

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 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 033-44202

Fortitude Life Insurance & Annuity Company

(Exact Name of Registrant as Specified in its Charter)

Arizona

(State or Other Jurisdiction of
Incorporation or Organization)

06-1241288

(I.R.S. Employer Identification Number)

Ten Exchange Place
Suite 2210

Jersey City, NJ 07302
(615) 981-8801

(Address and Telephone Number of Registrant's Principal Executive Offices)

Prudential Annuities Life Assurance Corporation

One Corporate Drive
Shelton, CT 06484
(615) 981-8801

(Former name and address since last report)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

| <u>Title of Each Class</u> | <u>Trading Symbol(s)</u> | <u>Name of Each Exchange on Which Registered</u> |
|----------------------------|--------------------------|--|
| Not Applicable | Not Applicable | Not Applicable |

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 the 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, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|-------------------------|-------------------------------------|---------------------------|--------------------------|
| Large Accelerated Filer | <input type="checkbox"/> | Accelerated Filer | <input type="checkbox"/> |
| Non-accelerated Filer | <input checked="" 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of November 10, 2022, 25,000 shares of the registrant's Common Stock (par value \$100) consisting of 100 voting shares and 24,900 non-voting shares were outstanding. As of such date, Fortitude Group Holdings, LLC, a Delaware limited liability company, owned all of the registrant's Common Stock.

TABLE OF CONTENTS

| | Page |
|---|------|
| PART I FINANCIAL INFORMATION | |
| Item 1. Financial Statements: | |
| <u>Unaudited Interim Consolidated Statements of Financial Position as of September 30, 2022 (Successor Company) and December 31, 2021 (Predecessor Company)</u> | 5 |
| <u>Unaudited Interim Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and six months ended September 30, 2022 (Successor Company), the three months ended March 31, 2022 (Predecessor Company), and the three and nine months ended September 30, 2021 (Predecessor Company)</u> | 6 |
| <u>Unaudited Interim Consolidated Statements of Equity for the three and six months ended September 30, 2022 (Successor Company), the three months ended March 31, 2022 (Predecessor Company), and the three and nine months ended September 30, 2021 (Predecessor Company)</u> | 7 |
| <u>Unaudited Interim Consolidated Statements of Cash Flows for the six months ended September 30, 2022 (Successor Company), the three months ended March 31, 2022 (Predecessor Company), and the nine months ended September 30, 2021 (Predecessor Company)</u> | 8 |
| Notes to Unaudited Interim Consolidated Financial Statements | 10 |
| 1. Business and Basis of Presentation | 10 |
| 2. Significant Accounting Policies and Pronouncements | 11 |
| 3. Business Combination | 14 |
| 4. Segment Information | 14 |
| 5. Investments | 18 |
| 6. Derivatives and Hedging | 27 |
| 7. Fair Value of Assets and Liabilities | 35 |
| 8. Income Taxes | 48 |
| 9. Equity | 49 |
| 10. Commitments and Contingent Liabilities | 52 |
| 11. Related Party Transactions | 54 |
| Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations | 61 |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk | 76 |
| Item 4. Controls and Procedures | 79 |
| PART II OTHER INFORMATION | 80 |
| Item 1. Legal Proceedings | 80 |
| Item 1A. Risk Factors | 80 |
| Item 6. Exhibits | 81 |
| SIGNATURES | 82 |

FORWARD-LOOKING STATEMENTS

Certain of the statements included in this Quarterly Report on Form 10-Q constitute forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Words such as “expects,” “believes,” “anticipates,” “includes,” “plans,” “assumes,” “estimates,” “projects,” “intends,” “should,” “will,” “shall” or variations of such words are generally part of forward-looking statements. Forward-looking statements are made based on management’s current expectations and beliefs concerning future developments and their potential effects upon Fortitude Life Insurance & Annuity Company (FLIAC). There can be no assurance that future developments affecting FLIAC will be those anticipated by management. These forward-looking statements are not a guarantee of future performance and involve risks and uncertainties, and there are certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements, including, among others: (1) the ongoing impact of the COVID-19 pandemic on the global economy, financial markets and our business, (2) losses on investments or financial contracts due to deterioration in credit quality or value, or counterparty default; (3) losses on insurance products due to mortality experience or policyholder behavior experience that differs significantly from our expectations when we price our products; (4) changes in interest rates and equity prices that may (a) adversely impact the profitability of our products, the value of separate accounts supporting these products or the value of assets we manage, (b) result in losses on derivatives we use to hedge risk or increase collateral posting requirements and (c) limit opportunities to invest at appropriate returns; (5) guarantees within certain of our products which are market sensitive and may decrease our earnings or increase the volatility of our results of operations or financial position; (6) liquidity needs resulting from (a) derivative collateral market exposure, (b) asset/liability mismatches, (c) the lack of available funding in the financial markets or (d) unexpected cash demands due to severe mortality calamity or lapse events; (7) financial or customer losses, or regulatory and legal actions, due to inadequate or failed processes or systems, external events and human error or misconduct such as (a) disruption of our systems and data, (b) an information security breach, (c) a failure to protect the privacy of sensitive data (d) reliance on third parties or (e) labor and employment matters; (8) changes in the regulatory landscape, including related to (a) financial sector regulatory reform, (b) changes in tax laws, (c) fiduciary rules and other standards of care, (d) state insurance laws and developments regarding group-wide supervision, capital and reserves, and (e) privacy and cybersecurity regulation; (9) technological changes which may adversely impact companies in our investment portfolio or cause insurance experience to deviate from our assumptions; (10) ratings downgrades; (11) market conditions that may adversely affect the sales or persistency of our products; (12) competition; (13) reputational damage; and (14) risks associated with the integration process related to the company's change in ownership. FLIAC does not intend, and is under no obligation, to update any particular forward-looking statement included in this document. See “Risk Factors” included in the Annual Report on Form 10-K for the year ended December 31, 2021 and Quarterly Reports on Form 10-Q for the periods ended March 31, 2022 and June 30, 2022 for discussion of certain risks relating to our business.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Fortitude Life Insurance & Annuity Company Unaudited Interim Consolidated Statements of Financial Position (in millions, except share data)

| | Successor Company | Predecessor Company |
|--|-----------------------------------|------------------------|
| | September 30, 2022 (Unaudited) | December 31, 2021 |
| ASSETS | | |
| Fixed maturity securities: September 30, 2022 at fair value (1); December 31, 2021, available-for-sale, at fair value (net of \$1 allowance for credit losses, amortized cost - \$8,556) | \$ 5,565 | \$ 8,771 |
| Fixed maturity securities, trading, at fair value (amortized cost: December 31, 2021 - \$28) | — | 27 |
| Equity securities, at fair value (cost - September 30, 2022 - \$201; December 31, 2021 - \$323) (1) | 170 | 322 |
| Commercial mortgage and other loans (net of \$5 allowance for credit losses) | — | 1,504 |
| Short-term investments | 37 | 875 |
| Other invested assets (includes \$400 and \$13 of assets measured at fair value at September 30, 2022 and December 31, 2021, respectively) | 430 | 106 |
| Total investments | 6,202 | 11,605 |
| Cash and cash equivalents | 1,276 | 2,016 |
| Accrued investment income | 56 | 61 |
| Reinsurance recoverables (1) | 220 | 8,108 |
| Net modified coinsurance receivable, at fair value (1) | 70 | — |
| Income taxes | 90 | 909 |
| Deposit asset, at fair value (1) | 859 | 2,659 |
| Other assets | 119 | 954 |
| Separate account assets | 23,016 | 32,267 |
| TOTAL ASSETS | \$ 31,908 | \$ 58,579 |
| LIABILITIES AND EQUITY | | |
| LIABILITIES | | |
| Insurance liabilities, at fair value (1) | \$ 6,304 | \$ — |
| Future policy benefits | — | 4,505 |
| Policyholders' account balances | — | 11,750 |
| Reinsurance payables | — | 7,183 |
| Other liabilities | 848 | 1,192 |
| Separate account liabilities | 23,016 | 32,267 |
| Total liabilities | 30,168 | 56,897 |
| COMMITMENTS AND CONTINGENT LIABILITIES (See Note 10) | | |
| EQUITY | | |
| Common stock, \$100 par value; 25,000 shares authorized, issued and outstanding | 3 | 3 |
| Additional paid-in capital | 1,763 | 592 |
| Retained (deficit) earnings | (337) | 917 |
| Accumulated other comprehensive income | 311 | 170 |
| Total equity | 1,740 | 1,682 |
| TOTAL LIABILITIES AND EQUITY | \$ 31,908 | \$ 58,579 |

(1) As of April 1, 2022 we have elected the fair value option for these financial statement line items. See Note 2 for further discussion.

See Notes to Unaudited Interim Consolidated Financial Statements

Fortitude Life Insurance & Annuity Company
Unaudited Interim Consolidated Statements of Operations and Comprehensive Income (Loss)
(in millions)

| | Successor Company | | Predecessor Company | | |
|---|--------------------|------------------|---------------------|--------------------|-------------------|
| | Three Months Ended | Six Months Ended | Three Months Ended | Three Months Ended | Nine Months Ended |
| | September 30 | | March 31 | September 30 | |
| | 2022 | | | 2021 | |
| REVENUES | | | | | |
| Premiums | \$ 8 | \$ 11 | \$ 8 | \$ 6 | \$ 33 |
| Policy charges and fee income | 131 | 261 | 97 | 106 | 1,128 |
| Net investment income | 92 | 189 | 99 | 101 | 386 |
| Asset management and service fees | 26 | 48 | 20 | 23 | 232 |
| Other losses | (16) | (15) | (19) | (42) | (556) |
| Investment gains (losses), net | (455) | (1,753) | 481 | 5,081 | 7,373 |
| TOTAL REVENUES | (214) | (1,259) | 686 | 5,275 | 8,596 |
| BENEFITS AND EXPENSES | | | | | |
| Policyholder benefits and changes in fair value of insurance liabilities | (104) | (974) | — | — | — |
| Policyholders' benefits | — | — | 26 | (242) | (216) |
| Interest credited to policyholders' account balances | — | — | 85 | 441 | 610 |
| Amortization of deferred policy acquisition costs | — | — | 104 | 19 | 402 |
| Commission expense | 27 | 45 | 35 | 1,408 | 1,739 |
| General, administrative and other expenses | 17 | 55 | 3 | (90) | 38 |
| TOTAL BENEFITS AND EXPENSES | (60) | (874) | 253 | 1,536 | 2,573 |
| INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAXES | | | | | |
| | (154) | (385) | 433 | 3,739 | 6,023 |
| Income tax expense (benefit) | 3 | (48) | 77 | 778 | 1,247 |
| NET INCOME (LOSS) | \$ (157) | \$ (337) | \$ 356 | \$ 2,961 | \$ 4,776 |
| Other comprehensive income (loss), before tax: | | | | | |
| Changes in own-credit risk related to insurance liabilities | 149 | 394 | — | — | — |
| Net unrealized investment losses | — | — | (561) | (88) | (1,580) |
| Total | 149 | 394 | (561) | (88) | (1,580) |
| Less: Income tax expense (benefit) related to other comprehensive income (loss) | 32 | 83 | (118) | (19) | (332) |
| Other comprehensive income (loss), net of taxes | 117 | 311 | (443) | (69) | (1,248) |
| Comprehensive income (loss) | \$ (40) | \$ (26) | \$ (87) | \$ 2,892 | \$ 3,528 |

See Notes to Unaudited Interim Consolidated Financial Statements

Fortitude Life Insurance & Annuity Company
Unaudited Interim Consolidated Statements of Equity
(in millions)

| | Common Stock | Additional Paid-in Capital | Retained Earnings/ (Accumulated Deficit) | Accumulated Other Comprehensive Income (Loss) | Total Equity |
|--|-----------------|----------------------------------|---|--|-----------------|
| Balance, 12/31/2021 (Predecessor Company) | \$ 3 | \$ 592 | \$ 917 | \$ 170 | \$ 1,682 |
| Return of capital | — | (306) | — | — | (306) |
| Comprehensive income (loss): | | | | | |
| Net income | — | — | 356 | — | 356 |
| Other comprehensive loss, net of tax | — | — | — | (443) | (443) |
| Total comprehensive loss | | | | | (87) |
| Balance, 3/31/2022 (Predecessor Company) | <u>\$ 3</u> | <u>\$ 286</u> | <u>\$ 1,273</u> | <u>\$ (273)</u> | <u>\$ 1,289</u> |
| Balance, 4/1/2022 (Successor Company) | \$ 3 | \$ 1,763 | \$ — | \$ — | \$ 1,766 |
| Comprehensive income (loss): | | | | | |
| Net loss | — | — | (180) | — | (180) |
| Other comprehensive income, net of tax | — | — | — | 194 | 194 |
| Total comprehensive income | | | | | 14 |
| Balance, 6/30/2022 (Successor Company) | <u>\$ 3</u> | <u>\$ 1,763</u> | <u>\$ (180)</u> | <u>\$ 194</u> | <u>\$ 1,780</u> |
| Comprehensive income (loss): | | | | | |
| Net loss | — | — | (157) | — | (157) |
| Other comprehensive income, net of tax | — | — | — | 117 | 117 |
| Total comprehensive loss | | | | | (40) |
| Balance, 9/30/2022 (Successor Company) | <u>\$ 3</u> | <u>\$ 1,763</u> | <u>\$ (337)</u> | <u>\$ 311</u> | <u>\$ 1,740</u> |

| Predecessor Company | | | | | |
|---|-----------------|----------------------------------|---|--|-----------------|
| | Common Stock | Additional Paid-in Capital | Retained Earnings/ (Accumulated Deficit) | Accumulated Other Comprehensive Income (Loss) | Total Equity |
| Balance, 12/31/2020 | \$ 3 | \$ 4,383 | \$ (3,217) | \$ 1,533 | \$ 2,702 |
| Dividend to parent | — | — | (192) | — | (192) |
| Comprehensive income (loss): | | | | | |
| Net income | — | — | 1,890 | — | 1,890 |
| Other comprehensive loss, net of tax | — | — | — | (1,413) | (1,413) |
| Total comprehensive income | | | | | 477 |
| Balance, 3/31/2021 | <u>\$ 3</u> | <u>\$ 4,383</u> | <u>\$ (1,519)</u> | <u>\$ 120</u> | <u>\$ 2,987</u> |
| Dividend to parent | — | — | (188) | — | (188) |
| Comprehensive income (loss): | | | | | |
| Net loss | — | — | (75) | — | (75) |
| Other comprehensive income, net of tax | — | — | — | 234 | 234 |
| Total comprehensive income | | | | | 159 |
| Balance, 6/30/2021 | <u>\$ 3</u> | <u>\$ 4,383</u> | <u>\$ (1,782)</u> | <u>\$ 354</u> | <u>\$ 2,958</u> |
| Return of capital | — | (3,813) | — | — | (3,813) |
| Assets purchased/transferred from/to affiliates | — | 21 | — | — | 21 |
| Comprehensive income (loss): | | | | | |
| Net income | — | — | 2,961 | — | 2,961 |
| Other comprehensive loss, net of tax | — | — | — | (69) | (69) |
| Total comprehensive income | | | | | 2,892 |
| Balance, 9/30/2021 | <u>\$ 3</u> | <u>\$ 591</u> | <u>\$ 1,179</u> | <u>\$ 285</u> | <u>\$ 2,058</u> |

See Notes to Unaudited Interim Consolidated Financial Statements

Fortitude Life Insurance & Annuity Company
Unaudited Interim Consolidated Statements of Cash Flows
(in millions)

| | Successor Company | Predecessor Company | |
|---|----------------------------------|--------------------------------|-----------------------------------|
| | Six Months Ended September 30 | Three Months Ended March 31 | Nine Months Ended September 30 |
| | 2022 | | 2021 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net income (loss) | \$ (337) | \$ 356 | \$ 4,776 |
| Adjustments to reconcile net income (loss) to net cash from (used in) operating activities: | | | |
| Investment (gains) losses, net | 1,753 | (481) | (7,373) |
| Interest credited to policyholders' account balances | — | 85 | 610 |
| Other, net | (10) | 2 | 4 |
| Change in: | | | |
| Insurance liabilities, at fair value | (6,888) | — | — |
| Fair value of deposit asset | 1,748 | — | — |
| Net modified coinsurance receivable, at fair value | 4,114 | — | — |
| Future policy benefits | — | 60 | 604 |
| Accrued investment income | (20) | 1 | 48 |
| Net receivables from/payables to parent and affiliates | — | (37) | (23) |
| Deferred policy acquisition costs | — | 104 | 3,488 |
| Income taxes | 262 | 142 | 686 |
| Reinsurance recoverables, net | 19 | (39) | 40 |
| Derivatives, net | (37) | (1,079) | (3,001) |
| Other, net | (14) | (3) | (1,924) |
| Cash flows from (used in) operating activities | 590 | (889) | (2,065) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Proceeds from the sale/maturity/prepayment of: | | | |
| Fixed maturity securities, at fair value | 3,048 | — | — |
| Fixed maturity securities, available-for-sale | — | 422 | 8,859 |
| Fixed maturity securities, trading | — | — | 2,082 |
| Equity securities | — | 95 | 46 |
| Secured receivable | 60 | — | — |
| Commercial mortgage and other loans | — | 39 | 116 |
| Other invested assets | 5 | 1 | 44 |
| Short-term investments | 289 | 795 | 389 |
| Payments for the purchase/origination of: | | | |
| Fixed maturity securities, at fair value | (4,134) | — | — |
| Fixed maturity securities, available-for-sale | — | (751) | (5,142) |
| Fixed maturity securities, trading | — | — | (5,384) |
| Equity securities | (10) | — | (6) |
| Secured receivable | (7) | — | — |
| Commercial mortgage and other loans | — | (13) | (1,090) |
| Other invested assets | (131) | — | (225) |
| Short-term investments | (23) | (94) | (166) |
| Derivatives, net | — | 3 | (88) |
| Other, net | (41) | — | 54 |
| Cash flows from (used in) investing activities | (944) | 497 | (511) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Net policyholder's account deposits (withdrawals) | (109) | 62 | 4,124 |
| Cash collateral for loaned securities | (36) | 205 | — |
| Repayments of debt (maturities longer than 90 days) | — | — | (300) |
| Net increase/(decrease) in short-term borrowing | — | — | (120) |
| Drafts outstanding | (3) | (7) | (10) |
| Distribution to parent | — | (306) | (774) |
| Repurchase agreements | 200 | — | — |
| Cash flows from (used in) financing activities | 52 | (46) | 2,920 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (302) | (438) | 344 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 1,578 | 2,016 | 1,069 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 1,276 | \$ 1,578 | \$ 1,413 |

During the six months ended September 30, 2022, we had novations within our Ceded Business 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 \$4,116 million of investments with a corresponding offset of \$(4,116) million related to the modified coinsurance payable, which is presented on a net basis with the modified coinsurance receivable as "Net modified coinsurance receivable, at fair value" in the consolidated statement of cash flows and consolidated statement of financial position.

See Notes to Unaudited Interim Consolidated Financial Statements

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

1. BUSINESS AND BASIS OF PRESENTATION

Fortitude Life Insurance & Annuity Company and its wholly-owned subsidiary (collectively, “FLIAC” or the “Company”), with its principal offices in Jersey City, New Jersey, is a wholly-owned subsidiary of Fortitude Group Holdings, LLC (“FGH”). Prior to April 1, 2022, the Company (previously named Prudential Annuities Life Assurance Corporation (“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. On April 1, 2022, PAI completed the sale of its equity interest in the Company to FGH. As a result, the Company is no longer an affiliate of Prudential Financial or any of its affiliates. See Basis of Presentation below and Note 3 for further information regarding the acquisition.

Basis of Presentation

The Unaudited Interim Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) on a basis consistent with reporting interim financial information in accordance with instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission (“SEC”). The accompanying Unaudited Consolidated Financial Statements present the consolidated results of operations, financial condition, and cash flows of the Company and a variable interest entity (“VIE”) that meets the requirements for consolidation. All intercompany transactions have been eliminated in consolidation.

