and Credit Facilities

On June 2, 2020, Fortitude Holdings entered into a syndicated banking facility agreement (the "Credit Agreement"). The Credit Agreement contains a \$250 million term loan and provides for a \$300 million revolving credit facility, with a right, subject to satisfying certain conditions, to increase the size of the facility by a further \$300 million to \$600

million. If the \$300 million facility is undrawn the Partnership incurs a quarterly commitment fee of 0.35% of the undrawn amount. The facility remained undrawn as of December 31, 2020.

A summary of outstanding debt obligations on the consolidated balance sheet is set forth below as of December 31, 2020:

<i>(in millions)</i>	Facility	Origination Date	Term	Successor Partnership	
				December 31, 2020	
				Borrowing Outstanding	Fair Value
	Term Loan	June 2, 2020	3 years	250	260
	Revolving credit facility	June 2, 2020	3 years	—	—
	Total debt obligations			\$ 250	\$ 260

The table below provides a summary of the total interest expense for the applicable periods. No debt obligations were held before June 2, 2020.

<i>(In millions)</i>	Successor Partnership
	Period from June 2, 2020 to December 31, 2020
Interest expense on debt obligations	\$ 5
Amortization of debt issuance costs	1
Total interest expense	\$ 6

Interest on the term loan is due quarterly at a rate of LIBOR + 2.25%. The loan principal is subject to repayment of \$3 million in 2021, \$6 million in 2022 and the remaining \$241 million due on June 2, 2023. Of the \$250 million term loan principal, \$245 million of the proceeds were contributed as capital on June 2, 2020 by Fortitude Holdings to Fortitude Re. This capital contribution qualified as Tier 1 capital under the eligible capital rules as established by the BMA and was completed in conjunction with the Partnership's capital plan to replace the statutory capital following the termination of letters of credit as further described in Note 15.

The Partnership incurred costs of \$6 million in issuing the Credit Agreement. These costs included underwriters' fees, legal fees and other fees which are capitalized and presented as a direct deduction from the principal amount of the outstanding term loan. As of December 31, 2020 (Successor Partnership), \$5 million of the debt issuance costs were unamortized.

The Credit Agreement contains representations, warranties and covenants customary for bank loan facilities of this type, including limits on the Partnership and its subsidiaries to make acquisitions and investments, incur indebtedness, incur liens, pay dividends or undertake certain fundamental changes. The Credit Agreement also specifies certain financial covenants which require: (1) the Partnership and its subsidiaries maintaining a total debt to total capitalization ratio of 0.35:1; (2) Fortitude Re maintaining an enhanced capital ratio of at least 125%; (3) the Partnership and its subsidiaries maintaining a consolidated net worth which shall not be less than the aggregate of 65% of the consolidated net worth for the relevant quarter plus 50% of the consolidated net income available for distribution to common shareholders after March 31, 2020 plus 50% of the proceeds of any common equity issuance of the Partnership made after June 2, 2020; and (4) the Partnership to maintain available capital in an amount no less than \$20 million. The Partnership is in compliance with all covenants under the Credit Agreement.

11. Contingencies, Commitments and Guarantees

The Partnership 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.

As of December 31, 2020 (Successor Partnership), the Partnership had unfunded commitments of \$919 million to invest in private equity and credit investments owned by affiliates of Carlyle.

The Partnership recorded no assets or liabilities arising from contingencies recognized as of June 2, 2020.

12. Income Taxes

The Restructuring resulted in the Partnership, a Bermuda limited partnership, becoming the ultimate holding partnership for the group. On October 1, 2021, the existing equity interests in FGH, a Delaware limited liability company, were contributed to the Partnership in a tax-free transaction for U.S. tax purposes. The Partnership has no impact to the tax profile thereafter.

FGH is the U.S. holding company of the following wholly owned subsidiaries; FRL, a Bermuda corporation, and FGS, a Delaware corporation. Upon formation, FGH elected to be treated as a corporation for U.S. tax purposes. FRL has 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, therefore, subject to income taxation in the U.S. FRL wholly owns FRI, a Delaware limited liability company that has elected to be treated as a corporation for U.S. tax purposes.

FGH and its direct and indirect wholly owned subsidiaries were included in AIG's U.S. consolidated federal income tax return through the separation date of June 2, 2020 (Predecessor Company). As part of the consolidated group, FGH and each of its direct and indirect wholly owned subsidiaries were subject to the AIG tax sharing agreement, effective January 1, 2018 through June 2, 2020, whereby each entity was allocated its share of the consolidated tax liability based upon the tax each entity would have owed had it filed separately.