Following the acquisition of FLIAC, purchase accounting was applied to FGH's financial statements and we have elected to “push down” the basis to FLIAC in accordance with Accounting Standards Codification (“ASC”) 805, *Business Combinations*. The application of push-down accounting created a new basis of accounting for all assets and liabilities based on fair value at the date of acquisition. As a result, FLIAC's financial position, results of operations, and cash flows subsequent to the acquisition are not comparable with those prior to April 1, 2022, and therefore have been segregated to indicate pre-acquisition and post-acquisition periods. The pre-acquisition period through March 31, 2022 is referred to as the Predecessor Company. The post-acquisition period, April 1, 2022 and forward, includes the impact of push-down accounting and is referred to as the Successor Company. See Note 3 for further information regarding the acquisition and our application of push-down accounting.

In the opinion of management, all adjustments necessary for a fair statement of the financial position and results of operations have been made. All such adjustments are of a normal, recurring nature. Interim results are not necessarily indicative of the results that may be expected for the full year. These financial statements should be read in conjunction with the Predecessor Company's Financial Statements included in the Predecessor Company's Annual Report on Form 10-K for the year ended December 31, 2021.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

COVID-19

Since the first quarter of 2020, the novel coronavirus (“COVID-19”) has at times resulted in extreme stress and disruption in the global economy and financial markets. The COVID-19 pandemic has impacted, and may continue to impact, the Successor Company's results of operations, financial condition, and cash flows. Due to the highly uncertain nature of these conditions, it is not possible to estimate the ultimate impacts at this time. The risks may have manifested, and may continue to manifest, in the Successor Company's financial statements in the areas of, among others, i) insurance liabilities and related balances: potential changes to assumptions regarding investment returns, mortality, and policyholder behavior, which are reflected in our insurance liabilities and ii) investments: increased risk of loss on our investments due to default or deterioration in credit quality or value. We cannot predict what impact the COVID-19 pandemic will ultimately have on our businesses.

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Novation of Ceded Business

In the second quarter of 2022, in accordance with applicable state law, a program was instituted to novate a significant portion of the Ceded Business policies from FLIAC to Pruco Life Insurance Company ("Pruco Life"). The 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 six months ended September 30, 2022, approximately \$6 billion of account value, which generally approximates fair values of insurance liabilities, was transferred out of the Company as a result of the novation program, which represents approximately 60 percent of account value since the acquisition of the Company on April 1, 2022.

Predecessor Company Reinsurance Transactions

Effective April 1, 2016, the Predecessor Company reinsured the variable annuity base contracts, along with the living benefit guarantees, from Pruco Life, excluding the Pruco Life Insurance Company of New Jersey ("PLNJ") business which was reinsured to The Prudential Insurance Company of America ("Prudential Insurance"), in each case under a coinsurance and modified coinsurance agreement. This reinsurance agreement covers new and in force business and excludes business reinsured externally. As of December 31, 2020, Pruco Life discontinued the sales of traditional variable annuities with guaranteed living benefit riders. The discontinuation had no impact on the reinsurance agreement between Pruco Life and the Predecessor Company.

Effective July 1, 2021, Pruco Life recaptured the risks related to its business, as discussed above, that had previously been reinsured to the Predecessor Company from April 1, 2016 through June 30, 2021. The product risks related to the previously reinsured business that were being managed in the Predecessor Company, were transferred to Pruco Life. This transaction is referred to as the "2021 Variable Annuities Recapture". See Note 1 to the Financial Statements included in the Predecessor Company's Annual Report on Form 10-K for the year ended December 31, 2021, for more details.

Effective December 1, 2021, the Predecessor Company entered into a reinsurance agreement with Pruco Life under which the Predecessor Company reinsured certain of its variable and fixed indexed annuities and fixed annuities with a guaranteed lifetime withdrawal income feature to Pruco Life.

Predecessor Company

During the first quarter of 2022, the Predecessor Company recorded an out-of-period adjustment which decreased "Investment gains (losses), net" by \$48 million, resulting in a net decrease of \$48 million to "Income (loss) from operations before income taxes" during the three months ended March 31, 2022. This adjustment related to certain portions of reinsurance activity that had been incorrectly recorded during the fourth quarter of 2021. Management evaluated the impact of all out-of-period adjustments, both individually and in the aggregate, and concluded that they were not material to any current or previously reported quarterly or annual financial statements.

Reclassifications

Certain amounts in prior periods have been reclassified to conform to the current period presentation.

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS

Accounting Policy Election

Fair Value Option

Following the acquisition, we have elected to prospectively apply the fair value option to several of FLIAC's assets and liabilities. We have made this election as it improves our operational efficiency and better aligns the recognition and measurement of our investments, insurance liabilities, and associated reinsurance activity with how we expect to manage the business.

The following represents the financial statement line items impacted by the fair value election and the changes to such line items from what was previously presented under the Predecessor Company:

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

| | Successor Company | Predecessor Company |
|------------------------------------|---|--|
| | Financial Statement Line Item | |
| STATEMENTS OF FINANCIAL POSITION | | |
| Assets | | |
| Investments | | |
| | "Fixed maturity securities, at fair value" | "Fixed maturity securities, available-for-sale, at fair value" and "Fixed maturity securities, trading, at fair value" |
| | "Equity securities, at fair value" | "Equity securities, at fair value" |
| | "Secured Receivable" (1) | "Commercial mortgage and other loans" |
| Other | | |
| | "Reinsurance recoverables" and "Net modified coinsurance receivable, at fair value" (2) | "Reinsurance recoverables" and "Reinsurance payables" |
| | "Deposit asset at fair value" (3) | "Deposit asset" |
| Liabilities | | |
| | "Insurance liabilities, at fair value" | "Future policy benefits" and "Policyholders' account balances" |
| STATEMENTS OF OPERATIONS | | |
| Revenues | | |
| | "Investment gains (losses), net" | "Realized investment gains (losses), net" and "Net unrealized investment gains (losses)" (4) |
| Benefits and Expenses | | |
| | "Policyholder benefits and changes in fair value of insurance liabilities" | "Policyholders' benefits" and "Interest credited to policyholders' account balances" |
| STATEMENTS OF COMPREHENSIVE INCOME | | |
| Other comprehensive income (loss) | | |
| | "Changes in own-credit risk related to insurance liabilities" | N/A |

(1) Also includes certain fixed maturity securities previously contained in "Fixed maturity securities, available-for-sale" by the Predecessor Company. See "Secured Receivable" section below for further discussion.

(2) Balances unrelated to the modified coinsurance agreement will remain in the respective reinsurance recoverable and payable line items.

(3) Included within "Other assets" by the Predecessor Company.

(4) Represents "Net unrealized investment gains (losses)" included in Other comprehensive income (loss).

During the third quarter of 2022 we purchased residential mortgage loans for which we have elected to apply the fair value option. The investments are included in Other invested assets in the unaudited interim consolidated statements of financial position. See Note 5 for further information.

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Secured Receivable

The economics of commercial mortgage and other loans and certain fixed maturity securities held by the Predecessor Company have been transferred to FLIAC via participation agreements. The legal ownership and control over the participated assets was not transferred and cannot be freely pledged or exchanged by FLIAC. This transfer did not meet the requirements of sale accounting and is therefore accounted for as a secured borrowing. These participated assets are represented on our balance sheet, at fair value, in the form of a secured receivable, all of which is associated with our Ceded Business segment. During the third quarter of 2022, all assets within the participation agreements were transferred out of the Company as part of the novation program discussed in Note 1. Accordingly, the Secured Receivable is no longer carried on FLIAC's balance sheet as of September 30, 2022. There was no impact to net income or equity as a result of these transfers.

Recent Accounting Pronouncements

Changes to U.S. GAAP are established by the Financial Accounting Standards Board ("FASB") in the form of an Accounting Standards Update ("ASU") to the ASC. We consider the applicability and impact of all ASUs. ASUs listed below include those that have been adopted during the current fiscal year and/or those that have been issued but not yet adopted as of the date of this filing. ASUs not listed below were assessed and determined to be either not applicable or not material.

ASU issued but not yet adopted as of September 30, 2022 — ASU 2018-12

ASU 2018-12, *Financial Services - Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*, was issued by the FASB on August 15, 2018, and was amended by ASU 2019-09, *Financial Services - Insurance (Topic 944): Effective Date*, issued in October 2019, and ASU 2020-11, *Financial Services-Insurance (Topic 944): Effective Date and Early Application*, issued in November 2020. Public business entities that meet the definition of an SEC filer and are not Small Reporting Companies that early adopt ASU 2018-12 are allowed to apply the guidance either as of January 1, 2020 or January 1, 2021 (and record transition adjustments as of January 1, 2020 or January 1, 2021, respectively) in their 2022 financial statements. Companies that do not early adopt ASU 2018-12 will apply the guidance as of January 1, 2021 (and record transition adjustments as of January 1, 2021) in the 2023 financial statements.

As previously discussed, we have elected to apply the fair value option for all of our insurance liabilities. As a result of this election, our insurance liabilities are no longer within the scope of ASU 2018-12.

Other ASUs issued but not yet adopted as of September 30, 2022

| Standard | Description | Effective date and method of adoption | Effect on the financial statements or other significant matters |
|---|--|--|---|
| <i>ASU 2022-02, Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosure</i> | This ASU eliminates the accounting guidance for Troubled Debt Restructurings ("TDR") for creditors and adds enhanced disclosure requirements for certain loan refinancings and restructurings by creditors made to borrowers experiencing financial difficulty. Following adoption of the ASU, all loan refinancings are subject to the modification guidance in ASC 310-20. This ASU also amends the guidance on the vintage disclosures to require disclosure of current-period gross write-offs by year of origination. | January 1, 2023 using the prospective method with an option to apply a modified retrospective transition method for the recognition and measurement of TDRs which will include a cumulative effect adjustment on the balance sheet in the period of adoption. Early adoption is permitted beginning January 1, 2022, including adoption in an interim period provided guidance is applied as of the beginning of the year. | Following our election of the fair value option for our secured receivable, and the expectation to elect the fair value option on any newly acquired financing receivables, we do not expect the adoption of the ASU to have an impact on the Consolidated Financial Statements or Notes to the Consolidated Financial Statements |

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

3. BUSINESS COMBINATION

As referenced in Note 2, we have applied push-down accounting to FLIAC's consolidated financial statements, which resulted in the initial recognition of its assets and liabilities at fair value as of the acquisition date, April 1, 2022.

The total preliminary purchase consideration of the acquisition was \$1,761 million, comprised of \$1,748 million cash transferred for the purchase price and a \$13 million cash reimbursement to the seller for transaction costs incurred. A bargain purchase gain was recognized in the amount of \$5 million, representing the excess of the fair value of net assets acquired over the consideration paid. The bargain purchase gain was allocated to additional paid-in capital 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 for each major class of assets and liabilities, after application of push-down accounting.

| | Successor Company |
|-------------------------------------|--------------------------|
| | April 1, 2022 |
| | (in millions) |
| ASSETS | |
| Total investments | \$ 10,807 |
| Cash and cash equivalents | 1,578 |
| Reinsurance recoverables | 239 |
| Net modified coinsurance receivable | 68 |
| Income taxes | 352 |
| Deposit asset | 2,607 |
| Other assets | 96 |
| Separate account assets | 29,426 |
| TOTAL ASSETS | \$ 45,173 |
| LIABILITIES | |
| Insurance liabilities | \$ 13,611 |
| Other liabilities | 370 |
| Separate account liabilities | 29,426 |
| TOTAL LIABILITIES | 43,407 |
| Net assets acquired | 1,766 |
| Consideration | 1,761 |
| BARGAIN PURCHASE GAIN | \$ 5 |

During the third quarter of 2022, the Successor Company made the following corrections to the previously reported fair value of assets acquired and liabilities assumed at the acquisition date, which are reflected in the above chart. These corrections had no impact to net assets acquired, consideration paid, or the bargain purchase gain.

- \$105 million decrease to Reinsurance recoverables;
- \$63 million increase to Net modified coinsurance receivable;
- \$8 million decrease to Deposit asset; and
- \$50 million decrease to Insurance liabilities.

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

4. SEGMENT INFORMATION

Following the acquisition by FGH, we have separated our business into two reportable segments, which we refer to as the "Retained Business" and the "Ceded Business."

The Retained Business consists of variable annuity products with guaranteed lifetime withdrawal benefit features as well as smaller blocks of variable annuity products with certain other living benefit and death benefit features. The Retained Business also includes variable universal life and fixed payout annuity products. The Retained Business is actively managed by FLIAC management and the Successor Company retains the full economic benefits and risks.

The Ceded Business represents certain business (primarily registered index-linked annuities and fixed annuities, which includes fixed indexed and fixed deferred annuities, and other variable annuities) where 100 percent of the assets and liabilities have been fully ceded to Prudential Insurance and Pruco Life under existing coinsurance and modified coinsurance agreements. We have a modco payable of \$2,136 million equal to the assets held in the Ceded Business, which is included in the net modified coinsurance receivable. Historical information has not been revised for the segment presentation and is not comparable following the election of push-down accounting as of April 1, 2022.

The following is the Consolidated Statement of Financial Position by segment:

| | September 30, 2022 | | |
|-------------------------------------|--------------------|----------------|-----------|
| | Retained Business | Ceded Business | Total |
| | (in millions) | | |
| ASSETS | | | |
| Total investments | \$ 4,310 | \$ 1,892 | \$ 6,202 |
| Cash and cash equivalents | 553 | 723 | 1,276 |
| Accrued investment income | 45 | 11 | 56 |
| Reinsurance recoverables | — | 220 | 220 |
| Net modified coinsurance receivable | — | 70 | 70 |
| Income taxes | 90 | — | 90 |
| Deposit asset | — | 859 | 859 |
| Other assets | 117 | 2 | 119 |
| Separate account assets | 21,024 | 1,992 | 23,016 |
| TOTAL ASSETS | \$ 26,139 | \$ 5,769 | \$ 31,908 |
| LIABILITIES AND EQUITY | | | |
| LIABILITIES | | | |
| Insurance liabilities | \$ 3,019 | \$ 3,285 | \$ 6,304 |
| Other liabilities | 356 | 492 | 848 |
| Separate account liabilities | 21,024 | 1,992 | 23,016 |
| TOTAL LIABILITIES | 24,399 | 5,769 | 30,168 |
| EQUITY | | | |
| | 1,740 | — | 1,740 |
| TOTAL LIABILITIES AND EQUITY | \$ 26,139 | \$ 5,769 | \$ 31,908 |

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

The following is comprehensive income (loss) by segment:

| | Three Months Ended September 30, 2022 | | |
|--|--|-----------------------|-----------------|
| | Retained Business | Ceded Business | Total |
| | (in millions) | | |
| REVENUES | | | |
| Premiums | \$ 8 | \$ — | \$ 8 |
| Policy charges and fee income | 131 | — | 131 |
| Net investment income | 47 | 45 | 92 |
| Asset management and service fees | 26 | — | 26 |
| Other losses | (4) | (12) | (16) |
| Investment gains (losses), net | (463) | 8 | (455) |
| TOTAL REVENUES | (255) | 41 | (214) |
| BENEFITS AND EXPENSES | | | |
| Policyholder benefits and changes in fair value of insurance liabilities | (145) | 41 | (104) |
| Commission expense | 27 | — | 27 |
| General, administrative and other expenses | 17 | — | 17 |
| TOTAL BENEFITS AND EXPENSES | (101) | 41 | (60) |
| LOSS FROM OPERATIONS BEFORE INCOME TAXES | (154) | — | (154) |
| Income tax expense | 3 | — | 3 |
| NET LOSS | <u>\$ (157)</u> | <u>\$ —</u> | <u>\$ (157)</u> |
| Other comprehensive income, before tax: | | | |
| Changes in own-credit risk related to insurance liabilities | 149 | — | 149 |
| Less: Income tax expense | 32 | — | 32 |
| Other comprehensive income, net of taxes | 117 | — | 117 |
| Comprehensive loss | <u>\$ (40)</u> | <u>\$ —</u> | <u>\$ (40)</u> |

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

| | Six Months Ended September 30, 2022 | | |
|--|-------------------------------------|----------------|----------|
| | Retained Business | Ceded Business | Total |
| | (in millions) | | |
| REVENUES | | | |
| Premiums | \$ 11 | \$ — | \$ 11 |
| Policy charges and fee income | 261 | — | 261 |
| Net investment income | 82 | 107 | 189 |
| Asset management and service fees | 48 | — | 48 |
| Other losses | (4) | (11) | (15) |
| Investment losses, net | (571) | (1,182) | (1,753) |
| TOTAL REVENUES | (173) | (1,086) | (1,259) |
| BENEFITS AND EXPENSES | | | |
| Policyholder benefits and changes in fair value of insurance liabilities | 112 | (1,086) | (974) |
| Commission expense | 45 | — | 45 |
| General, administrative and other expenses | 55 | — | 55 |
| TOTAL BENEFITS AND EXPENSES | 212 | (1,086) | (874) |
| LOSS FROM OPERATIONS BEFORE INCOME TAXES | (385) | — | (385) |
| Income tax benefit | (48) | — | (48) |
| NET LOSS | \$ (337) | \$ — | \$ (337) |
| Other comprehensive income, before tax: | | | |
| Changes in own-credit risk related to insurance liabilities | 394 | — | 394 |
| Less: Income tax expense | 83 | — | 83 |
| Other comprehensive income, net of taxes | 311 | — | 311 |
| Comprehensive loss | \$ (26) | \$ — | \$ (26) |

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

5. INVESTMENTS

As discussed in Note 2, we have elected to apply the fair value option for FLIAC's entire portfolio of fixed maturity and equity securities, its secured receivable, and residential mortgage loans. The impact of the election has resulted in the following changes:

- Elimination of the "available-for-sale" designation on all fixed maturity securities, resulting in a change in the recording of unrealized gains and losses through "Investment gains (losses), net" in the consolidated statement of operations rather than in "Accumulated other comprehensive income" ("AOCI") as a component of equity in the consolidated statement of financial position;
- Elimination of the required allowance for current expected credit losses on applicable financial assets under ASC 326 - *Financial Instruments - Credit Losses*, which include fixed maturity securities designated as "available-for-sale" and mortgage and other loans; and
- Elimination of a significant portion of the required disclosures for available-for-sale securities. These disclosures primarily relate to the amortized cost and unrealized gains and losses on available-for-sale securities. Disclosures for historical periods under the Predecessor Company are retained throughout this note.

The accumulated unrealized gains and losses recorded in AOCI at March 31, 2022 related to the available-for-sale securities were reset in conjunction with our election of push-down accounting on April 1, 2022. Similarly, the allowance for credit losses at March 31, 2022 on our available-for-sale securities and secured receivable was eliminated in conjunction with our election of push-down accounting on April 1, 2022. As of September 30, 2022, there was no balance remaining in AOCI for unrealized gains and losses on our available-for-sale securities and no remaining allowance for credit losses.

See Note 7 for further discussion and disclosures of the fair values of these financial assets.

The following tables set forth the composition of fixed maturity securities (excluding investments classified as trading) for the Predecessor Company:

| | Predecessor Company | | | | |
|--|---------------------|------------------------------|-------------------------------|--------------------------------|---------------|
| | December 31, 2021 | | | | |
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Allowance for Credit Losses | Fair Value |
| | (in millions) | | | | |
| Fixed maturities, available-for-sale: | | | | | |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | \$ 654 | \$ 74 | \$ 1 | \$ — | \$ 727 |
| Obligations of U.S. states and their political subdivisions | 281 | 15 | — | — | 296 |
| Foreign government bonds | 106 | 9 | 1 | — | 114 |
| U.S. public corporate securities | 2,345 | 134 | 18 | — | 2,461 |
| U.S. private corporate securities | 1,635 | 24 | 14 | 1 | 1,644 |
| Foreign public corporate securities | 793 | 11 | 9 | — | 795 |
| Foreign private corporate securities | 920 | 5 | 34 | — | 891 |
| Asset-backed securities(1) | 1,058 | 5 | 1 | — | 1,062 |
| Commercial mortgage-backed securities | 692 | 22 | 8 | — | 706 |
| Residential mortgage-backed securities(2) | 72 | 3 | — | — | 75 |
| Total fixed maturities, available-for-sale | \$ 8,556 | \$ 302 | \$ 86 | \$ 1 | \$ 8,771 |

(1) Includes credit-tranched securities collateralized by loan obligations, auto loans, education loans, equipment leases and sub-prime mortgages.

(2) Includes publicly-traded agency pass-through securities and collateralized mortgage obligations.

Fortitude Life Insurance & Annuity Company

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

The following tables set forth the fair value and gross unrealized losses on available-for-sale fixed maturity securities without an allowance for credit losses aggregated by investment category and length of time that individual fixed maturity securities had been in a continuous unrealized loss position for the Predecessor Company:

| | Predecessor Company | | | | | |
|--|-------------------------|-------------------|-----------------------|-------------------|------------|-------------------------|
| | December 31, 2021 | | | | | |
| | Less Than Twelve Months | | Twelve Months or More | | Total | |
| | Gross | | Gross | | | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Gross Unrealized Losses |
| (in millions) | | | | | | |
| Fixed maturities, available-for-sale: | | | | | | |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | \$ 74 | \$ 1 | \$ — | \$ — | \$ 74 | \$ 1 |
| Obligations of U.S. states and their political subdivisions | 5 | — | — | — | 5 | — |
| Foreign government bonds | 13 | 1 | 7 | — | 20 | 1 |
| U.S. public corporate securities | 696 | 12 | 153 | 6 | 849 | 18 |
| U.S. private corporate securities | 855 | 14 | — | — | 855 | 14 |
| Foreign public corporate securities | 522 | 8 | 50 | 1 | 572 | 9 |
| Foreign private corporate securities | 689 | 34 | — | — | 689 | 34 |
| Asset-backed securities | 499 | 1 | — | — | 499 | 1 |
| Commercial mortgage-backed securities | 157 | 5 | 75 | 3 | 232 | 8 |
| Residential mortgage-backed securities | 6 | — | — | — | 6 | — |
| Total fixed maturities, available-for-sale | \$ 3,516 | \$ 76 | \$ 285 | \$ 10 | \$ 3,801 | \$ 86 |

As of December 31, 2021, the gross unrealized losses on fixed maturity available-for-sale securities without an allowance were comprised of \$73 million related to “1” highest quality or “2” high quality securities based on the National Association of Insurance Commissioners (“NAIC”) or equivalent rating and \$13 million related to other than high or highest quality securities based on NAIC or equivalent rating. As of December 31, 2021, the \$10 million of gross unrealized losses of twelve months or more were concentrated in the Predecessor Company’s corporate securities within the consumer non-cyclical, capital goods, and finance sectors.

The following table sets forth the sources of fixed maturity proceeds and related investment gains (losses), as well as losses on write-downs and the allowance for credit losses of fixed maturities, for the Predecessor Company:

| | Predecessor Company | |
|--|------------------------------------|-----------------------------------|
| | Three months ended September 30 | Nine months ended September 30 |
| | 2021 | |
| | (in millions) | |
| Fixed maturities, available-for-sale: | | |
| Proceeds from sales(1) | \$ 216 | \$ 8,009 |
| Proceeds from maturities/prepayments | 196 | 607 |
| Gross investment gains on sales and maturities | 157 | 1,296 |
| Gross investment losses on sales and maturities | (14) | (75) |
| Write-downs recognized in earnings (2) | — | (23) |
| (Addition to) release of allowance for credit losses | (2) | (2) |

(1) Includes \$(243) million of non-cash related proceeds due to the timing of trade settlements for the nine months ended September 30, 2021.

(2) Amounts represent write-downs on securities actively marketed for sale.

Fortitude Life Insurance & Annuity Company

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

The following tables set forth the activity in the allowance for credit losses for fixed maturity securities, for the Predecessor Company:

| | Predecessor Company | | | | | | |
|--|---|--------------------------------|--|--------------------------------|---|--|-------------|
| | Three Months Ended March 31, 2022 | | | | | | |
| | U.S. Treasury Securities and Obligations of U.S. States | Foreign Government Bonds | U.S. and Foreign Corporate Securities | Asset- Backed Securities | Commercial Mortgage- Backed Securities | Residential Mortgage- Backed Securities | Total |
| | (in millions) | | | | | | |
| Fixed maturities, available-for-sale: | | | | | | | |
| Balance, beginning of period | \$ — | \$ — | \$ 1 | \$ — | \$ — | \$ — | \$ 1 |
| Additions to allowance for credit losses not previously recorded | — | — | — | — | — | — | — |
| Reductions for securities sold during the period | — | — | — | — | — | — | — |
| Additions on securities with previous allowance | — | — | — | — | — | — | — |
| Balance, end of period | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 1</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 1</u> |

| | Predecessor Company | | | | | | |
|--|---|--------------------------------|--|--------------------------------|---|--|-------------|
| | Three Months Ended September 30, 2021 | | | | | | |
| | U.S. Treasury Securities and Obligations of U.S. States | Foreign Government Bonds | U.S. and Foreign Corporate Securities | Asset- Backed Securities | Commercial Mortgage- Backed Securities | Residential Mortgage- Backed Securities | Total |
| | (in millions) | | | | | | |
| Fixed maturities, available-for-sale: | | | | | | | |
| Balance, beginning of period | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| Additions to allowance for credit losses not previously recorded | — | — | 2 | — | — | — | 2 |
| Reductions for securities sold during the period | — | — | — | — | — | — | — |
| Reductions on securities with previous allowance | — | — | — | — | — | — | — |
| Balance, end of period | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 2</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 2</u> |

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

| | Predecessor Company | | | | | | | | | | | | | |
|--|---|---|--------------------------------|---|--|-----|--------------------------------|---|---|---|--|---|-------|-----|
| | Nine Months Ended September 30, 2021 | | | | | | | | | | | | | |
| | U.S. Treasury Securities and Obligations of U.S. States | | Foreign Government Bonds | | U.S. and Foreign Corporate Securities | | Asset- Backed Securities | | Commercial Mortgage- Backed Securities | | Residential Mortgage- Backed Securities | | Total | |
| | (in millions) | | | | | | | | | | | | | |
| Fixed maturities, available-for-sale: | | | | | | | | | | | | | | |
| Balance, beginning of period | \$ | — | \$ | — | \$ | 1 | \$ | — | \$ | — | \$ | — | \$ | 1 |
| Additions to allowance for credit losses not previously recorded | | — | | — | | 3 | | — | | — | | — | | 3 |
| Reductions for securities sold during the period | | — | | — | | (1) | | — | | — | | — | | (1) |
| Reductions on securities with previous allowance | | — | | — | | (1) | | — | | — | | — | | (1) |
| Balance, end of period | \$ | — | \$ | — | \$ | 2 | \$ | — | \$ | — | \$ | — | \$ | 2 |

See Note 2 to the Financial Statements included in the Predecessor Company's Annual Report on Form 10-K for the year ended December 31, 2021 for additional information about the Predecessor Company's methodology for developing our allowance for credit losses for the Predecessor Company.

For the three and nine months ended September 30, 2021, the net increase in the allowance for credit losses on available-for-sale securities was primarily related to adverse projected cash flows in the capital goods and transportation sectors within private corporate securities.

The Predecessor Company did not have any fixed maturity securities purchased with credit deterioration as of December 31, 2021.

Fixed Maturity Securities, Trading (Predecessor Company)

The net change in unrealized gains (losses) from fixed maturity securities, trading still held at period end, recorded by the Predecessor Company within "Other income (loss)," was \$24 million and \$(276) million during the three and nine months ended September 30, 2021, respectively.

Equity Securities (Predecessor Company)

The net change in unrealized gains (losses) from equity securities still held at period end, recorded by the Predecessor Company within "Other income (loss)," was \$(3) million and \$(12) million during the three and nine months ended September 30, 2021, respectively.

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Commercial Mortgage and Other Loans (Predecessor Company)

The following table sets forth the composition of “Commercial mortgage and other loans,” for the Predecessor Company:

| | Predecessor Company | |
|--|---------------------------------|-----------------------|
| | December 31, 2021 | |
| | Amount (in millions) | % of Total |
| Commercial mortgage and agricultural property loans by property type: | | |
| Apartments/Multi-Family | \$ 385 | 25.5 % |
| Hospitality | 17 | 1.1 |
| Industrial | 624 | 41.5 |
| Office | 196 | 13.0 |
| Other | 134 | 8.9 |
| Retail | 102 | 6.7 |
| Total commercial mortgage loans | 1,458 | 96.7 % |
| Agricultural property loans | 51 | 3.3 |
| Total commercial mortgage and agricultural property loans | 1,509 | 100.0 % |
| Allowance for credit losses | (5) | |
| Total net commercial mortgage and agricultural property loans | <u>\$ 1,504</u> | |

As of December 31, 2021, the commercial mortgage and agricultural property loans were secured by properties geographically dispersed throughout the United States with the largest concentrations in California (34%), Texas (18%) and New York (7%) and included loans secured by properties in Europe (8%) and Australia (1%).

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

The following tables set forth the activity in the allowance for credit losses for commercial mortgage and other loans for the Predecessor Company:

| | Predecessor Company | | |
|--|------------------------------|--------------------------------|-------------|
| | Three Months Ended March 31, | | |
| | 2022 | | |
| | Commercial Mortgage Loans | Agricultural Property Loans | Total |
| | (in millions) | | |
| Allowance, beginning of period | \$ 5 | \$ — | \$ 5 |
| Release of allowance for expected losses | (1) | — | (1) |
| Allowance, end of period | <u>\$ 4</u> | <u>\$ —</u> | <u>\$ 4</u> |

| | Predecessor Company | | | | | |
|--|---------------------------------|-----------------------------|-------|--------------------------------|-----------------------------|-------|
| | Three Months Ended September 30 | | | Nine Months Ended September 30 | | |
| | 2021 | | | | | |
| | Commercial Mortgage Loans | Agricultural Property Loans | Total | Commercial Mortgage Loans | Agricultural Property Loans | Total |
| | (in millions) | | | | | |
| Allowance, beginning of period | \$ 5 | \$ — | \$ 5 | \$ 7 | \$ — | \$ 7 |
| Addition to (release of) allowance for expected losses | (1) | — | (1) | (3) | — | (3) |
| Allowance, end of period | \$ 4 | \$ — | \$ 4 | \$ 4 | \$ — | \$ 4 |

See Note 2 to the Financial Statements included in the Predecessor Company's Annual Report on Form 10-K for the year ended December 31, 2021 for additional information about the Predecessor Company's methodology for developing the allowance and expected losses.

For the three months ended March 31, 2022 and the three and nine months ended September 30, 2021, the net decrease in the allowance for credit losses on commercial mortgage and other loans was primarily related to the improving credit environment. Also impacting the decline for the three months ended September 30, 2021 were loan sales.

Fortitude Life Insurance & Annuity Company

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

The following tables set forth key credit quality indicators based upon the recorded investment gross of allowance for credit losses, for the Predecessor Company:

| | Predecessor Company | | | | | | |
|------------------------------|------------------------------------|-------|-------|-------|--------|--------|----------|
| | December 31, 2021 | | | | | | |
| | Amortized Cost by Origination Year | | | | | | |
| | 2021 | 2020 | 2019 | 2018 | 2017 | Prior | Total |
| | (in millions) | | | | | | |
| Commercial Mortgage Loans | | | | | | | |
| Loan-to-Value Ratio: | | | | | | | |
| 0%-59.99% | \$ 150 | \$ — | \$ 21 | \$ 7 | \$ 93 | \$ 232 | \$ 503 |
| 60%-69.99% | 389 | 33 | 10 | 11 | 39 | 28 | 510 |
| 70%-79.99% | 317 | 48 | 17 | — | 21 | 21 | 424 |
| 80% or greater | — | — | — | — | — | 21 | 21 |
| Total | \$ 856 | \$ 81 | \$ 48 | \$ 18 | \$ 153 | \$ 302 | \$ 1,458 |
| Debt Service Coverage Ratio: | | | | | | | |
| Greater or Equal to 1.2x | \$ 856 | \$ 81 | \$ 48 | \$ 7 | \$ 120 | \$ 295 | \$ 1,407 |
| 1.0 - 1.2x | — | — | — | 11 | — | — | 11 |
| Less than 1.0x | — | — | — | — | 33 | 7 | 40 |
| Total | \$ 856 | \$ 81 | \$ 48 | \$ 18 | \$ 153 | \$ 302 | \$ 1,458 |
| Agricultural Property Loans | | | | | | | |
| Loan-to-Value Ratio: | | | | | | | |
| 0%-59.99% | \$ 40 | \$ 1 | \$ — | \$ — | \$ 3 | \$ 7 | \$ 51 |
| 60%-69.99% | — | — | — | — | — | — | — |
| 70%-79.99% | — | — | — | — | — | — | — |
| 80% or greater | — | — | — | — | — | — | — |
| Total | \$ 40 | \$ 1 | \$ — | \$ — | \$ 3 | \$ 7 | \$ 51 |
| Debt Service Coverage Ratio: | | | | | | | |
| Greater or Equal to 1.2x | \$ 40 | \$ 1 | \$ — | \$ — | \$ 3 | \$ 3 | \$ 47 |
| 1.0 - 1.2x | — | — | — | — | — | — | — |
| Less than 1.0x | — | — | — | — | — | 4 | 4 |
| Total | \$ 40 | \$ 1 | \$ — | \$ — | \$ 3 | \$ 7 | \$ 51 |

See Note 2 to the Financial Statements included in the Predecessor Company's Annual Report on Form 10-K for the year ended December 31, 2021 for additional information about the commercial mortgage and other loans credit quality monitoring process.

As of December 31, 2021 there were no commercial and other loans past due or in non-accrual status held by the Predecessor Company. For additional information regarding the Predecessor Company's policies for accruing interest on loans, see Note 2 to the Financial Statements included in the Predecessor Company's Annual Report on Form 10-K for the year ended December 31, 2021.

The Predecessor Company did not hold any commercial mortgage and other loans that were purchased with credit deterioration as of December 31, 2021.

For the three months ended September 30, 2021, all commercial mortgage loans acquired were through direct origination. For the nine months ended September 30, 2021, there were \$167 million commercial mortgage loans acquired, other than those through direct origination. For both the three and nine months ended September 30, 2021 there were \$707 million of commercial and other loans sold.

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Other Invested Assets

The following table sets forth the composition of “Other invested assets,” as of the dates indicated.

| | Successor Company | Predecessor Company |
|-----------------------------|---------------------------|----------------------------|
| | September 30, 2022 | December 31, 2021 |
| | (in millions) | |
| LPs/LLCs: | | |
| Equity method: | | |
| Private equity | \$ 14 | \$ 19 |
| Real estate-related | 5 | 62 |
| Subtotal equity method | 19 | 81 |
| Fair value: | | |
| Private equity | 64 | 4 |
| Real estate-related | — | 6 |
| Subtotal fair value | 64 | 10 |
| Total LPs/LLCs | 83 | 91 |
| Derivative instruments | 265 | 3 |
| Other | 82 | 12 |
| Total other invested assets | <u>\$ 430</u> | <u>\$ 106</u> |

Amounts contained within Other are comprised primarily of residential mortgage loans and policy loans.

Accrued Investment Income

The following table sets forth the composition of “Accrued investment income,” as of the dates indicated:

| | Successor Company | Predecessor Company |
|---|---------------------------|----------------------------|
| | September 30, 2022 | December 31, 2021 |
| | (in millions) | |
| Fixed maturity securities | \$ 45 | \$ 58 |
| Commercial mortgage and other loans | — | 3 |
| Other invested assets | 6 | — |
| Short-term investments and cash equivalents | 5 | — |
| Total accrued investment income | <u>\$ 56</u> | <u>\$ 61</u> |

There were no write-downs on accrued investment income for the three and six months ended September 30, 2022, the three months ended March 31, 2022, and the three and nine months ended September 30, 2021.

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Net Investment Income

The following table sets forth “Net investment income” by investment type, for the periods indicated:

| | Successor Company | | Predecessor Company | | |
|---|---------------------------------------|-------------------------------------|-----------------------------------|---------------------------------------|--------------------------------------|
| | Three Months Ended September 30 | Six Months Ended September 30 | Three Months Ended March 31 | Three Months Ended September 30 | Nine Months Ended September 30 |
| | 2022 | | 2021 | | |
| | (in millions) | | | | |
| Fixed maturities securities (1) | \$ 76 | \$ 156 | \$ 61 | \$ 82 | \$ 308 |
| Equity securities | 1 | 2 | 1 | 1 | 3 |
| Secured receivable | 7 | 18 | — | — | — |
| Commercial mortgage and other loans | — | — | 11 | 14 | 46 |
| Other invested assets | 10 | 14 | 29 | 11 | 50 |
| Short-term investments and cash equivalents | 3 | 5 | 1 | 1 | 1 |
| Gross investment income | 97 | 195 | 103 | 109 | 408 |
| Less: investment expenses | (5) | (6) | (4) | (8) | (22) |
| Net investment income | \$ 92 | \$ 189 | \$ 99 | \$ 101 | \$ 386 |

(1) Includes fixed maturity securities classified as available-for-sale and trading for the three months ended March 31, 2022 and the three and nine months ended, September 30, 2021.

The activity above includes interest income related to fair value option investments.

Investment Gains (Losses), Net

The following table sets forth “Investment gains (losses), net” by investment type, for the periods indicated:

| | Successor Company | | | Predecessor Company | |
|---|---------------------------------------|-------------------------------------|-----------------------------------|---------------------------------------|--------------------------------------|
| | Three Months Ended September 30 | Six Months Ended September 30 | Three Months Ended March 31 | Three Months Ended September 30 | Nine Months Ended September 30 |
| | 2022 | | | 2021 | |
| | (in millions) | | | | |
| Fixed maturity securities (1) | \$ (458) | \$ (1,102) | \$ (21) | \$ 141 | \$ 1,197 |
| Secured receivable | (8) | (59) | — | — | — |
| Commercial mortgage and other loans | — | — | — | 28 | 28 |
| Derivatives | 24 | (560) | 502 | 4,906 | 6,139 |
| Other invested assets and equity securities | (13) | (32) | — | 6 | 9 |
| Investment gains (losses), net | \$ (455) | \$ (1,753) | \$ 481 | \$ 5,081 | \$ 7,373 |

(1) For the Predecessor Company, includes fixed maturity securities classified as available-for-sale and excludes fixed maturity securities classified as trading.

Net Unrealized Gains (Losses) on Investments within AOCI (Predecessor Company)

The following table sets forth net unrealized gains (losses) on investments, as of the dates indicated:

| | Predecessor Company |
|--|---------------------|
| | December 31, 2021 |
| | (in millions) |
| Fixed maturity securities, available-for-sale without an allowance | \$ 216 |
| Derivatives designated as cash flow hedges(1) | 25 |
| Net unrealized gains on investments | \$ 241 |

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

(1) For more information on cash flow hedges for the Predecessor Company, see Note 6.

Repurchase Agreements and Securities Lending

In the normal course of business, FLIAC sells securities under agreements to repurchase and enters into securities lending transactions. These balances are recorded within Other liabilities in the unaudited interim consolidated statements of financial position.

The following table sets forth the remaining contractual maturities of the Successor Company's outstanding repurchase agreements by security type.

| | Successor Company | | | |
|----------------------------------|---|----------------------|-------------------|--------------|
| | September 30, 2022 | | | |
| | Remaining Contractual Maturities of the Agreements | | | |
| | Overnight & Continuous | Up to 30 days | 30-90 days | Total |
| | (in millions) | | | |
| U.S. corporate public securities | \$ — | \$ — | \$ 200 | \$ 200 |

The following table sets forth the remaining contractual maturities of the Successor Company's cash collateral received for securities loaned by security type:

| | Successor Company | | | |
|-------------------|---|----------------------|-------------------|--------------|
| | September 30, 2022 | | | |
| | Remaining Contractual Maturities of the Agreements | | | |
| | Overnight & Continuous | Up to 30 days | 30-90 days | Total |
| | (in millions) | | | |
| Equity securities | \$ 169 | \$ — | \$ — | \$ 169 |

As of December 31, 2021 the Predecessor Company had no outstanding repurchase agreements or securities lending transactions.

6. DERIVATIVES AND HEDGING

Types of Derivative Instruments and Derivative Strategies

The Company utilizes various derivative instruments and strategies to manage its risk. Commonly used derivative instruments include but are not necessarily limited to:

- Interest rate contracts: futures, swaps, 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

The Predecessor Company previously accounted for the index-linked features of certain annuity products as embedded derivatives. The Successor Company elected the fair value option for these annuity products, all of which are included in the Ceded Business. See Note 7 for further information.

See below for information on these contracts and the related strategies.

Interest Rate Contracts

Interest rate swaps 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 and to hedge against changes in their values it owns or anticipates acquiring or selling.

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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's 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's 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.

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.