Upon separation from AIG, FGH and its direct and indirect wholly owned subsidiaries formed a new U.S. consolidated tax return group. New tax sharing agreements were executed between FGH and its subsidiaries to allocate to each entity's share of the consolidated tax liability based upon the tax each entity would have owed had it filed separately. Tax benefits are allocated to each subsidiary for its portion of net operating losses and tax credit carry forwards in the year they are used by the consolidated group. All tax payments are now made to the Internal Revenue Service ("IRS").

In connection with the separation from AIG, the parties agreed that AIG would pursue with the IRS an adjustment to the Predecessor Company's separate company taxable income calculation for the 2018 tax year, which resulted in the Predecessor Company overpaying its 2018 tax sharing payments to AIG. Upon acceptance by the IRS of the adjustment, AIG agreed to refund the prior overpayment, which totals approximately \$116 million. The Partnership concluded that it will ultimately be successful in obtaining the refund and, during 2020, recorded a reclassification entry of approximately \$52 million from deferred taxes to a long-term tax receivable to reflect the anticipated refund of \$116 million.

U.S. Tax Law Changes

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was enacted in response to the COVID-19 pandemic. The CARES Act made certain favorable modifications to the limitation on business interest for the 2019 and 2020 tax years and the ability to carryback and carryforward net operating losses incurred during the 2018, 2019, and 2020 tax years, among other changes. We evaluated the impact of the CARES Act and determined that these modifications had no significant impact to our tax provision for the year ended December 31 2020.

Effective Tax Rate

The following table presents the income tax expense (benefit) for the applicable periods:

<i>(in millions)</i>	Income tax expense (benefit)	
	Successor Partnership Period from June 2 to December 31, 2020	Predecessor Company Period from January 1 to June 1, 2020
Current	\$ (11)	\$ 194
Deferred	451	(139)
Total income tax expense	\$ 440	\$ 55

Our 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% to income before tax due to the following, as shown in the following reconciliation for the applicable periods:

	Successor Partnership	Predecessor Company
	Period from June 2 to December 31, 2020	Period from January 1 to June 1, 2020
<i>(in millions)</i>		
Income before tax	\$ 2,090	\$ 266
U.S. federal income tax expense at statutory rate	439	55
Other permanent items	1	—
Total income tax expense	\$ 440	\$ 55

Deferred Taxes

The following table presents the components of the net deferred tax assets (liabilities) as of December 31, 2020 (Successor Partnership):

<i>(in millions)</i>	Successor Partnership	
	2020	
Deferred tax assets:		
VOBA	\$	901
Life policy reserves		247
Deferred gain on reinsurance		9
Deferred policy acquisition costs		21
Loss reserve discount		19
Unearned premium reserve		2
Employee benefits		—
Total deferred tax assets	\$	1,199
Deferred tax liabilities:		
Gain on funds withheld		(1,103)
Reinsurance settlement		(90)
Reinsurance modification		(33)
Basis difference in investments		(46)
Other		(2)
Total deferred tax liabilities	\$	(1,274)
Net deferred tax asset (liability) before valuation allowance		(75)
Valuation allowance		—
Net deferred tax asset (liability)	\$	(75)

The difference between the reduction in the deferred tax liability balance of \$376 million and the deferred tax expense recognized for the year of \$312 million, totaling approximately \$688 million, related to three items; (1) the current year deferred tax liability recorded in Accumulated Other Comprehensive Income totaling \$25 million, (2) the reclassification related to the adjustment for the 2018 tax year totaling \$52 million, and (3) the deferred tax asset recorded for the impact of "pushdown" accounting of \$765 million.

There were no valuation allowances as of December 31, 2020 (Successor Partnership). See the section "Valuation Allowance on Deferred Tax Assets" below for further details. As of December 31, 2020 (Successor Partnership) there were no net operating loss carryforwards available to offset future net income subject to U.S. Federal income tax.

Valuation Allowance on Deferred Tax Assets

For the period from January 1, 2020 to June 1, 2020 (Predecessor Company), and from June 2, 2020 to December 31, 2020 (Successor Partnership) recorded a net deferred tax liability. Management believes that the reversal of its deferred tax liabilities will generate sufficient taxable income to realize its deferred tax assets. As of December 31,

2020, based on all available evidence, management believes that it is more likely than not that its deferred tax assets will be realized. Therefore, we did not record a valuation allowance against our deferred tax assets.