Primary Risks Managed by Derivatives

The tables below provide a summary, by operating segment, of the gross notional amount and fair value of derivative contracts, by the primary underlying risks, excluding embedded derivatives and associated reinsurance recoverables. 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. As part of our application of push-down accounting in connection with the acquisition of the Company, we have de-designated the Predecessor Company's hedging relationships for all of our derivative instruments and accordingly any related accumulated unrealized gains and losses that were previously recorded in AOCI were reset to zero at the acquisition date. Historical information has not been restated

Fortitude Life Insurance & Annuity Company

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

under the updated segmentation and is not comparable following the change in ownership on April 1, 2022. See Notes 2 and 3 for further information regarding the acquisition of the Company and Note 4 for further information regarding the Company's segments.

| Primary Underlying Risk/Instrument Type | Successor Company | | |
|---|------------------------------------|------------|-------------|
| | September 30, 2022 | | |
| | Gross Notional Values/ Units | Fair Value | |
| | | Assets | Liabilities |
| | (in millions) | | |
| Retained Business | | | |
| Interest Rate | | | |
| Interest Rate Swaps | \$ 9,761 | \$ 212 | \$ (546) |
| Currency/Interest Rate | | | |
| Foreign Currency Swaps | 97 | 17 | — |
| Credit | | | |
| Credit Default Swaps | 520 | 1 | (1) |
| Equity | | | |
| Equity Futures | 1,728 | 180 | — |
| Total Return Swaps | — | 94 | — |
| Equity Options | 3,686 | 232 | — |
| Total Derivatives, Retained Business | 15,792 | 736 | (547) |
| Ceded Business | | | |
| Interest Rate | | | |
| Interest Rate Swaps | 2,693 | 49 | (119) |
| Currency/Interest Rate | | | |
| Foreign Currency Swaps | 423 | 88 | — |
| Credit | | | |
| Credit Default Swaps | 71 | — | (3) |
| Equity | | | |
| Total Return Swaps | 4 | — | (1) |
| Equity Options | 10,133 | 232 | (571) |
| Total Derivatives, Ceded Business | 13,324 | 369 | (694) |
| Total Derivatives (1) | \$ 29,116 | \$ 1,105 | \$ (1,241) |

(1) Recorded in "Other invested assets" and "Other liabilities" in the Unaudited Interim Consolidated Statements of Financial Position.

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

| Primary Underlying Risk/Instrument Type | Predecessor Company | | |
|--|---------------------|------------|-------------|
| | December 31, 2021 | | |
| | Gross Notional | Fair Value | |
| | | Assets | Liabilities |
| | (in millions) | | |
| Derivatives Designated as Hedge Accounting Instruments: | | | |
| Currency/Interest Rate | | | |
| Foreign Currency Swaps | \$ 637 | \$ 29 | \$ (1) |
| Derivatives Not Qualifying as Hedge Accounting Instruments: | | | |
| Interest Rate | | | |
| Interest Rate Futures | \$ 55 | \$ — | \$ — |
| Interest Rate Swaps | 10,520 | 339 | (255) |
| Foreign Currency | | | |
| Foreign Currency Forwards | 50 | — | (1) |
| Currency/Interest Rate | | | |
| Foreign Currency Swaps | 208 | 10 | (1) |
| Credit | | | |
| Credit Default Swaps | 1,746 | 48 | — |
| Equity | | | |
| Equity Futures | 855 | 1 | (1) |
| Total Return Swaps | 4,803 | 88 | (81) |
| Equity Options | 20,582 | 963 | (1,028) |
| Total Derivatives Not Qualifying as Hedge Accounting Instruments | \$ 38,819 | \$ 1,449 | \$ (1,367) |
| Total Derivatives (1)(2) | \$ 39,456 | \$ 1,478 | \$ (1,368) |

- (1) Excludes embedded derivatives and associated reinsurance recoverables which contain multiple underlying risks. The fair value of these embedded derivatives was a net liability of \$4,060 million as of December 31, 2021 included in "Future policy benefits" and \$2,041 million as of December 31, 2021 included in "Policyholders' account balances". Other assets included \$400 million as of December 31, 2021. The fair value of the related reinsurance, included in "Reinsurance recoverables" and/or "Reinsurance payables" was an asset of \$1,881 million as of December 31, 2021.
- (2) Recorded in "Other invested assets", "Other liabilities", and "Payables to parent and affiliates" in the Unaudited Interim Consolidated Statements of Financial Position.

Fortitude Life Insurance & Annuity Company

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Offsetting Assets and Liabilities

The following table presents recognized derivative instruments (excluding embedded derivatives and associated reinsurance recoverables) that are offset in the Unaudited Interim Consolidated Statements of Financial Position, and/or are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in the Unaudited Interim Consolidated Statements of Financial Position.

| | Successor Company | | | | |
|--------------------------------------|---|--|---|--------------------------------------|------------|
| | September 30, 2022 | | | | |
| | Gross Amounts of Recognized Financial Instruments | Gross Amounts Offset in the Statements of Financial Position | Net Amounts Presented in the Statements of Financial Position | Financial Instruments/ Collateral(1) | Net Amount |
| | (in millions) | | | | |
| Offsetting of Financial Assets: | | | | | |
| Derivatives | \$ 1,105 | \$ (840) | \$ 265 | \$ (265) | \$ — |
| Offsetting of Financial Liabilities: | | | | | |
| Derivatives | \$ 1,241 | \$ (956) | \$ 285 | \$ — | \$ 285 |

| | Predecessor Company | | | | |
|--------------------------------------|---|--|---|--------------------------------------|------------|
| | December 31, 2021 | | | | |
| | Gross Amounts of Recognized Financial Instruments | Gross Amounts Offset in the Statements of Financial Position | Net Amounts Presented in the Statements of Financial Position | Financial Instruments/ Collateral(1) | Net Amount |
| | (in millions) | | | | |
| Offsetting of Financial Assets: | | | | | |
| Derivatives | \$ 1,478 | \$ (1,475) | \$ 3 | \$ — | \$ 3 |
| Offsetting of Financial Liabilities: | | | | | |
| Derivatives | \$ 1,368 | \$ (1,154) | \$ 215 | \$ (215) | \$ — |

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

For information regarding the rights of offset associated with the derivative assets and liabilities in the table above see “Credit Risk” below. For securities purchased under agreements to resell and securities sold under agreements to repurchase, 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. For additional information on the Company’s accounting policy for securities repurchase and resale agreements, see Note 2 to the Financial Statements included in the Predecessor Company’s Annual Report on Form 10-K for the year ended December 31, 2021.

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

The following tables provide the financial statement classification and impact of derivatives, by segment.

| | Successor Company | |
|--------------------------|---------------------------------|-------------------------------|
| | Three Months Ended September 30 | Six Months Ended September 30 |
| | 2022 | |
| | Investment gains (losses), net | |
| | (in millions) | |
| Retained Business | | |
| Interest Rate | \$ (259) | \$ (704) |
| Currency/Interest Rate | 12 | 12 |
| Credit | (2) | (2) |
| Equity | 124 | 827 |
| Total, Retained Business | (125) | 133 |
| Ceded Business | | |
| Interest Rate | (36) | (56) |
| Currency | — | 2 |
| Currency/Interest Rate | (36) | 94 |
| Credit | 2 | (4) |
| Equity | 219 | (729) |
| Total, Ceded Business | 149 | (693) |
| Total | \$ 24 | \$ (560) |

| | Predecessor Company | | | |
|------------------------|---|-----------------------|---------------------|----------------|
| | Three Months Ended March 31, 2022 | | | |
| | Realized Investment Gains (Losses) | Net Investment Income | Other Income (Loss) | Change in AOCI |
| | (in millions) | | | |
| | Derivatives Designated as Hedge Accounting Instruments: | | | |
| Cash flow hedges | | | | |
| Currency/Interest Rate | \$ 1 | \$ 1 | \$ 2 | \$ 4 |

| | | | | |
|--|---------------|-------------|-------------|-------------|
| Derivatives Not Qualifying as Hedge Accounting Instruments: | | | | |
| Interest Rate | (527) | — | — | — |
| Currency | — | — | — | — |
| Currency/Interest Rate | (6) | — | — | — |
| Credit | (12) | — | — | — |
| Equity | 59 | — | — | — |
| Embedded Derivatives | 986 | — | — | — |
| Total Derivatives Not Qualifying as Hedge Accounting Instruments: | 500 | — | — | — |
| Total | \$ 501 | \$ 1 | \$ 2 | \$ 4 |

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

| | Predecessor Company | | | |
|------------------------|---|-----------------------------|------------------------|----------------|
| | Three Months Ended September 30, 2021 | | | |
| | Realized Investment Gains (Losses) | Net Investment Income | Other Income (Loss) | Change in AOCI |
| | (in millions) | | | |
| | Derivatives Designated as Hedge Accounting Instruments: | | | |
| Cash flow hedges | | | | |
| Currency/Interest Rate | \$ 3 | \$ 2 | \$ 5 | \$ 33 |

| | | | | |
|--|-----------------|-------------|-------------|--------------|
| Derivatives Not Qualifying as Hedge Accounting Instruments: | | | | |
| Interest Rate | (63) | — | — | — |
| Currency | 2 | — | — | — |
| Currency/Interest Rate | (9) | — | — | — |
| Credit | 1 | — | — | — |
| Equity | (18) | — | — | — |
| Embedded Derivatives | 4,990 | — | — | — |
| Total Derivatives Not Qualifying as Hedge Accounting Instruments: | 4,903 | — | — | — |
| Total | \$ 4,906 | \$ 2 | \$ 5 | \$ 33 |

| | Predecessor Company | | | |
|---|--|-----------------------------|------------------------|----------------|
| | Nine Months Ended September 30, 2021 | | | |
| | Realized Investment Gains (Losses) | Net Investment Income | Other Income (Loss) | Change in AOCI |
| | (in millions) | | | |
| | | | | |
| Derivatives Designated as Hedge Accounting Instruments: | | | | |
| Cash flow hedges | | | | |
| Currency/Interest Rate | \$ 8 | \$ 11 | \$ 11 | \$ 58 |

| | | | | |
|--|-----------------|--------------|--------------|--------------|
| Derivatives Not Qualifying as Hedge Accounting Instruments: | | | | |
| Interest Rate | (1,853) | — | — | — |
| Currency | 2 | — | — | — |
| Currency/Interest Rate | 1 | — | — | — |
| Credit | 11 | — | — | — |
| Equity | (1,798) | — | — | — |
| Embedded Derivatives | 9,769 | — | — | — |
| Total Derivatives Not Qualifying as Hedge Accounting Instruments: | 6,132 | — | — | — |
| Total | \$ 6,140 | \$ 11 | \$ 11 | \$ 58 |

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Presented below is a roll forward of current period cash flow hedges in AOCI before taxes:

| | Predecessor Company |
|--|----------------------------|
| | (in millions) |
| Balance, December 31, 2021 | \$ 25 |
| Amount recorded in AOCI | |
| Currency/Interest Rate | 9 |
| Total amount recorded in AOCI | 9 |
| Amount reclassified from AOCI to income | |
| Currency/Interest Rate | (5) |
| Total amount reclassified from AOCI to income | (5) |
| Balance, March 31, 2022 | \$ 29 |

The changes in fair value of cash flow hedges are deferred in AOCI and are included in "Net unrealized investment gains (losses)" in the Unaudited Interim Consolidated Statements of Operations and Comprehensive Income (Loss); these amounts are then reclassified to earnings when the hedged item affects earnings.

Following the application of push-down accounting, amounts previously deferred in AOCI related to the Predecessor Company's cash flow hedges were classified to retained earnings due to the Successor Company's election to de-designate the hedging relationship for all of its derivative instruments. Accordingly, there were no amounts recorded in or reclassified from AOCI by the Successor Company during the three and six months ended September 30, 2022. Due to the Successor Company's election to apply push-down accounting and the de-designation of all hedging relationships on the acquisition date, the Successor Company does not expect to reclassify any amounts from AOCI to earnings during the subsequent twelve months ending September 30, 2023.

The exposures the Predecessor Company hedged with these qualifying cash flow hedges were the variability of the payment or receipt of interest or foreign currency amounts on existing financial instruments.

There were no material amounts reclassified from AOCI into earnings relating to instances in which the Company discontinued cash flow hedge accounting because the forecasted transaction did not occur by the anticipated date or within the additional time period permitted by the authoritative guidance for the accounting for derivatives and hedging.

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. FLIAC manages credit risk by (i) entering into derivative transactions with highly rated major international financial institutions and other creditworthy counterparties governed by master netting agreement, as applicable; (ii) trading through central clearing and OTC parties; (iii) obtaining collateral, such as cash and securities, when appropriate; and (iv) setting limits on single-party credit exposures which are subject to periodic management review.

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

Fortitude Life Insurance & Annuity Company

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

7. FAIR VALUE OF ASSETS AND LIABILITIES

Fair Value Measurement – Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The authoritative fair value guidance establishes a framework for measuring fair value that includes a hierarchy used to classify the inputs used in measuring fair value. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

Level 1 - Fair value is based on unadjusted quoted prices in active markets that are accessible to the Company for identical assets or liabilities.

Level 2 - Fair value is based on significant inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets and liabilities, quoted market prices in markets that are not active for identical or similar assets or liabilities, and other market observable inputs.

Level 3 - Fair value is based on at least one significant unobservable input for the asset or liability. The assets and liabilities in this category may require significant judgment or estimation in determining the fair value.

For a discussion of the Company's valuation methodologies for assets and liabilities measured at fair value and the fair value hierarchy, see further below as well as Note 5 to the Financial Statements included in the Predecessor Company's Annual Report on Form 10-K for the year ended December 31, 2021.

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Fair Value Option Election

As discussed in Note 2, we have elected to adopt the fair value option for several of our financial assets and liabilities. The following are the financial assets and liabilities for which we have elected the fair value option:

- *Fixed maturity securities* - We have elected the fair value option for our entire fixed maturity securities portfolio. Following the election, fixed maturity securities will no longer carry available-for-sale or trading designations. Following the election, there have been no significant changes in the pricing inputs and valuation methodologies for these securities as disclosed in Note 5 of the Financial Statements included in the Predecessor Company's Annual Report on Form 10-K for the year ended December 31, 2021.
- *Equity securities* - We have elected the fair value option for our entire equity securities portfolio. Following the election, there have been no significant changes in the pricing inputs and valuation methodologies for these securities as disclosed in Note 5 of the Financial Statements included in the Predecessor Company's Annual Report on Form 10-K for the year ended December 31, 2021.
- *Secured receivable* - We have elected the fair value option for our entire Secured receivable, which represents our participating interest in the underlying commercial mortgage and other loans and certain private credit fixed maturity security securities. See "Updated Fair Value Methods and Assumptions" further below. During the third quarter of September 30, 2022, all assets within the Secured receivable were transferred out of the Company as part of the novation program discussed in Note 1. Accordingly, the Secured receivable is no longer carried on FLIAC's unaudited interim consolidated statements of financial position as of September 30, 2022.
- *Residential mortgage loans* - We have elected the fair value option for our entire residential mortgage loans portfolio, which are reported in "Other invested assets". See "Updated Fair Value Methods and Assumptions" further below.
- *Reinsurance recoverable* - We have elected the fair value option for the Reinsurance recoverables associated with the reinsurance agreement with Prudential Insurance. See "Updated Fair Value Methods and Assumptions" further below.
- *Net modified coinsurance receivable* - We have elected the fair value option for our modified coinsurance receivable and payable balances associated with the reinsurance agreement with Pruco Life regarding variable annuity base contracts, along with the living benefit guarantees. See "Updated Fair Value Methods and Assumptions" further below.
- *Deposit asset* - We have elected the fair value option for the deposit asset associated with the reinsurance agreement with Pruco Life regarding fixed indexed annuities and fixed annuities with a guaranteed lifetime withdrawal. See "Updated Fair Value Methods and Assumptions" further below.
- *Insurance liabilities* - We have elected the fair value option for the entirety of our insurance liabilities. See "Updated Fair Value Methods and Assumptions" further below.

Fortitude Life Insurance & Annuity Company

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Assets and Liabilities by Hierarchy Level – The tables below present the balances of assets and liabilities reported at fair value on a recurring basis, as of the dates indicated.

| | Successor Company | | | | | | | |
|---|--------------------|---------|-----------|-------------|----------|-----------|---|----------|
| | September 30, 2022 | | | | | | | |
| | Level 1 | Level 2 | Level 3 | Netting (1) | Total | | | |
| | (in millions) | | | | | | | |
| Assets | | | | | | | | |
| Fixed Maturity Securities | | | | | | | | |
| U.S Treasury securities and obligations of U.S. government authorities and agencies | \$ | — | \$ 643 | \$ | — | \$ 643 | | |
| Obligations of U.S. states and their political subdivisions | | — | 167 | | — | 167 | | |
| Foreign government bonds | | — | 15 | | — | 15 | | |
| U.S. corporate public securities | | — | 2,681 | | — | 2,681 | | |
| U.S. corporate private securities | | — | 359 | 334 | — | 693 | | |
| Foreign corporate public securities | | — | 203 | | — | 203 | | |
| Foreign corporate private securities | | — | 274 | 32 | — | 306 | | |
| Asset-backed securities(2) | | — | 507 | 155 | — | 662 | | |
| Commercial mortgage-backed securities | | — | 162 | | — | 162 | | |
| Residential mortgage-backed securities | | — | 33 | | — | 33 | | |
| Total Fixed Maturity Securities | | — | 5,044 | 521 | — | 5,565 | | |
| Equity securities | | 170 | | — | — | 170 | | |
| Short-term investments | | 37 | | — | — | 37 | | |
| Cash and cash equivalents | | 519 | 757 | | — | 1,276 | | |
| Other invested assets(3) | | 180 | 925 | 71 | (840) | 336 | | |
| Deposit asset | | — | | 859 | | 859 | | |
| Reinsurance recoverables | | — | | 220 | | 220 | | |
| Net modified coinsurance receivable | | — | | 70 | | 70 | | |
| Subtotal excluding separate account assets | | 906 | 6,726 | 1,741 | (840) | 8,533 | | |
| Separate account assets(4) | | — | 23,016 | | — | 23,016 | | |
| Total assets | \$ | 906 | \$ 29,742 | \$ 1,741 | \$ (840) | \$ 31,549 | | |
| Liabilities | | | | | | | | |
| Insurance Liabilities | \$ | — | \$ | — | \$ 6,304 | \$ | — | \$ 6,304 |
| Other liabilities | | — | 1,241 | | — | (956) | | 285 |
| Total liabilities | \$ | — | \$ 1,241 | \$ 6,304 | \$ (956) | \$ 6,589 | | |

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

| | Predecessor Company | | | | | | | | | |
|---|---------------------|---------|---------|------------|-------|-------|----|---------|----|--------|
| | December 31, 2021 | | | | | | | | | |
| | Level 1 | Level 2 | Level 3 | Netting(1) | Total | | | | | |
| | (in millions) | | | | | | | | | |
| Assets | | | | | | | | | | |
| Fixed Maturity Securities, available-for-sale: | | | | | | | | | | |
| U.S Treasury securities and obligations of U.S. government authorities and agencies | \$ | — | \$ | 727 | \$ | — | \$ | — | \$ | 727 |
| Obligations of U.S. states and their political subdivisions | | — | | 296 | | — | | — | | 296 |
| Foreign government bonds | | — | | 114 | | — | | — | | 114 |
| U.S. corporate public securities | | — | | 2,460 | | — | | — | | 2,460 |
| U.S. corporate private securities | | — | | 1,556 | | 89 | | — | | 1,645 |
| Foreign corporate public securities | | — | | 795 | | — | | — | | 795 |
| Foreign corporate private securities | | — | | 791 | | 101 | | — | | 892 |
| Asset-backed securities(2) | | — | | 1,039 | | 23 | | — | | 1,062 |
| Commercial mortgage-backed securities | | — | | 674 | | 32 | | — | | 706 |
| Residential mortgage-backed securities | | — | | 54 | | 20 | | — | | 74 |
| Total Fixed Maturity Securities, available-for-sale | | — | | 8,506 | | 265 | | — | | 8,771 |
| Fixed maturities, trading | | — | | 27 | | — | | | | 27 |
| Equity securities | | 321 | | — | | 1 | | | | 322 |
| Short-term investments | | 519 | | 263 | | 13 | | | | 795 |
| Cash equivalents | | 372 | | 1,359 | | 8 | | | | 1,739 |
| Other invested assets(3) | | 1 | | 1,477 | | — | | (1,475) | | 3 |
| Other assets | | — | | | | 400 | | | | 400 |
| Reinsurance recoverables | | — | | | | 1,881 | | | | 1,881 |
| Subtotal excluding separate account assets | | 1,213 | | 11,632 | | 2,568 | | (1,475) | | 13,938 |
| Separate account assets(4) | | — | | 32,267 | | — | | | | 32,267 |
| Total assets | \$ | 1,213 | \$ | 43,899 | \$ | 2,568 | \$ | (1,475) | \$ | 46,205 |
| Liabilities | | | | | | | | | | |
| Future policy benefits(5) | \$ | — | \$ | — | \$ | 4,060 | \$ | — | \$ | 4,060 |
| Policyholders' account balances | | — | | — | | 2,041 | | — | | 2,041 |
| Payables to parent and affiliates | | — | | 1,367 | | — | | (1,152) | | 215 |
| Other liabilities | | 1 | | — | | — | | (1) | | — |
| Total liabilities | \$ | 1 | \$ | 1,367 | \$ | 6,101 | \$ | (1,153) | \$ | 6,316 |

(1) "Netting" amounts represent offsetting considerations as disclosed in Note 6.

(2) Includes credit-tranched securities collateralized by syndicated bank loans, sub-prime mortgages, auto loans, credit cards, education loans and other asset types.

(3) Other invested assets excluded from the fair value hierarchy include certain hedge funds, private equity funds and other funds for which fair value is measured at net asset value ("NAV") per share (or its equivalent) as a practical expedient. At September 30, 2022 (Successor Company) and December 31, 2021 (Predecessor Company), the fair values of such investments were \$64 million and \$10 million, respectively.

(4) Separate account assets represent segregated funds that are invested for certain customers. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by the Company with respect to certain accounts. Separate account liabilities are not included in the above table as they are reported at contract value and not fair value in the Company's Unaudited Interim Statements of Financial Position.

(5) As of December 31, 2021, the net embedded derivative liability position of \$4,060 million includes \$62 million of embedded derivatives in an asset position and \$4,122 million of embedded derivatives in a liability position.

Fortitude Life Insurance & Annuity Company

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Quantitative Information Regarding Internally Priced Level 3 Assets and Liabilities – The tables below present quantitative information on significant internally-priced Level 3 assets and liabilities.

| Successor Company | | | | | | | |
|--|---------------|---|-------------------------|-------------------------------|---------|------------------|--|
| September 30, 2022 | | | | | | | |
| | Fair Value | Valuation Techniques | Unobservable Inputs | Minimum | Maximum | Weighted Average | Impact of Increase in Input on Fair Value(1) |
| | (in millions) | | | | | | |
| Assets: | | | | | | | |
| Retained business | | | | | | | |
| Corporate securities (2) | \$ 334 | Discounted cash flow | Discount rate | 3.85 % | 8.89 % | 6.00 % | Decrease |
| | 32 | Discounted cash flow | Discount rate | 5.11 % | 7.33 % | 6.22 % | Decrease |
| Asset-backed securities | 155 | Discounted cash flow | Discount rate | 3.35 % | 8.47 % | 4.84 % | Decrease |
| Other invested assets - Residential mortgage loans | 71 | Trade price | Trade price | N/A | N/A | N/A | Increase |
| Deposit asset | 859 | Fair values are determined using the same unobservable inputs as insurance liabilities. | | | | | |
| Reinsurance recoverables | 220 | Fair values are determined using the same unobservable inputs as insurance liabilities. | | | | | |
| Net modified coinsurance receivable | 70 | Fair values are determined using the same unobservable inputs as insurance liabilities. | | | | | |
| Liabilities: | | | | | | | |
| Insurance liabilities | | | | | | | |
| Retained business | \$ 3,019 | Discounted cash flow | Lapse rate(6) | 1 % | 20 % | | Decrease |
| | | | Spread over risk free | 0.18 % | 2.85 % | | Decrease |
| | | | Utilization rate(8) | 77 % | 100 % | | Increase |
| | | | Withdrawal rate | See table footnote (9) below. | | | |
| | | | Mortality rate(10) | 0 % | 16 % | | Decrease |
| | | | Equity volatility curve | 22 % | 30 % | | Increase |
| Ceded business | \$ 3,285 | Discounted cash flow | Lapse rate(6) | 1 % | 20 % | | Decrease |
| | | | Spread over SOFR (7) | 0.00 % | 1.96 % | | Decrease |
| | | | Utilization rate(8) | 77 % | 100 % | | Increase |
| | | | Withdrawal rate | See table footnote (9) below. | | | |
| | | | Mortality rate(10) | 0 % | 16 % | | Decrease |
| | | | Equity volatility curve | 22 % | 30 % | | Increase |

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

| Predecessor Company | | | | | | | |
|------------------------------------|---------------|--|-------------------------|-------------------------------|---------|------------------|--|
| December 31, 2021 | | | | | | | |
| | Fair Value | Valuation Techniques | Unobservable Inputs | Minimum | Maximum | Weighted Average | Impact of Increase in Input on Fair Value(1) |
| | (in millions) | | | | | | |
| Assets: | | | | | | | |
| Corporate securities(2) | \$ 163 | Discounted cash flow | Discount rate | 2.34 % | 10.17 % | 2.82 % | Decrease |
| | | Market Comparables | EBITDA multiples(3) | 6.5X | 12.4X | 8.8X | Increase |
| | | Liquidation | Liquidation value | 62.58 % | 62.58 % | 62.58 % | Increase |
| Other assets | 400 | Fair values are determined using the same unobservable inputs as policyholders' account balances. | | | | | |
| Reinsurance recoverables | 1,881 | Fair values are determined using the same unobservable inputs as future policy benefits and policyholders' account balances. | | | | | |
| Liabilities: | | | | | | | |
| Future policy benefits(4) | \$ 4,060 | Discounted cash flow | Lapse rate(6) | 1 % | 20 % | | Decrease |
| | | | Spread over LIBOR(7) | 0.03 % | 1.13 % | | Decrease |
| | | | Utilization rate(8) | 39 % | 96 % | | Increase |
| | | | Withdrawal rate | See table footnote (9) below. | | | |
| | | | Mortality rate(10) | 0 % | 15 % | | Decrease |
| | | | Equity volatility curve | 16 % | 25 % | | Increase |
| Policyholders' account balances(5) | \$ 2,041 | Discounted cash flow | Lapse rate(6) | 1 % | 42 % | | Decrease |
| | | | Spread over LIBOR(7) | 0.03 % | 1.17 % | | Decrease |
| | | | Equity volatility curve | 6 % | 31 % | | Increase |

- (1) Conversely, the impact of a decrease in input would have the opposite impact on fair value as that presented in the table.
- (2) Includes assets classified as fixed maturity securities, at fair value as of September 30, 2022 and fixed maturity securities, available-for-sale and fixed maturity securities, trading as of December 31, 2021.
- (3) Represents multiples of earnings before interest, taxes, depreciation and amortization ("EBITDA"), and are amounts used when the Company has determined that market participants would use such multiples when valuing the investments.
- (4) Future policy benefits primarily represent general account liabilities for the living benefit features of the Company's variable annuity contracts which are accounted for as embedded derivatives. Since the valuation methodology for these liabilities uses a range of inputs that vary at the contract level over the cash flow projection period, presenting a range, rather than weighted average, is a more meaningful representation of the unobservable inputs used in the valuation.
- (5) Policyholders' account balances primarily represent general account liabilities for the index-linked interest credited on certain of the Company's annuity products that are accounted for as embedded derivatives. Since the valuation methodology for these liabilities uses a range of inputs that vary at the contract level over the cash flow projection period, presenting a range, rather than weighted average, is a more meaningful representation of the unobservable inputs used in the valuation.
- (6) Lapse rates for contracts with living benefit guarantees are adjusted at the contract level based on the in-the-moneyness of the living benefit and reflect other factors, such as the applicability of any surrender charges. Lapse rates are reduced when contracts are more in-the-money. Lapse rates for contracts with index-linked crediting guarantees may be adjusted at the contract level based on the applicability of any surrender charges, product type, and market related factors such as interest rates. Lapse rates are also generally assumed to be lower for the period where surrender charges apply. For any given contract, lapse rates vary throughout the period over which cash flows are projected for the purposes of valuing these embedded derivatives.
- (7) The spread over the SOFR and LIBOR swap curve represents the premium added to the proxy for the risk-free rate (SOFR/LIBOR) 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. This spread includes an estimate of NPR, which is the risk that the obligation will not be fulfilled by the Company. NPR is primarily estimated by utilizing the credit spreads associated with issuing funding agreements, adjusted for any illiquidity risk premium. In order to reflect the financial strength ratings of the Company, credit spreads associated with funding agreements, as opposed to credit spread associated with debt, are utilized in developing this estimate because funding agreements, living benefit guarantees, and index-linked interest crediting guarantees are insurance liabilities and are therefore senior to debt.
- (8) The utilization rate assumption estimates the percentage of contracts that will utilize the benefit during the contract duration and begin lifetime withdrawals at various time intervals from contract inception. The remaining contractholders are assumed to either begin lifetime withdrawals immediately or never utilize the benefit. Utilization assumptions may vary by product type, tax status and age. The impact of changes in these assumptions is highly dependent on the product type, the age of the contractholder at the time of the sale, and the timing of the first lifetime income withdrawal. Range reflects the utilization rate for the vast majority of business with living benefits.
- (9) 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 September 30, 2022 and December 31, 2021, the minimum withdrawal rate assumption is 76% 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%.
- (10) The range reflects the mortality rates for the vast majority of business with living benefits, with policyholders ranging from 45 to 90 years old. While the majority of living benefits have a minimum age requirement, certain other contracts do not have an age restriction. This results in contractholders with mortality rates approaching 0% for certain benefits. Mortality rates may vary by product, age, and duration. A mortality improvement assumption is also incorporated into the overall mortality table.

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Interrelationships Between Unobservable Inputs – In addition to the sensitivities of fair value measurements to changes in each unobservable input in isolation, as reflected in the table above, interrelationships between these inputs may also exist, such that a change in one unobservable input may give rise to a change in another, or multiple, inputs. Examples of such interrelationships for significant internally-priced Level 3 assets and liabilities are as follows:

Corporate Securities – The rate used to discount future cash flows reflects current risk-free rates plus credit and liquidity spread requirements that market participants would use to value an asset. The discount rate may be influenced by many factors, including market cycles, expectations of default, collateral, term and asset complexity. Each of these factors can influence discount rates, either in isolation, or in response to other factors. During weaker economic cycles, as the expectations of default increases, credit spreads widen, which results in a decrease in fair value.

Future Policy Benefits (Predecessor Company)/Insurance Liabilities, at fair value (Successor Company) – The Company expects efficient benefit utilization and withdrawal rates to generally be correlated with lapse rates. However, behavior is highly dependent on the facts and circumstances surrounding the individual contractholder, such as their liquidity needs or tax situation, which could drive lapse behavior independent of other contractholder behavior assumptions. To the extent that more efficient contractholder behavior results in greater in-the-moneyness at the contract level, lapse rates may decline for those contracts. Similarly, to the extent that increases in equity volatility are correlated with overall declines in the capital markets, lapse rates may decline as contracts become more in-the-money.

Updated Fair Value Methods and Assumptions

The following represents the updated methods and assumptions the Company uses to estimate the fair value of assets and liabilities measured at fair value on a recurring basis subsequent to the election of the fair value option:

Secured receivable - Fair value for the underlying commercial 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.

The fair values of the underlying private credit fixed maturities, which are originated by internal private asset managers, are primarily determined using discounted cash flow models. These models primarily use observable inputs that include Treasury or similar base rates plus estimated credit spreads to value each security. The credit spreads are obtained through a survey of private market intermediaries who are active in both primary and secondary transactions, and consider, among other factors, the credit quality and the reduced liquidity associated with private placements. Internal adjustments are made to reflect variation in observed sector spreads. Since most private placements are valued using standard market observable inputs and inputs derived from, or corroborated by, market observable data including, but not limited to observed prices and spreads for similar publicly or privately traded issues. For certain private fixed maturities, the discounted cash flow model may incorporate significant unobservable inputs, which reflect the Company's own assumptions about the inputs that market participants would use in pricing the asset.

Residential mortgage loans - Fair value for residential 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 residential 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.

Deposit asset - The deposit asset represents assets, held in trust by the reinsurer, that back the insurance liabilities under the reinsurance agreement regarding 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.

Fortitude Life Insurance & Annuity Company

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Reinsurance recoverable - The reinsurance recoverable represents a recoverable that backs the insurance liabilities under the reinsurance agreement regarding the business reinsured to Prudential Insurance. The reinsurance recoverable is recorded to match the associated insurance liabilities, which are recorded at fair value. Accordingly, the fair value of our reinsurance recoverable is determined by the fair value calculation of our insurance liabilities. See discussion of the fair value determination for insurance liabilities below.

Modified coinsurance agreement receivables and payables - The modified coinsurance receivable represents the reserve credits for the insurance liabilities covered under the reinsurance agreements regarding our variable annuity base contracts, along with guaranteed benefits. The modified coinsurance receivable 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 our discussion of the fair value determination for insurance liabilities below. Similarly, the modified coinsurance payable primarily represents the fair value of the cession of 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. See our discussion of the fair value determination for the respective assets within the modified coinsurance portfolio, which are included in our discussion of fair value herein as well as Note 5 of the Financial Statements included in the Predecessor Company's Annual Report on Form 10-K for the year ended December 31, 2021.

Insurance liabilities - Our insurance liabilities are comprised of guarantees primarily associated with the living benefit features of 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"). 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.

Changes in Level 3 Assets and Liabilities – The following tables describe changes in fair values of Level 3 assets and liabilities as of the dates indicated, as well as the portion of gains or losses included in income attributable to unrealized gains or losses related to those assets and liabilities still held at the end of their respective periods. When a determination is made to classify assets and liabilities within Level 3, the determination is based on significance of the unobservable inputs in the overall fair value measurement. All transfers are based on changes in the observability of the valuation inputs, including the availability of pricing service information that the Company can validate. Transfers into Level 3 are generally the result of unobservable inputs utilized within valuation methodologies and the use of indicative broker quotes for assets that were previously valued using observable inputs. Transfers out of Level 3 are generally due to the use of observable inputs in valuation methodologies as well as the availability of pricing service information for certain assets that the Company can validate.

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

| Successor Company | | | | | | | | | | | | |
|---------------------------------------|---------------------------------------|--|-----------|-------|-----------|-------------|----------|------------------------------|--------------------------------|---------------------------------|--|--|
| Three Months Ended September 30, 2022 | | | | | | | | | | | | |
| | Fair Value, beginning of period | Total realized and unrealized gains (losses) | Purchases | Sales | Issuances | Settlements | Other | Transfers into Level 3 | Transfers out of Level 3 | Fair Value, end of period | Unrealized gains (losses) for assets still held(2) | |
| (in millions) | | | | | | | | | | | | |
| Fixed maturity securities | | | | | | | | | | | | |
| Corporate securities(3) | \$ 314 | \$ (22) | \$ 232 | \$ — | \$ — | \$ (44) | \$ (114) | \$ — | \$ — | \$ 366 | \$ — | |
| Structured securities(4) | 25 | (2) | 150 | — | — | (18) | — | — | — | 155 | — | |
| Other assets: | | | | | | | | | | | | |
| Other invested assets | — | — | 71 | — | — | — | — | — | — | 71 | — | |
| Secured receivable | 1,555 | (9) | 22 | (60) | — | — | (1,508) | — | — | — | — | |
| Deposit asset | 2,158 | (3) | — | — | — | — | (1,296) | — | — | 859 | — | |
| Reinsurance recoverables | 378 | (158) | — | — | — | — | — | — | — | 220 | — | |
| Net modified coinsurance receivable | 215 | (145) | — | — | — | — | — | — | — | 70 | — | |

| Successor Company | | | | | | | | | | | | |
|-------------------------------------|---------------------------------------|---|-----------|-------|-----------|-------------|----------|------------------------------|--------------------------------|------------------------------|---|--|
| Six Months Ended September 30, 2022 | | | | | | | | | | | | |
| | Fair Value, beginning of period | Total realized and unrealized gains (losses)(1) | Purchases | Sales | Issuances | Settlements | Other | Transfers into Level 3 | Transfers out of Level 3 | Fair Value, end of period | Unrealized gains (losses) for assets still held(2) | |
| (in millions) | | | | | | | | | | | | |
| Fixed maturity securities | | | | | | | | | | | | |
| Corporate securities(3) | \$ 190 | \$ (38) | \$ 439 | \$ — | \$ — | \$ (55) | \$ (117) | \$ — | \$ (53) | \$ 366 | \$ — | |
| Structured securities(4) | 33 | (2) | 175 | (10) | — | (18) | (10) | — | (13) | 155 | — | |
| Other assets: | | | | | | | | | | | | |
| Other invested assets | — | — | 71 | — | — | — | — | — | — | 71 | — | |
| Secured receivable | 1,622 | (59) | 22 | (75) | — | — | (1,510) | — | — | — | — | |
| Deposit asset | 2,615 | (144) | — | — | — | — | (1,612) | — | — | 859 | — | |
| Reinsurance recoverables | 344 | (124) | — | — | — | — | — | — | — | 220 | — | |
| Net modified coinsurance receivable | 5 | 65 | — | — | — | — | — | — | — | 70 | — | |

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

| | Successor Company | | | | | | |
|-----------------------|---------------------------------------|---|--|---|-------------|---------|------------------------------|
| | Three Months Ended September 30, 2022 | | | | | | |
| | Incurred losses | | | Change in fair value (discount rate) | Paid losses | Other | Fair Value, end of period |
| | Fair Value, beginning of period | Reduction in estimates of ultimate losses | Increase in estimates of ultimate losses | | | | |
| | (in millions) | | | | | | |
| Insurance Liabilities | \$ 11,257 | \$ (4,615) | \$ 393 | \$ (808) | \$ 111 | \$ (34) | \$ 6,304 |

| | Successor Company | | | | | | |
|-----------------------|-------------------------------------|---|--|--------------------------------------|-------------|----------|---------------------------|
| | Six Months Ended September 30, 2022 | | | | | | |
| | Incurred losses | | | Change in fair value (discount rate) | Paid losses | Other | Fair Value, end of period |
| | Fair Value, beginning of period | Reduction in estimates of ultimate losses | Increase in estimates of ultimate losses | | | | |
| | (in millions) | | | | | | |
| Insurance Liabilities | \$ 13,611 | \$ (6,269) | \$ 1,599 | \$ (2,328) | \$ 209 | \$ (518) | \$ 6,304 |

"Total realized and unrealized gains (losses)" related to our level 3 assets are included in earnings in Investment gains (losses). In addition, all activity related to our level 3 liabilities are recognized in earnings within change in Policyholders' benefits and changes in fair value of insurance liabilities.

| | Predecessor Company | | | | | | | | | | | | | |
|---------------------------------------|---------------------------------------|---|-----------|-------|-----------|-------------|-------|------------------------------|--------------------------------|---------------------------------|--|------|----|-------|
| | Three Months Ended March 31, 2022 | | | | | | | | | | | | | |
| | Fair Value, beginning of period | Total realized and unrealized gains (losses)(1) | Purchases | Sales | Issuances | Settlements | Other | Transfers into Level 3 | Transfers out of Level 3 | Fair Value, end of period | Unrealized gains (losses) for assets still held(2) | | | |
| | (in millions) | | | | | | | | | | | | | |
| Fixed maturities, available-for-sale: | | | | | | | | | | | | | | |
| U.S. government | \$ | — | \$ | — | \$ | — | \$ | — | \$ | — | \$ | — | \$ | — |
| Corporate securities(3) | | 190 | | (9) | | 5 | | (4) | | — | | (2) | | — |
| Structured securities(4) | | 76 | | (4) | | — | | (10) | | — | | (2) | | — |
| Other assets: | | | | | | | | | | | | | | |
| Equity securities | | 1 | | — | | — | | — | | — | | — | | — |
| Short term investments | | 13 | | — | | — | | — | | (13) | | — | | — |
| Cash equivalents | | 8 | | — | | — | | — | | (8) | | — | | — |
| Other assets | | 400 | | (21) | | 13 | | — | | — | | (16) | | — |
| Reinsurance recoverables | | 1,881 | | 201 | | 4 | | — | | — | | 19 | | (239) |
| | | — | | — | | — | | 19 | | (239) | | — | | — |
| Liabilities: | | | | | | | | | | | | | | |
| Future policy benefits | | (4,060) | | 715 | | — | | — | | (48) | | — | | — |
| Policyholders' account balances(5) | | (2,041) | | 124 | | — | | — | | (17) | | — | | — |
| | | — | | — | | — | | (17) | | — | | — | | — |