Accounting for Uncertainty in Income Taxes

We periodically evaluate 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. We recognize interest and penalties related to uncertain tax benefits in U.S. Federal income tax expense. As of December 31, 2020 (Successor Partnership), there were no uncertain tax positions and no accrual for interest and penalties.

13. Related Party Transactions

Carlyle Affiliated Entities:

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

We have investments in funds that are affiliated with entities owned by Carlyle which have a fair value of \$288 million as of December 31, 2020 (Successor Partnership). Our consolidated statements of loss (income) included the following amounts in respect of these investments:

	Successor Partnership		Predecessor Company	
	Period from June 2 to December 31, 2020		Period from January 1 to June 1, 2020	
<i>(in millions)</i>				
Net investment income (loss)	\$	14	\$	(6)
Investment management fee expense		2		2

Additionally, as of December 31, 2020 (Successor Partnership), we held investments originated by Carlyle of \$893 million that are included within funds withheld by ceding companies within the consolidated balance sheet.

The Partnership incurred \$1 million of costs with TCG Senior Funding L.L.C., an affiliate of Carlyle, relating to placement services performed as part of entering into the Credit Agreement in each respective year. These costs are deferred and subject to amortization over the term of the Credit Agreement, as discussed in Note 10.

AIG Affiliated Entities:

The Partnership reinsures run-off business from AIG affiliated entities through the various reinsurance transactions described in Note 5. Additionally, refer to Note 7 for a discussion on the sale of the MLIII-B Notes to AIG during the year, Note 8 for a discussion on the granting of the ADC whereby AIG will pay us for certain adverse development in property casualty related reserves, based on an agreed methodology, that may occur on or prior to December 31, 2023, up to a maximum payment of \$500 million and Note 15, for a discussion of the \$550 million letter of credit and capital maintenance agreement provided by AIG until June 2, 2020.

The following table summarizes related party amounts included within the consolidated balance sheet and excluding payables relating to reinsurance activity of \$589 million as of December 31, 2020.

<i>(in millions)</i>	Successor Partnership
Consolidated Balance Sheet	2020
<i>Payable to related party:</i>	
Expenses paid to ceding companies under reinsurance arrangements	22
Asset management fee	9
Total	\$ 31

The following table summarizes related party amounts included within the consolidated statements of income:

Consolidated Statement of income	Successor Partnership	Predecessor Company
	Period from June 2 to December 31, 2020	Period from January 1 to June 1, 2020
General operating expenses	\$ 2	\$ 17
Expenses paid to ceding companies under reinsurance arrangements	50	22
Asset management fee	22	27
Total	\$ 74	\$ 66

Under a Service and Expense Agreement between the Predecessor Company and various AIG affiliates, we purchased administrative, accounting, marketing and data processing services from AIG or its subsidiaries. The affiliated entities provided the Partnership with personnel, office space, equipment, computer processing and other services. The allocation of costs for other services was based on estimated level of usage, transactions or time incurred in providing the respective services. The Predecessor Company reimbursed the AIG affiliates for these services at cost. The Service and Expense Agreement was terminated on June 2, 2020.

The Partnership has an asset management agreement with AIG Asset Management (U.S.) LLC which provides asset management and related accounting services. We record an investment management fee expense as a deduction from income from investments, which is paid quarterly, based on the value of the assets under management.

Significant cash flows from related reinsurance agreements are included in cash from operations and are disclosed below, along with non-cash settlements in the form of security transfers.

<i>(in millions)</i>	Successor Partnership	Predecessor Company
	Period from June 2 to December 31, 2020	Period from January 1 to June 1, 2020
Cash settlements	\$ (87)	\$ (106)
Receipt of securities from funds withheld arrangements	314	270
Total	\$ 227	\$ 164

14. Owners' Equity

As of December 31, 2020, the Partnership has issued 1,000,000 Class A limited partnership units, of which 715,000 units (71.5%) are owned by Carlyle FRL, 250,000 units (25%) are owned by T&D and 35,000 units (3.5%) are owned by AIG.

On May 7, 2020, the Predecessor Company transferred the net equity of FLAS and FPCS to AIG Inc. in the form of a non-cash dividend of \$2 million which represented the net shareholder's equity of FLAS and FPCS as of the transfer date. This transfer resulted in the derecognition of FLAS and FPCS from the Fortitude group structure, at no gain or loss, and was part of the planned retention of the third party administration platforms by AIG immediately following the closing of the 2019 Sale.