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

| Predecessor Company | | | | | | | | |
|--|---------------------|---|-----------------------|------|--|---------------------|---|------|
| Three Months Ended March 31, 2022 | | | | | | | | |
| Total realized and unrealized gains (losses) | | | | | Unrealized gains (losses) for assets still held(2) | | | |
| Realized investment gains (losses), net(1) | Other income (loss) | Included in other comprehensive income (loss) | Net investment income | | Realized investment gains (losses), net | Other income (loss) | Included in other comprehensive income (loss) | |
| (in millions) | | | | | | | | |
| Fixed maturities, available-for-sale | \$ — | \$ — | \$ (12) | \$ — | \$ — | \$ — | \$ — | (12) |
| Other assets: | | | | | | | | |
| Other assets | (21) | — | — | — | (6) | — | — | — |
| Reinsurance recoverables | 201 | — | — | — | 222 | — | — | — |
| Liabilities: | | | | | | | | |
| Future policy benefits | 715 | — | — | — | 686 | — | — | — |
| Policyholders' account balances | 124 | — | — | — | 89 | — | — | — |

| Predecessor Company | | | | | | | | | | | | |
|--|---|-----------|-------|-----------|-------------|-------|------------------------|--------------------------|---------------------------|--|------|---|
| Three Months Ended September 30, 2021 | | | | | | | | | | | | |
| Fair Value, beginning of period | Total realized and unrealized gains (losses)(1) | Purchases | Sales | Issuances | Settlements | Other | Transfers into Level 3 | Transfers out of Level 3 | Fair Value, end of period | Unrealized gains (losses) for assets still held(2) | | |
| (in millions) | | | | | | | | | | | | |
| Fixed maturities, available-for-sale: | | | | | | | | | | | | |
| U.S. government | \$ 15 | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ 15 | \$ — | — |
| Corporate securities(3) | 232 | (6) | 143 | (11) | — | (14) | (122) | 2 | — | 224 | (5) | — |
| Structured securities(4) | 216 | — | 32 | — | — | (1) | (20) | — | (172) | 55 | — | — |
| Other assets: | | | | | | | | | | | | |
| Fixed maturities, trading | 5 | — | 2 | — | — | — | — | — | (5) | 2 | — | — |
| Equity securities | 5 | — | — | — | — | — | (4) | — | — | 1 | — | — |
| Short term investments | 23 | — | 6 | — | — | (17) | — | — | — | 12 | — | — |
| Cash equivalents | — | — | — | — | — | — | — | — | — | — | — | — |
| Other assets | 68 | 1 | 1 | — | — | (1) | — | — | — | 69 | — | — |
| Reinsurance recoverables | 302 | (4) | 4 | — | — | — | — | — | — | 302 | (1) | — |
| Liabilities: | | | | | | | | | | | | |
| Future policy benefits | (12,530) | 8,380 | — | — | (49) | — | — | — | — | (4,199) | 14 | — |
| Policyholders' account balances(5) | (1,361) | (8) | — | — | (88) | — | — | — | — | (1,457) | 543 | — |

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

| | Predecessor Company | | | | | | | |
|---|--|---------------------|---|-----------------------|--|---------------------|---|--|
| | Three Months Ended September 30, 2021 | | | | | | | |
| | Total realized and unrealized gains (losses) | | | | Unrealized gains (losses) for assets still held(2) | | | |
| | Realized investment gains (losses), net(1) | Other income (loss) | Included in other comprehensive income (loss) | Net investment income | Realized investment gains (losses), net | Other income (loss) | Included in other comprehensive income (loss) | |
| | (in millions) | | | | | | | |
| Fixed maturities, available-for-sale | \$ — | \$ — | \$ (6) | \$ — | \$ (2) | \$ — | \$ (3) | |
| Other assets: | | | | | | | | |
| Fixed maturities, trading | — | — | — | — | — | — | — | |
| Equity securities | — | — | — | — | — | — | — | |
| Short term investments | — | — | — | — | — | — | — | |
| Cash equivalents | — | — | — | — | — | — | — | |
| Other assets | 1 | — | — | — | — | — | — | |
| Reinsurance recoverables | (4) | — | — | — | (1) | — | — | |
| Liabilities: | | | | | | | | |
| Future policy benefits | 8,380 | — | — | — | 14 | — | — | |
| Policyholders' account balances | (8) | — | — | — | 543 | — | — | |

| | Predecessor Company | | | | | | | | | | | |
|--|--------------------------------------|---|-----------|-------|-----------|-------------|-------|-------------------------|---------------------------|---------------------------|--|--|
| | Nine Months Ended September 30, 2021 | | | | | | | | | | | |
| | Fair Value, beginning of period | Total realized and unrealized gains (losses)(1) | Purchases | Sales | Issuances | Settlements | Other | Transfer s into Level 3 | Transfer s out of Level 3 | Fair Value, end of period | Unrealized gains (losses) for assets still held(2) | |
| | (in millions) | | | | | | | | | | | |
| | | | | | | | | | | | | |
| Fixed maturities, available-for-sale: | | | | | | | | | | | | |
| U.S. government | \$ 15 | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ 15 | \$ — | |
| Corporate securities(3) | 149 | (5) | 249 | (11) | — | (45) | (122) | 17 | (8) | 224 | (6) | |
| Structured securities(4) | 19 | (1) | 235 | — | — | (6) | (20) | — | (172) | 55 | (1) | |
| Other assets: | | | | | | | | | | | | |
| Fixed maturities, trading | 5 | — | 2 | — | — | — | — | — | (5) | 2 | — | |
| Equity securities | 4 | 1 | — | — | — | — | (4) | — | — | 1 | 1 | |
| Short term investments | 10 | — | 30 | — | — | (29) | — | 1 | — | 12 | — | |
| Cash equivalents | — | — | — | — | — | — | — | — | — | — | — | |
| Other assets | 54 | 14 | 7 | — | — | (6) | — | — | — | 69 | 8 | |
| Reinsurance recoverables | 409 | (120) | 13 | — | — | — | — | — | — | 302 | (106) | |
| Liabilities: | | | | | | | | | | | | |
| Future policy benefits | (17,314) | 13,746 | — | — | (631) | — | — | — | — | (4,199) | 1,281 | |
| Policyholders' account balances(5) | (580) | (516) | — | — | (361) | — | — | — | — | (1,457) | 79 | |

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

| Predecessor Company | | | | | | | | |
|--|---------------------|---|-----------------------|------|--|---------------------|---|--|
| Nine Months Ended September 30, 2021 | | | | | | | | |
| Total realized and unrealized gains (losses) | | | | | Unrealized gains (losses) for assets still held(2) | | | |
| Realized investment gains (losses), net(1) | Other income (loss) | Included in other comprehensive income (loss) | Net investment income | | Realized investment gains (losses), net | Other income (loss) | Included in other comprehensive income (loss) | |
| (in millions) | | | | | | | | |
| Fixed maturities, available-for-sale | \$ (3) | \$ — | \$ (3) | \$ — | \$ (5) | \$ — | \$ (2) | |
| Other assets: | | | | | | | | |
| Fixed maturities, trading | — | — | — | — | — | — | — | |
| Equity securities | — | 1 | — | — | — | 1 | — | |
| Short term investments | — | — | — | — | — | — | — | |
| Cash equivalents | — | — | — | — | — | — | — | |
| Other assets | 14 | — | — | — | 8 | — | — | |
| Reinsurance recoverables | (120) | — | — | — | (106) | — | — | |
| Liabilities: | | | | | | | | |
| Future policy benefits | 13,746 | — | — | — | 1,281 | — | — | |
| Policyholders' account balances | (516) | — | — | — | 79 | — | — | |

- (1) Realized investment gains (losses) on future policy benefits and reinsurance recoverables primarily represent the change in the fair value of the Company's living benefit guarantees on certain of its variable annuity contracts.
- (2) Unrealized gains or losses related to assets still held at the end of the period do not include amortization or accretion of premiums and discounts.
- (3) Includes U.S. corporate public, U.S. corporate private, foreign corporate public and foreign corporate private securities.
- (4) Includes asset-backed and residential mortgage-backed securities.
- (5) Issuances and settlements for Policyholders' account balances are presented net in the rollforward.

Change in Fair Value of Insurance Contracts

The components of the change in fair value of our insurance contracts are reported in several categories within Revenues and Benefits and expenses in our consolidated statements of operations and comprehensive income (loss). The revenue items include Premiums, Policy charges and fee income, and Asset management and service fees. The Benefits and expenses items include Policyholders' benefits and changes in fair value of insurance liabilities and commission expense. Policyholders' benefits and changes in fair value of insurance liabilities includes the following changes in fair value of the assets and liabilities for which we have elected the fair value option:

| | | | | Successor Company | |
|-------------------------------------|----|---------|----|--------------------|------------------|
| | | | | Three Months Ended | Six Months Ended |
| | | | | September 30, 2022 | |
| (in millions) | | | | | |
| Assets: | | | | | |
| Reinsurance recoverables | \$ | (158) | \$ | (19) | |
| Net modified coinsurance receivable | | (145) | | 2 | |
| Deposit asset | | (1,299) | | (1,748) | |
| Liabilities: | | | | | |
| Insurance liabilities | \$ | 4,953 | \$ | 7,307 | |

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Fair Value of Financial Instruments

The table below presents the carrying amount and fair value by fair value hierarchy level of certain financial instruments that are not reported at fair value. The financial instruments presented below are reported at carrying value on the Company's Unaudited Interim Consolidated Statements of Financial Position. In some cases the carrying amount equals or approximates fair value.

| | Successor Company | | | | | | | | | | |
|--|--------------------|---------|---------|-------|--------------------|-------|---------------------|---------|--------------------|-------|-------|
| | September 30, 2022 | | | | | | | | | | |
| | Fair Value | | | | Carrying Amount(1) | | | | | | |
| | Level 1 | Level 2 | Level 3 | Total | Total | | | | | | |
| | (in millions) | | | | | | | | | | |
| Assets: | | | | | | | | | | | |
| Accrued investment income | \$ | — | \$ | 56 | \$ | 56 | \$ | 56 | | | |
| Other invested assets - Policy loans | | — | | — | | 11 | | 11 | | 11 | |
| Liabilities: | | | | | | | | | | | |
| Repurchase agreements | \$ | — | \$ | 200 | \$ | — | \$ | 200 | \$ | 200 | |
| Cash collateral for loaned securities | | — | | 169 | | — | | 169 | | 169 | |
| | | | | | | | Predecessor Company | | | | |
| | | | | | | | December 31, 2021 | | | | |
| | | | | | | | Fair Value | | Carrying Amount(1) | | |
| | | | | | | | Level 1 | Level 2 | Level 3 | Total | Total |
| | | | | | | | (in millions) | | | | |
| Assets: | | | | | | | | | | | |
| Commercial mortgage and other loans | \$ | — | \$ | — | \$ | 1,516 | \$ | 1,516 | \$ | 1,504 | |
| Policy loans | | — | | — | | 12 | | 12 | | 12 | |
| Short-term investments | | 81 | | — | | — | | 81 | | 81 | |
| Cash and cash equivalents | | 277 | | — | | — | | 277 | | 277 | |
| Accrued investment income | | — | | 61 | | — | | 61 | | 61 | |
| Reinsurance recoverables | | — | | — | | 9 | | 9 | | 8 | |
| Receivables from parent and affiliates | | — | | 5 | | — | | 5 | | 5 | |
| Other assets | | — | | 4 | | 2,275 | | 2,279 | | 2,279 | |
| Total assets | \$ | 358 | \$ | 70 | \$ | 3,812 | \$ | 4,240 | \$ | 4,227 | |
| Liabilities: | | | | | | | | | | | |
| Policyholders’ account balances - investment contracts | \$ | — | \$ | — | \$ | 2,391 | \$ | 2,391 | \$ | 2,381 | |
| Payables to parent and affiliates | | — | | 36 | | — | | 36 | | 36 | |
| Other liabilities | | — | | 105 | | — | | 105 | | 105 | |
| Separate account liabilities - investment contracts | | — | | — | | — | | — | | — | |
| Total liabilities | \$ | — | \$ | 141 | \$ | 2,391 | \$ | 2,532 | \$ | 2,522 | |

- (1) Carrying values presented herein differ from those in the Company's Unaudited Interim Consolidated Statements of Financial Position because certain items within the respective financial statement captions are not considered financial instruments or out of scope under authoritative guidance relating to disclosures of the fair value of financial instruments.

8. INCOME TAXES

The Company uses a full year projected effective tax rate approach to calculate taxes. In addition, certain items impacting total income tax expense are recorded in the periods in which they occur. The projected effective tax rate is the ratio of projected "Income tax expense (benefit)" divided by projected "Income (loss) from operations before income taxes".

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

For the three and six months ended September 30, 2022, the Successor Company's income tax provision amounted to an income tax expense (benefit) of \$3 million and \$(48) million, or (1.9) percent and 12.5 percent of loss from operations before income taxes, respectively. The effective tax rates for the Successor Company differed from the U.S. statutory tax rate of 21 percent primarily due to the establishment of a valuation allowance on deferred tax assets, non-taxable investment income, and tax credits. See below for further information regarding the valuation allowance on deferred tax assets.

The Predecessor Company's income tax provision amounted to an income tax expense of \$77 million, \$778 million, and \$1,247 million, or 17.8 percent, 20.8 percent, and 20.7 percent of income from operations before income tax, for three months ended March 31, 2022, the three months ended September 30, 2021, and the nine months ended September 30, 2021, respectively. The effective tax rates for the Predecessor Company differed from the U.S. statutory tax rate of 21 percent primarily due to non-taxable investment income and tax credits.

Acquisition-Related Tax Elections

In conjunction with the acquisition of FLIAC, FGH and PAI 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 Successor Company'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 goodwill. See Note 3 for further information regarding the acquisition and the associated updated income tax balances.

Valuation Allowance on Deferred Tax Assets

The application of U.S. GAAP requires the evaluation of the recoverability of deferred tax assets and establishment of a valuation allowance, if necessary, to reduce the deferred tax asset to an amount that is more likely than not expected to be realized, including an assessment of the character of future income necessary to realize a deferred tax asset. During the third quarter of 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. The amount of the deferred tax asset considered realizable may be adjusted if projections of future taxable income, including the character of that taxable income during the requisite carryforward period, are updated or if objective negative evidence exists that outweighs the positive evidence.

9. EQUITY

Accumulated Other Comprehensive Income (Loss)

AOCI represents the cumulative OCI items that are reported separate from net income and detailed on the Unaudited Interim Consolidated Statements of Operations and Comprehensive Income (Loss).

As discussed in Note 1, we have elected to apply pushdown accounting to FLIAC at the acquisition date, April 1, 2022. As part of this election, accumulated unrealized gains and losses that were previously recorded in AOCI were reset to zero at the acquisition date. In addition, as discussed in Note 2, we have elected to apply the fair value option on our entire portfolio of fixed maturity securities. As a result, all unrealized gains and losses related to our fixed maturity securities are recorded through earnings rather than AOCI. As discussed in Note 6, we have de-designated the hedging relationship for all of our derivative instruments. Accordingly, all changes in our derivative instruments are recorded through earnings.

The balance of and changes in each component of AOCI are as follows:

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

| | Accumulated Other Comprehensive Income (Loss) | | | |
|---|--|--|---|--|
| | Foreign Currency Translation Adjustment | Changes in Own- Credit Risk Related to Insurance Liabilities | Net Unrealized Investment Gains (Losses)(1) | Total Accumulated Other Comprehensive Income (Loss) |
| | (in millions) | | | |
| Balance, December 31, 2021 (Predecessor Company) | \$ (1) | \$ — | \$ 171 | \$ 170 |
| Change in OCI before reclassifications | — | — | (576) | (576) |
| Amounts reclassified from AOCI | — | — | 15 | 15 |
| Income tax benefit | — | — | 118 | 118 |
| Balance, March 31, 2022 (Predecessor Company) | <u>\$ (1)</u> | <u>\$ —</u> | <u>\$ (272)</u> | <u>\$ (273)</u> |
| Balance, April 1, 2022 (Successor Company) | \$ — | \$ — | \$ — | \$ — |
| Change in OCI before reclassifications | — | 245 | — | 245 |
| Income tax expense | — | (51) | — | (51) |
| Balance, June 30, 2022 (Successor Company) | <u>\$ —</u> | <u>\$ 194</u> | <u>\$ —</u> | <u>\$ 194</u> |
| Change in OCI before reclassifications | — | 149 | — | 149 |
| Income tax expense | — | (32) | — | (32) |
| Balance, September 30, 2022 (Successor Company) | <u>\$ —</u> | <u>\$ 311</u> | <u>\$ —</u> | <u>\$ 311</u> |

(1) Includes cash flow hedges of \$29 million and \$25 million as of March 31, 2022 and December 31, 2021, respectively.

| | Predecessor Company | | |
|--|---|---|--|
| | Accumulated Other Comprehensive Income (Loss) | | |
| | Foreign Currency Translation Adjustment | Net Unrealized Investment Gains (Losses)(1) | Total Accumulated Other Comprehensive Income (Loss) |
| | (in millions) | | |
| Balance, December 31, 2020 | \$ (1) | \$ 1,534 | \$ 1,533 |
| Change in OCI before reclassifications | — | (354) | (354) |
| Amounts reclassified from AOCI | — | (1,226) | (1,226) |
| Income tax benefit | — | 332 | 332 |
| Balance, September 30, 2021 | <u>\$ (1)</u> | <u>\$ 286</u> | <u>\$ 285</u> |

(1) Includes cash flow hedges of \$15 million and \$(43) million as of September 30, 2021 and December 31, 2020, respectively.

Reclassifications out of Accumulated Other Comprehensive Income (Loss)

| | Predecessor Company | | |
|---|---------------------------------------|--|---------------------------------------|
| | Three Months Ended March 31, | Three Months Ended September 30, | Nine Months Ended September 30, |
| | 2022 | 2021 | 2021 |
| | (in millions) | | |
| Amounts reclassified from AOCI(1)(2): | | | |
| Net unrealized investment gains (losses): | | | |
| Cash flow hedges—Currency/ Interest rate(3) | \$ 5 | \$ 11 | \$ 29 |
| Net unrealized investment gains (losses) on available-for-sale securities | (20) | 141 | 1,197 |
| Total net unrealized investment gains (losses)(4) | <u>(15)</u> | <u>152</u> | <u>1,226</u> |
| Total reclassifications for the period | <u>\$ (15)</u> | <u>\$ 152</u> | <u>\$ 1,226</u> |

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

- (1) All amounts are shown before tax.
(2) Positive amounts indicate gains/benefits reclassified out of AOCL. Negative amounts indicate losses/costs reclassified out of AOCL.
(3) See Note 6 for additional information on cash flow hedges.
(4) See table below for additional information on unrealized investment gains (losses), including the impact on DAC and other costs and future policy benefits and other liabilities.

Net Unrealized Investment Gains (Losses) (Predecessor Company)

Net unrealized investment gains (losses) on available-for-sale fixed maturity securities and certain other invested assets and other assets were included in the Predecessor Company's Unaudited Interim Statements of Financial Position as a component of AOCL. Changes in these amounts included reclassification adjustments to exclude from OCI those items that were included as part of "Net income" for a period that had been part of OCI in earlier periods. The amounts for the periods indicated below, split between amounts related to net unrealized investment gains (losses) on available-for-sale fixed maturity securities on which an allowance for credit losses has been recognized, and all other net unrealized investment gains (losses), are as follows:

| | Predecessor Company | | | | | |
|--|--|---|------------------------|---|------------------------------|---|
| | Net Unrealized Gains (Losses) on Investments on Available-for-Sale Fixed Maturity Securities on which an allowance for credit losses has been recognized | Net Unrealized Gains (Losses) on All Other Investments(1) | DAC and Other Costs(2) | Future Policy Benefits and Other Liabilities(3) | Income Tax Benefit (Expense) | Accumulated Other Comprehensive Income (Loss) Related To Net Unrealized Investment Gains (Losses) |
| | (in millions) | | | | | |
| Balance, December 31, 2021 | \$ — | \$ 240 | \$ (16) | \$ (7) | \$ (46) | \$ 171 |
| Net investment gains (losses) on investments arising during the period | — | (591) | — | — | 125 | (466) |
| Reclassification adjustment for (gains) losses included in net income | — | 15 | — | — | (4) | 11 |
| Impact of net unrealized investment (gains) losses | — | — | 9 | 6 | (3) | 12 |
| Balance, March 31, 2022 | <u>\$ —</u> | <u>\$ (336)</u> | <u>\$ (7)</u> | <u>\$ (1)</u> | <u>\$ 72</u> | <u>\$ (272)</u> |

| | Predecessor Company | | | | | |
|--|--|---|------------------------|---|------------------------------|---|
| | Net Unrealized Gains (Losses) on Investments on Available-for-Sale Fixed Maturity Securities on which an allowance for credit losses has been recognized | Net Unrealized Gains (Losses) on All Other Investments(1) | DAC and Other Costs(2) | Future Policy Benefits and Other Liabilities(3) | Income Tax Benefit (Expense) | Accumulated Other Comprehensive Income (Loss) Related To Net Unrealized Investment Gains (Losses) |
| | (in millions) | | | | | |
| Balance, December 31, 2020 | \$ — | \$ 2,369 | \$ (363) | \$ (63) | \$ (409) | \$ 1,534 |
| Net investment gains (losses) on investments arising during the period | 2 | (742) | — | — | 156 | (584) |
| Reclassification adjustment for (gains) losses included in net income | (2) | (1,224) | — | — | 257 | (969) |
| Reclassification due to allowance for credit losses recorded during the period | — | — | — | — | — | — |
| Impact of net unrealized investment (gains) losses | — | — | 325 | 61 | (81) | 305 |
| Balance, September 30, 2021 | <u>\$ —</u> | <u>\$ 403</u> | <u>\$ (38)</u> | <u>\$ (2)</u> | <u>\$ (77)</u> | <u>\$ 286</u> |

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

- (1) Includes cash flow hedges. See Note 6 for information on cash flow hedges.
- (2) "Other costs" primarily includes reinsurance recoverables, DSI and VOBA.
- (3) "Other liabilities" primarily includes reinsurance payables and deferred reinsurance gains.

10. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

The Predecessor Company has made commitments to fund commercial mortgage loans. As of December 31, 2021, the outstanding balance on commitments to fund commercial mortgage loans was \$21 million. These amounts include unfunded commitments that are not unconditionally cancellable. The Successor Company had no commitments outstanding on commercial mortgage loans as of September 30, 2022 due to the fact that all commercial mortgage loans were transferred out under the novation program discussed in Note 1. The Company has made commitments to purchase or fund investments, mostly private fixed maturity securities and alternative investments. As of September 30, 2022 and December 31, 2021, \$261 million and \$96 million, respectively, of these commitments were outstanding. These amounts include unfunded commitments that are not unconditionally cancellable. See Note 11 for further information regarding certain commitments to related parties.

Contingent Liabilities

On an ongoing basis, the Company and its regulators review its operations including, but not limited to, sales and other customer interface procedures and practices, and procedures for meeting obligations to its customers and other parties. These reviews may result in the modification or enhancement of processes or the imposition of other action plans, including concerning management oversight, sales and other customer interface procedures and practices, and the timing or computation of payments to customers and other parties. In certain cases, if appropriate, the Company may offer customers or other parties remediation and may incur charges, including the cost of such remediation, administrative costs and regulatory fines.

The Company is subject to the laws and regulations of states and other jurisdictions concerning the identification, reporting and escheatment of unclaimed or abandoned funds, and is subject to audit and examination for compliance with these requirements. For additional discussion of these matters, see "Litigation and Regulatory Matters" below.

It is possible that the results of operations or the cash flows of the Company in a particular quarterly or annual period could be materially affected as a result of payments in connection with the matters discussed above or other matters depending, in part, upon the results of operations or cash flows for such period. Management believes, however, that ultimate payments in connection with these matters, after consideration of applicable reserves and rights to indemnification, should not have a material adverse effect on the Company's financial position.

Litigation and Regulatory Matters

The Company is subject to legal and regulatory actions in the ordinary course of its business. Pending legal and regulatory actions include proceedings specific to the Company and proceedings generally applicable to business practices in the industry in which it operates. The Company is subject to class action lawsuits and other litigation involving a variety of issues and allegations involving sales practices, claims payments and procedures, premium charges, policy servicing and breach of fiduciary duty to customers. The Company is also subject to litigation arising out of its general business activities, such as its investments, contracts, leases and labor and employment relationships, including claims of discrimination and harassment, and could be exposed to claims or litigation concerning certain business or process patents. In addition, the Company, along with other participants in the businesses in which it engages, may be subject from time to time to investigations, examinations and inquiries, in some cases industry-wide, concerning issues or matters upon which such regulators have determined to focus. In some of the Company's pending legal and regulatory actions, parties are seeking large and/or indeterminate amounts, including punitive or exemplary damages. The outcome of litigation or a regulatory matter, and the amount or range of potential loss at any particular time, is often inherently uncertain.

The Company establishes accruals for litigation and regulatory matters when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. For litigation and regulatory matters where a loss may be reasonably possible, but not probable, or is probable but not reasonably estimable, no accrual is established, but the matter, if material, is disclosed. The Company estimates that as of September 30, 2022, the aggregate range of reasonably possible losses in excess of accruals and recoveries from unaffiliated indemnitors established for those litigation and regulatory matters for which such an estimate currently can be made is not considered to be material. This estimate is not an indication of expected loss, if any, or the Company's maximum possible loss exposure on such matters. The Company reviews relevant information with respect to its

Fortitude Life Insurance & Annuity Company**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

litigation and regulatory matters on a quarterly and annual basis and updates its accruals, disclosures and estimates of reasonably possible loss based on such reviews.

The following discussion of litigation and regulatory matters provides an update of those matters discussed in Note 15 to the Company's Financial Statements included in the Predecessor Company's Annual Report on Form 10-K for the year ended December 31, 2021, and should be read in conjunction with the complete descriptions provided in the Form 10-K.

Regulatory***Variable Products***

Prior to its acquisition by FGH on April 1, 2022, the Company has 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.

Summary

The Company's litigation and regulatory matters are subject to many uncertainties, and given their complexity and scope, their outcome cannot be predicted. It is possible that the Company's results of operations or cash flows in a particular quarterly or annual period could be materially affected by an ultimate unfavorable resolution of pending litigation and regulatory matters depending, in part, upon the results of operations or cash flows for such period. In light of the unpredictability of the Company's litigation and regulatory matters, it is also possible that in certain cases an ultimate unfavorable resolution of one or more pending litigation or regulatory matters could have a material adverse effect on the Company's financial statements. Management believes, however, that, based on information currently known to it, the ultimate outcome of all pending litigation and regulatory matters, after consideration of applicable reserves and rights to indemnification, is not likely to have a material adverse effect on the Company's financial statements.

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

11. RELATED PARTY TRANSACTIONS

Successor Company

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

Expense Charges and Allocations

The majority of the Successor Company's expenses are allocations or charges from FGH. These expenses primarily relate to general and administrative expenses which include accounting, actuarial, risk management, and data processing services. FGH also provides the Company with personnel and certain other services. The allocation of costs for other services are based on estimated level of usage, transactions or time incurred in providing the respective services. During the three and six months ended September 30, 2022, FLIAC was allocated \$8 million and \$15 million, respectively, of costs for these services.

Intercompany Liquidity Agreement

Effective April 1, 2022 FLIAC entered into an intercompany liquidity agreement with FGH that allows the Successor Company to borrow funds of up to \$50 million to meet its short-term liquidity and other capital needs. During the third quarter of 2022, the borrowing capacity of the agreement was increased to \$150 million. As of September 30, 2022, there were no borrowings under the agreement. In October 2022, FLIAC borrowed \$75 million of funds under the agreement and subsequently repaid the amount in full, plus interest. In November 2022, FLIAC borrowed \$75 million of funds under the agreement and expects to repay the outstanding amount, plus interest, in full within one month of borrowing.

Affiliated Investment and Advisory Activities

As of April 1, 2022, FLIAC became affiliated with The Carlyle Group Inc. ("Carlyle"), whereby Carlyle, through an affiliated investment fund has a 71.5% equity investment in its parent, FGH. In addition, FLIAC entered into an investment management and consulting services agreement with an affiliate of Carlyle. During the quarter ended June 30, 2022, FLIAC incurred \$10 million of costs from this Carlyle affiliate for services provided to the Successor Company in connection with FGH's purchase of the Company from Prudential Financial.

Certain of Carlyle's affiliates also provide investment management services for FLIAC pursuant to investment management agreements. Investment management fees are charged based on a percentage of assets under management and were de minimis for the three and six months ended September 30, 2022. As of September 30, 2022, assets under management had a market value of \$623 million and were comprised primarily of private credit fixed income assets and limited partnership interests or investments in limited partnerships. FLIAC recognized \$2 million and \$3 million of investment income on such assets during the three and six months ended September 30, 2022, respectively.

In connection with the investment management agreements, as of September 30, 2022, FLIAC has committed \$42 million to fund private investments where one or more Carlyle entities serves as general partner to the fund.

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Affiliated Asset Transfers

The Successor Company may participate in affiliated asset transfers with its parent and affiliates. Book and market value differences for trades with its parent and affiliates are recognized within "Investment gains (losses), net". The table below shows affiliated asset trades for the six months ended September 30, 2022.

| Affiliate | Date | Transaction | Security Type | Fair Value | Book Value | Investment Gains (Losses), net |
|-------------------------------------|-------------|-------------|-------------------------|------------|------------|--------------------------------------|
| | | | | | | |
| | | | | | | (in millions) |
| Fortitude Reinsurance Company, Ltd. | July 2022 | Purchase | Fixed Maturity Security | \$ 37 | \$ 37 | \$ — |
| Fortitude Reinsurance Company, Ltd. | July 2022 | Purchase | Fixed Maturity Security | 15 | 15 | — |
| Fortitude Reinsurance Company, Ltd. | July 2022 | Purchase | Limited Partnership | 9 | 9 | — |
| Fortitude Re Investments, LLC | August 2022 | Purchase | Fixed Maturity Security | 42 | 42 | — |
| Fortitude Re Investments, LLC | August 2022 | Purchase | Fixed Maturity Security | 23 | 23 | — |
| Fortitude Re Investments, LLC | August 2022 | Purchase | Limited Partnership | 15 | 15 | — |

Predecessor Company

The Predecessor Company had extensive transactions and relationships with Prudential Insurance and other former affiliates. Although the Predecessor Company sought to ensure that these transactions and relationships were fair and reasonable, it is possible that the terms of these transactions were not the same as those that would result from transactions among unrelated parties.

Expense Charges and Allocations

The Predecessor Company's expenses were allocations or charges from Prudential Insurance or other affiliates. These expenses were grouped into general and administrative expenses and agency distribution expenses.

The Predecessor Company's general and administrative expenses were charged using allocation methodologies based on business production processes. The Predecessor Company operated under service and lease agreements whereby services of officers and employees, supplies, use of equipment and office space were provided by Prudential Insurance. The Predecessor Company reviewed its allocation methodology periodically and made adjustments accordingly. General and administrative expenses included allocations of stock compensation expenses related to a stock-based awards program and a deferred compensation program issued by Prudential Financial. The expense charged to the Predecessor Company for the stock-based awards program was \$0 million for the three months ended March 31, 2022, \$0.1 million and \$0.4 million for the three and nine months ended September 30, 2021, respectively. The expense charged to the Predecessor Company for the deferred compensation program was \$0.3 million and \$1.5 million for the three and nine months ended September 30, 2021, respectively.

The Predecessor Company was charged for its share of employee benefit expenses. These expenses included costs for funded and non-funded, non-contributory defined benefit pension plans. Some of these benefits were based on final earnings and length of service while others were based on an account balance, which takes into consideration age, service and earnings during a career. The Predecessor Company's share of net expense for the pension plans was \$0.0 million for the three months ended March 31, 2022 and \$2.4 million and \$7.1 million for the three and nine months ended September 30, 2021, respectively.

The Predecessor Company was also charged for its share of the costs associated with welfare plans issued by Prudential Insurance. These expenses included costs related to medical, dental, life insurance and disability. The Predecessor Company's share of net expense for the welfare plans was \$0.0 million for the three months ended March 31, 2022 and \$0.9 million and \$2.9 million for the three and nine months ended September 30, 2021, respectively.

Prudential Insurance sponsors voluntary savings plans for its employee 401(k) plans. The plans provided for salary reduction contributions by employees and matching contributions by the Predecessor Company of up to 4% of annual salary. The Predecessor Company's expense for its share of the voluntary savings plan was \$0.0 million for the three months ended March 31, 2022 and \$0.9 million and \$2.7 million for the three and nine months ended September 30, 2021, respectively.

Fortitude Life Insurance & Annuity Company

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

The Predecessor Company paid commissions and certain other fees to Prudential Annuities Distributors, Inc ("PAD"), an affiliate of the Predecessor Company, in consideration for PAD's marketing and underwriting of the Company's products. Commissions and fees were paid by PAD to broker-dealers who sold the Predecessor Company's products. Commissions and fees paid by the Predecessor Company to PAD were \$29 million for the three months ended March 31, 2022 and \$110 million and \$347 million for the three and nine months ended September 30, 2021, respectively.

The Predecessor Company was charged for its share of corporate expenses incurred by Prudential Financial to benefit its businesses, such as advertising, executive oversight, external affairs and philanthropic activity. The Predecessor Company's share of corporate expenses was \$9 million for three months ended March 31, 2022 and \$7 million and \$20 million for the three and nine months ended September 30, 2021, respectively.

Affiliated Investment Management Expenses

The Predecessor Company paid investments management expenses in accordance with an agreement with PGIM, Inc. ("PGIM"), an affiliate of the Predecessor Company and investment manager to certain Predecessor Company general account and separate account assets. Investment management expenses paid to PGIM related to this agreement were \$4 million for the three months ended March 31, 2022 and \$7 million and \$18 million for the three and nine months ended September 30, 2021. These expenses were recorded as "Net investment income" in the Company's Unaudited Consolidated Interim Statements of Operations and Comprehensive Income (Loss).

Derivative Trades

In its ordinary course of business, the Predecessor Company entered into OTC derivative contracts with an affiliate, PGF. For these OTC derivative contracts, PGF had a substantially equal and offsetting position with an external counterparty. See Note 6 for additional information.

Joint Ventures

The Predecessor Company previously made investments in joint ventures with certain subsidiaries of Prudential Financial. "Net investment income" related to these ventures included no gain or loss for the three months ended March 31, 2022 and gains of \$8 million and \$17 million for the three and nine months ended September 30, 2021, respectively.

Affiliated Asset Management and Service Fees

The Predecessor Company had a revenue sharing agreement with AST Investment Services, Inc. ("ASTISI") and PGIM Investments LLC ("PGIM Investments") whereby the Predecessor Company received fee income based on policyholders' separate account balances invested in the Advanced Series Trust and The Prudential Series Fund. Income received from ASTISI and PGIM Investments related to this agreement was \$22 million for the three months ended March 31, 2022 and \$24 million and \$72 million for the three and nine months ended September 30, 2021, respectively. These revenues were recorded as "Asset management and service fees" in the Company's Unaudited Consolidated Interim Statements of Operations and Comprehensive Income (Loss).

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Affiliated Asset Transfers

The Predecessor Company participated in affiliated asset trades with former parent and sister companies. Book and market value differences for trades with a parent and sister were recognized within "Realized investment gains (losses), net". The table below shows affiliated asset trades for the three months ended March 31, 2022 and for the year ended December 31, 2021.

| Affiliate | Date | Transaction | Security Type | Fair Value | Book Value | Realized Investment Gain (Loss) |
|---|----------------|--------------|--------------------------|------------|------------|---------------------------------|
| (in millions) | | | | | | |
| Prudential Insurance | April 2021 | Purchase | Fixed Maturities | \$ 201 | \$ 201 | \$ — |
| Prudential Insurance | April 2021 | Purchase | Commercial Mortgage Loan | 177 | 177 | — |
| Vantage Casualty Insurance Co. | June 2021 | Purchase | Fixed Maturities | 15 | 15 | — |
| Prudential Insurance | June 2021 | Sale | Equities | 3 | 3 | — |
| Pruco Life | June 2021 | Sale | Equities | 40 | 38 | 2 |
| Passaic Fund LLC | June 2021 | Transfer Out | Other Invested Assets | 12 | 12 | — |
| Passaic Fund LLC | July 2021 | Transfer Out | Other Invested Assets | 196 | 196 | — |
| Prudential Insurance | September 2021 | Purchase | Fixed Maturities | 2 | 2 | — |
| Prudential Insurance | September 2021 | Sale | Fixed Maturities | 12 | 11 | 1 |
| Prudential Retirement Insurance and Annuity Company | September 2021 | Sale | Fixed Maturities | 26 | 24 | 2 |
| Prudential Retirement Insurance and Annuity Company | September 2021 | Purchase | Fixed Maturities | 35 | 35 | — |
| Prudential Insurance | September 2021 | Purchase | Derivatives | — | — | — |
| Prudential Retirement Insurance and Annuity Company | September 2021 | Purchase | Derivatives | (1) | (1) | — |
| Prudential Financial | October 2021 | Sale | Equities | 10 | 10 | — |
| Pruco Life | November 2021 | Sale | Derivatives | 1 | — | 1 |

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

| Affiliate | Date | Transaction | Security Type | Fair Value | Book Value | Realized Investment Gain (Loss) |
|--------------------------------|---------------|--------------|--------------------------|------------|------------|---------------------------------|
| (in millions) | | | | | | |
| Prudential Arizona Reinsurance | November 2021 | Purchase | Fixed Maturities | 55 | 55 | — |
| Pruco Life | December 2021 | Transfer Out | Fixed Maturities | 2,038 | 1,934 | 104 |
| Pruco Life | December 2021 | Sale | Fixed Maturities | 57 | 57 | — |
| Prudential Financial | December 2021 | Dividend | Fixed Maturities | 167 | 167 | — |
| Prudential Financial | December 2021 | Sale | Fixed Maturities | 144 | 138 | 6 |
| Prudential Financial | December 2021 | Purchase | Commercial Mortgage Loan | 185 | 185 | — |
| Pruco Life | December 2021 | Transfer Out | Commercial Mortgage Loan | 538 | 517 | 21 |
| Pruco Life | December 2021 | Sale | Derivatives | 8 | 2 | 6 |
| Pruco Life | January 2022 | Sale | Fixed Maturities | 4 | 5 | (1) |
| Prudential Financial | January 2022 | Sale | Commercial Mortgage Loan | 29 | 30 | — |
| Pruco Life | January 2022 | Sale | Derivatives | — | — | — |
| Pruco Life | February 2022 | Sale | Fixed Maturities | 129 | 138 | (10) |
| Prudential Financial | March 2022 | Sale | Fixed Maturities | \$ 33 | \$ 33 | \$ (1) |

Debt Agreements

The Predecessor Company was authorized to borrow funds up to \$9 billion from Prudential Financial and its affiliates to meet its capital and other funding needs. As of December 31, 2021, there was no short or long-term debt to affiliates outstanding.

Effective August 2021, \$300 million in long-term debt was transferred from the Predecessor Company to Pruco Life based on the market value of the loans plus accrued interest, which totaled \$326 million. The Company recognized a loss of \$24 million on the transfer. The \$300 million debt was legally extinguished.

The total interest expense incurred by the Predecessor Company related to affiliated loans and cash collateral with PGF was \$0 million for the three months ended March 31, 2022 and \$1 million and \$9 million for the three and nine months ended September 30, 2021, respectively.

Contributed Capital and Dividends

Through March 31, 2022 and December 31, 2021, the Predecessor Company did not receive any capital contributions.

In March 2022, the Predecessor Company had a return of capital in the amount of \$306 million to PAI. In July 2021, in connection with the 2021 Variable Annuities Recapture, there was a \$3,813 million return of capital to PAI.

In March, June, and December of 2021, the Predecessor Company paid a dividend of \$192 million, \$188 million, and \$451 million respectively, to PAI.

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Reinsurance with Affiliates of Predecessor Company

The Predecessor Company used reinsurance as part of its risk management and capital management strategies for certain of its living benefit guarantees and variable annuity base contracts.