15. Statutory Requirements

Under the Bermuda Insurance Act, FRL 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 FRL's assets, liabilities and premiums. FRL's required statutory economic capital and surplus under the BSCR model is referred to as the enhanced capital requirement ("ECR"). FRL is required to calculate and submit the ECR to the BMA annually. Following receipt of the submission of FRL's ECR, the BMA has the authority to impose additional capital requirements (capital add-ons) if it deems necessary.

While not specifically referred to in the Bermuda Insurance Act, target capital level ("TCL") is also an important threshold for statutory capital and surplus. TCL is equal to 120% of ECR as calculated pursuant to the BSCR formula. TCL serves as an early warning tool for the BMA. If FRL fails to maintain statutory capital at least equal to its TCL, such failure will likely result in increased regulatory oversight by the BMA. Likewise, if FRL fails to maintain or meet its minimum margin of solvency ("MSM"), the BMA may take various degrees of regulatory action. FRL has obtained permission under Section 6C of the Bermuda Insurance Act to value the funds withheld by ceding companies and fixed maturity securities available for sale investment portfolios pertaining to long-term business at amortized cost rather than fair value within the statutory financial statements for the year ended December 31, 2021.

Under the economic balance sheet ("EBS") framework, assets and liabilities are mainly assessed and included at fair value, with the insurer's U.S. GAAP balance sheet serving as a starting point. The model also requires insurers to estimate insurance technical provisions, which consist of the insurer's insurance related balances valued based on best-estimate cash flows, adjusted to reflect the time value of money using a risk-free discount rate, with the addition of a risk margin to reflect the uncertainty in the underlying cash flows.

The statutory economic capital and surplus and related requirement for the year ended December 31, 2020 (Successor Partnership) is detailed below. The values as of December 31, 2020 reflect our best estimate of the statutory economic capital and surplus and related requirement as of the date these consolidated financial statements were available to be issued.

<i>(in millions)</i>	<u>Successor Partnership</u>	
	<u>2020</u>	
Statutory economic capital and surplus	\$	4,268
Required statutory economic capital and surplus		1,871

Under the Bermuda Insurance Act, FRL is prohibited from declaring or paying a dividend if it were in breach of its minimum solvency margin or liquidity ratio or if the declaration or payment of such dividends would cause it to fail to meet such margin or ratio. In addition, FRL is prohibited, without the prior approval of the BMA, from reducing by 15% or more its total statutory capital, or from reducing by 25% of more its total statutory capital and surplus, as set out in its previous year's statutory financial statements. FRL, as a reinsurer of run-off business, is required to seek BMA approval for any dividends or distributions.

As of December 31, 2020 (Successor Partnership), FRL has not paid or declared a dividend.

16. Subsequent Events

We have evaluated the impact of subsequent events through November 12, 2021, the date at which the consolidated financial statements were available to be issued.

Effective June 30, 2021, Fortitude Re declared a dividend payable to Fortitude Holdings of \$280 million.

Effective June 30, 2021, Fortitude Re entered into a Settlement, Release and Amendment Agreement with AIG whereby it was agreed that Fortitude Holdings would receive \$77 million as consideration for certain excess workers' compensation claims previously assumed under the LPT and the early termination of the ADC provided to the Partnership as part of the 2019 Sale (as detailed in Note 7). The consideration of \$77 million was subsequently declared as a non-cash dividend from Fortitude Re to Fortitude Holdings.

On September 15, 2021, we entered into an agreement to purchase Prudential Annuities Life Assurance Corporation (PALAC), including a \$31 billion block of, primarily, legacy variable annuities, from Prudential Annuities, Inc. for a cash purchase price of \$1.5 billion, subject to certain closing adjustments. The transaction is expected to close during the first quarter of 2022 subject to regulatory approval and satisfaction of other customary closing conditions.

Effective October 1, 2021, Carlyle FRL, T&D and AIG entered into an Amended and Restated Exempted Limited Partnership agreement, as detailed in Note 1.

On October 28, 2021 Fortitude Re executed a coinsurance agreement with USAA Life Insurance Company to reinsure 100% of their legacy annuity closed block of business on a funds withheld basis with an effective date of October 1, 2021. This reinsurance arrangement represents approximately \$2.9 billion in assumed reserves as of September 30, 2021.

Effective November 12, 2021, Fortitude Re declared a dividend payable to Fortitude Holdings of \$750 million.