Effective April 1, 2016, the Predecessor Company reinsured the variable annuity base contracts, along with the living benefit guarantees, from Pruco Life Insurance Company ("Pruco Life"), excluding the Pruco Life Insurance Company of New Jersey ("PLNJ") business which was reinsured to The Prudential Insurance Company of America ("Prudential Insurance"), in each case under a coinsurance and modified coinsurance agreement. This reinsurance agreement covers new and in force business and excludes business reinsured externally. As of December 31, 2020, Pruco Life discontinued the sales of traditional variable annuities with guaranteed living benefit riders. The discontinuation has no impact on the reinsurance agreement between Pruco Life and the Company.

Effective July 1, 2021, Pruco Life recaptured the risks related to its business, as discussed above, that had previously been reinsured to the Company from April 1, 2016 through June 30, 2021. The product risks related to the previously reinsured business that were being managed in the Predecessor Company, were transferred to Pruco Life. In addition, the living benefit hedging program related to the previously reinsured living benefit riders will be managed within Pruco Life after the recapture. This transaction is referred to as the "2021 Variable Annuities Recapture". See Note 1 to the Financial Statements included in the Predecessor Company's Annual Report on Form 10-K for the year ended December 31, 2021, for more details.

Effective December 1, 2021, the Company entered into a reinsurance agreement with Pruco Life under which the Company reinsured certain of its variable and fixed indexed annuities and fixed annuities with a guaranteed lifetime withdrawal income feature to Pruco Life.

Effective December 31, 2015, the Company surrendered its New York license and reinsured the majority of its New York business, both the living benefit guarantees and base contracts, to Prudential Insurance. 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. Realized investment gains and losses include the impact of reinsurance agreements, particularly reinsurance agreements involving living benefit guarantees.

Reinsurance amounts included in the audited Financial Statements included in the Predecessor Company's Annual Report on Form 10-K for the year ended December 31, 2021 were as follows:

| | December 31, 2021 |
|-----------------------------------|--------------------------|
| | (in millions) |
| Reinsurance recoverables | \$ 8,108 |
| Deferred policy acquisition costs | (530) |
| Deferred sales inducements | (26) |
| Value of business acquired | (2) |
| Other assets | 54 |
| Reinsurance payables | 7,183 |
| Other liabilities | 824 |

The reinsurance recoverables by counterparty are broken out below:

| | December 31, 2021 |
|--------------------------------|--------------------------|
| | (in millions) |
| Prudential Insurance | \$ 372 |
| Pruco Life | 7,736 |
| Total reinsurance recoverables | <u>\$ 8,108</u> |

Fortitude Life Insurance & Annuity Company

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Reinsurance amounts, included in the Predecessor Company's Unaudited Interim Statements of Operations and Comprehensive Income (Loss), were as follows:

| | Predecessor Company | | |
|--|-----------------------------|---------------------------------|--------------------------------|
| | Three Months Ended March 31 | Three Months Ended September 30 | Nine Months Ended September 30 |
| | 2021 | | |
| | (in millions) | | |
| Premiums: | | | |
| Direct | \$ 9 | \$ 7 | \$ 19 |
| Assumed | — | — | 16 |
| Ceded | (1) | (1) | (3) |
| Net premiums | 8 | 6 | 33 |
| Policy charges and fee income: | | | |
| Direct | 102 | 113 | 329 |
| Assumed | — | — | 819 |
| Ceded(1) | (5) | (7) | (20) |
| Net policy charges and fee income | 97 | 106 | 1,128 |
| Asset management and service fees: | | | |
| Direct | 22 | 25 | 73 |
| Assumed | — | — | 165 |
| Ceded | (2) | (2) | (6) |
| Net asset management and service fees | 20 | 23 | 232 |
| Realized investment gains (losses), net: | | | |
| Direct | 312 | (3,243) | (4,856) |
| Assumed | — | 8,328 | 12,350 |
| Ceded | 169 | (5) | (122) |
| Realized investment gains (losses), net | 481 | 5,081 | 7,373 |
| Policyholders' benefits (including change in reserves): | | | |
| Direct | 31 | 19 | 44 |
| Assumed | — | (257) | (254) |
| Ceded(2) | (5) | (4) | (5) |
| Net policyholders' benefits (including change in reserves) | 26 | (242) | (216) |
| Interest credited to policyholders' account balances: | | | |
| Direct | 91 | 43 | 139 |
| Assumed | — | 399 | 476 |
| Ceded | (6) | (2) | (6) |
| Net interest credited to policyholders' account balances | 85 | 441 | 610 |
| Reinsurance expense allowances and general and administrative expenses, net of capitalization and amortization | (41) | 1,193 | 1,708 |

- (1) Includes \$0.0 million, \$(0.4) million and \$(0.4) million of unaffiliated activity (with respect to the Predecessor Company) for the three months ended March 31, 2022, three months ended September 30, 2021 and the nine months ended September 30, 2021, respectively.
- (2) Includes \$0.0 million and \$(2.9) million, and \$(3.3) million of unaffiliated activity (with respect to the Predecessor Company) for the three months ended March 31, 2022, the three months ended September 30, 2021, and the nine months ended September 30, 2021, respectively.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Prior to April 1, 2022, Fortitude Life Insurance & Annuity Company ("FLIAC" or the "Company"), which was previously named Prudential Annuities Life Assurance Corporation ("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. On April 1, 2022 PAI completed the sale of its equity interest in the Company to Fortitude Group Holdings, LLC ("FGH"). As a result, the Company is no longer an affiliate of Prudential Financial or any of its affiliates.

Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) addresses the financial condition of FLIAC as of September 30, 2022 and its results of operations for the three and six months ended September 30, 2022. The MD&A also addresses the results of operations of PALAC for the three months ended March 31, 2022 compared to the same prior year period. Other periods presented in the consolidated statement of financial condition or consolidated statement of operations are not comparable due to the election to apply push-down accounting to the Company following its acquisition by FGH. See "Accounting Policies & Pronouncements" for further information. You should read the following analysis of our financial condition and results of operations in conjunction with the MD&A, the “Risk Factors” section, and the audited Financial Statements included in the Predecessor Company’s Annual Report on Form 10-K for the year ended December 31, 2021, as well as the statements under “Forward-Looking Statements”, and the Unaudited Interim Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q.

Overview

The Company was established in 1969 and has been a provider of annuity contracts for the individual market in the United States. The Company's products have been sold primarily to individuals to provide for long-term savings and retirement needs and to address the economic impact of premature death, estate planning concerns and supplemental retirement income.

The Company has sold a wide array of annuities, including deferred and immediate variable annuities with (1) fixed interest rate allocation options, subject to a market value adjustment, that are registered with the United States Securities and Exchange Commission (the "SEC"), and (2) fixed-rate allocation options subject to a limited market value adjustment or no market value adjustment and not registered with the SEC. The Company ceased offering these products.

Novation of Ceded Business

In the second quarter of 2022, in accordance with applicable state law, a program was instituted to novate a significant portion of the Ceded Business policies from FLIAC to Pruco Life Insurance Company ("Pruco Life"). The program does not have an impact on stockholders' equity or net income but has resulted in the reduction of certain activity/balances associated with these policies. During the six months ended September 30, 2022, approximately \$6 billion of account value, which generally approximates fair values of insurance liabilities, was transferred out of the Company as a result of the novation program, which represents approximately 60 percent of account value since the acquisition of the Company on April 1, 2022.

Predecessor Company Reinsurance Transactions

Effective April 1, 2016, the Company reinsured the variable annuity base contracts, along with the living benefit guarantees, from Pruco Life, excluding the Pruco Life Insurance Company of New Jersey ("PLNJ") business which was reinsured to The Prudential Insurance Company of America ("Prudential Insurance"), in each case under a coinsurance and modified coinsurance agreement. This reinsurance agreement covers new and in-force business and excludes business reinsured externally. As of December 31, 2020, Pruco Life discontinued the sales of traditional variable annuities with guaranteed living benefit riders. The discontinuation has no impact on the reinsurance agreement between Pruco Life and the Company.

Effective July 1, 2021, Pruco Life recaptured the risks related to its business, as discussed above, that had previously been reinsured to the Company from April 1, 2016 through June 30, 2021. The product risks related to the previously reinsured business that were being managed in the Company, were transferred to Pruco Life. In addition, the living benefit hedging program related to the previously reinsured living benefit riders will be managed within Pruco Life after the recapture. This transaction is referred to as the "2021 Variable Annuities Recapture". See Note 1 to the Financial Statements included in the Predecessor Company's Annual Report on Form 10-K for the year ended December 31, 2021, for more details.

Effective December 1, 2021, the Company entered into a reinsurance agreement with Pruco Life under which the Company reinsured certain of its variable and fixed indexed annuities and fixed annuities with a guaranteed lifetime withdrawal income feature to Pruco Life.

COVID-19

Since the first quarter of 2020, the COVID-19 pandemic has at times caused extreme stress and disruption in the global economy and financial markets and elevated mortality and morbidity for the global population. The COVID-19 pandemic impacted our results of operations in the current period and is expected to impact our results of operations in future periods. The Company has taken several measures to manage the impacts of this crisis.

- Results of Operations. See "Results of Operations" for a discussion of results for the third quarter of 2022.
- Risk Factors. The COVID-19 pandemic has at times adversely impacted our results of operations, financial position, investment portfolio, new business opportunities and operations, and these impacts may continue. For additional information on the risks to our business posed by the COVID-19 pandemic, see "Risk Factors" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

Impact of a Changing Interest Rate Environment

As a financial services company, market interest rates are a key driver of our results of operations and financial condition. Changes in interest rates can affect our results of operations and/or our financial condition in several ways, including favorable or adverse impacts to:

- investment-related activity, including: investment income returns, net interest margins, net investment spread results, new money rates, mortgage loan prepayments and bond redemptions;
- the recoverability of deferred tax assets related to losses on our fixed maturity securities portfolio;
- hedging costs and other risk mitigation activities;
- insurance reserve levels and market experience true-ups;
- customer account values, including their impact on fee income;
- product design features, crediting rates and sales mix; and
- policyholder behavior, including surrender or withdrawal activity.

For more information on interest rate risks, see “Risk Factors—Market Risk” included in the Predecessor Company's Annual Report on Form 10-K for the year ended December 31, 2021.

Revenues and Expenses

The Company earns revenues principally from contract fees, mortality and expense fees, and asset administration fees from annuity and investment products, all of which primarily result from the sale and servicing of annuity products. The Company also earns net investment income from the investment of general account and other funds. The Company's operating expenses principally consist of annuity benefit guarantees provided, reserves established for anticipated future annuity benefit guarantees, and costs of managing risk related to these products. The Company's operating expenses also include interest credited to policyholders' account balances, general business expenses, reinsurance premiums, and commissions and other costs of selling and servicing the various products it sold.

Accounting Policies & Pronouncements

Application of Critical Accounting Estimates

The preparation of financial statements in conformity with U.S. GAAP requires the application of accounting policies that often involve a significant degree of judgment. Management on an ongoing basis, reviews estimates and assumptions used in the preparation of financial statements. If management determines that modifications in assumptions and estimates are appropriate given current facts and circumstances, the Company's results of operations and financial position as reported in the Unaudited Interim Financial Statements could change significantly.

Following the acquisition of FLIAC, purchase accounting was applied to FGH's financial statements and we have elected to "push down" the basis to FLIAC in accordance with Accounting Standards Codification ("ASC") 805, *Business Combinations*. The application of push-down accounting created a new basis of accounting for all assets and liabilities based on fair value at the date of acquisition. As a result, FLIAC's financial position, results of operations, and cash flows subsequent to the acquisition are not comparable with those prior to April 1, 2022, and therefore have been segregated to indicate pre-acquisition and post-acquisition periods. The pre-acquisition period through March 31, 2022 is referred to as the Predecessor Company. The post-acquisition period, April 1, 2022 and forward, includes the impact of push-down accounting and is referred to as the Successor Company.

Management believes the accounting policies relating to the following areas are most dependent on the application of estimates and assumptions and require management's most difficult, subjective, or complex judgments:

- Insurance liabilities;
- Valuation of investments, including derivatives;
- Reinsurance recoverables/payables;
- Taxes on income, including valuation allowances; and
- Reserves for contingencies, including reserves for losses in connection with unresolved legal matters.

Future Adoption of New Accounting Pronouncements

ASU 2018-12, *Financial Services - Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*, was issued by the Financial Accounting Standards Board ("FASB") on August 15, 2018, and was amended by ASU 2019-09, *Financial Services - Insurance (Topic 944): Effective Date*, issued in October 2019, and ASU 2020-11, *Financial Services-Insurance (Topic 944): Effective Date and Early Application*, issued in November 2020. Large calendar-year public companies that early adopt ASU 2018-12 are allowed to apply the guidance either as of January 1, 2020 or January 1, 2021 (and record transition adjustments as of January 1, 2020 or January 1, 2021, respectively) in the 2022 financial statements. Companies that do not early adopt ASU 2018-12 would apply the guidance as of January 1, 2021 (and record transition adjustments as of January 1, 2021) in the 2023 financial statements.

As previously discussed, the Company has elected to apply the fair value option for all of its insurance liabilities. As a result of this election, the Company's insurance liabilities are no longer within the scope of ASU 2018-12.

Segment and Product Overview

Our business is comprised of two major blocks of in-force policies, which we refer to as the “Retained Business” and the “Ceded Business”. The Retained Business consists of variable annuity products with guaranteed lifetime withdrawal benefit features as well as smaller blocks of variable annuity products with certain other living benefit and death benefit features. The Retained Business also includes variable universal life and fixed payout annuity products. The Retained Business is actively managed by FLIAC management and the Successor Company retains the full economic benefits and risks. The Retained Business consists of variable annuity contracts originated between 1993 – 2010. These products allow the holder to direct investments into certain separate account funds to receive tax deferred build-up within the contract. Most of the contracts have optional living benefit riders, commonly known as guaranteed minimum withdrawal benefits, which entitle the holder to elect to withdraw a guaranteed amount from the contract while alive, irrespective of the balance in their separate account. Almost all of the contracts also offer a guaranteed amount payable to a beneficiary upon the death of the holder, which is commonly known as a guaranteed minimum death benefit.

The Ceded Business represents certain business (primarily registered index linked-annuities and fixed annuities, which includes fixed indexed and fixed deferred annuities, and other variable annuities) where 100 percent of the assets and liabilities have been fully ceded to Prudential Insurance and Pruco Life under existing coinsurance and modified coinsurance agreements. The Ceded Business will continue to impact certain line items within the Company’s financial statements but will not have a material impact to stockholders’ equity or net income and will represent the economic impact of Prudential Insurance and Pruco Life. See also "Novation of Ceded Business" within the "Overview" section herein Item 2 for information regarding the impacts of the novation program on the Ceded Business.

Changes in Financial Position

As noted under Accounting Policies and Pronouncements, the Company's financial position subsequent to the acquisition is not comparable with that prior to April 1, 2022. As a result, the following discussion regarding changes in the financial position of the Successor Company will be based on changes subsequent to the acquisition-date balance sheet as of April 1, 2022. Also included below is discussion regarding the changes from December 31, 2021 to March 31, 2022 as previously disclosed in the Predecessor Company's first quarter of 2022 10-Q.

SUCCESSOR COMPANY

Retained Business

Assets decreased approximately \$6.0 billion from \$32.1 billion at April 1, 2022 to \$26.1 billion at September 30, 2022. The decrease was primarily driven by a \$5.8 billion decline in separate account assets due to market depreciation resulting mostly from unfavorable equity market performance.

Liabilities decreased approximately \$5.9 billion from \$30.3 billion at April 1, 2022 to \$24.4 billion at September 30, 2022. The decrease was primarily driven by a \$5.8 billion decline in separate account liabilities, corresponding to the decrease in separate account assets, as discussed above.

Equity was approximately \$1.8 billion at both April 1, 2022 and September 30, 2022, with a net loss of \$337 million offset by an increase in our own-credit risk (OCR) impact on the fair value of insurance liabilities, net of tax, of \$311 million reflected in accumulated other comprehensive income (loss).

Ceded Business

Assets decreased \$7.4 billion from \$13.2 billion at April 1, 2022 to \$5.8 billion at September 30, 2022. The decrease was primarily driven by a \$5.0 billion decline in total investments due primarily to the previously mentioned novations during the second and third quarters of 2022. Also contributing to the \$5.0 billion decline in total investments were losses in the derivatives portfolio, primarily related to equity options. The remainder of the decline in assets was driven primarily by a \$1.8 billion decrease in the deposit asset which moved commensurately with the novation-related decline in the associated insurance liabilities under its fixed indexed annuity reinsurance agreement with Pruco Life. Also contributing to the decline in the insurance liabilities under the reinsurance agreement with Pruco life was a decrease in equity markets.

Liabilities decreased \$7.4 billion from \$13.2 billion at April 1, 2022 to \$5.8 billion at September 30, 2022. The decrease was primarily driven by a \$7.0 billion decline in the fair value of insurance liabilities, which was primarily due to the previously mentioned novations during the second and third quarters of 2022.

There was no equity within our Ceded Business at both April 1, 2022 and September 30, 2022 as the assets are fully offset by the liabilities.

PREDECESSOR COMPANY

Total assets decreased \$4.2 billion from \$58.6 billion at December 31, 2021 to \$54.4 billion at March 31, 2022. Significant components were:

- \$2.8 billion decrease in Separate account assets primarily driven by unfavorable equity market performance and net outflows.

Total liabilities decreased \$3.8 billion from \$56.9 billion at December 31, 2021 to \$53.1 billion at March 31, 2022. Significant components were:

- \$0.7 billion decrease in Future policy benefits driven by a decrease in reserves related to our variable annuity living benefit guarantees due to widening non-performance risk ("NPR") spreads and rising interest rates.
- \$2.8 billion decrease in Separate account liabilities corresponding to the decrease in Separate account assets, as discussed above.

Total equity decreased \$0.4 billion from \$1.7 billion at December 31, 2021 to \$1.3 billion at March 31, 2022, primarily driven by \$0.4 billion of unrealized losses on investments driven by rising interest rates reflected in Accumulated other comprehensive income (loss) and a return of capital of \$0.3 billion, partially offset by net income of \$0.4 billion.

Results of Operations

As noted under Accounting Policies and Pronouncements, the Company's results of operations subsequent to the acquisition are not comparable with those prior to April 1, 2022. As a result, the following discussion regarding the results of operations of the Successor Company will not be compared to previous periods and will be based solely on activity for the periods subsequent to the acquisition. Also included below is discussion regarding the results of operations as previously disclosed in the Predecessor Company's first quarter of 2022 and third quarter of 2021 10-Q's.

SUCCESSOR COMPANY

LOSS FROM OPERATIONS BEFORE INCOME TAXES

Three Months Ended September 30, 2022

Retained Business

The loss from operations before income taxes of \$154 million was driven primarily by investment losses in the fixed maturity securities portfolio resulting from higher interest rates. Partially offsetting the investment losses were favorable changes in the fair value of insurance liabilities, excluding changes in OCR, driven primarily by higher interest rates. Also partially offsetting the drivers of the loss from operations before income taxes were policy charges and fee income and net investment income.

Ceded Business

There was no impact to the loss from operations before income tax as all revenues and expenses are ceded back to Prudential Insurance or Pruco Life.

Six Months Ended September 30, 2022

Retained Business

The loss from operations before income taxes of \$337 million was driven primarily by investment losses in the fixed maturity securities portfolio resulting from higher interest rates. Also contributing to the loss were changes in the fair value of insurance liabilities, excluding changes in OCR, driven primarily by a decline in equity markets, partially offset by higher interest rates. Further contributing to the loss were elevated general, administrative and other expenses driven by acquisition-related expenses that we expect to decline in future periods. Partially offsetting the drivers of the loss from operations before income taxes were policy charges and fee income and net investment income.

Ceded Business

There was no impact to the loss from operations before income tax as all revenues and expenses are ceded back to Prudential Insurance or Pruco Life.

REVENUES, BENEFITS, AND EXPENSES

Three Months Ended September 30, 2022

Retained Business

Revenues were \$(255) million for the three months ended September 30, 2022, driven primarily by investment losses in the fixed maturity securities portfolio resulting from higher interest rates, partially offset by policy charges and fee income and net investment income.

Benefits and expenses were \$(101) million for the three months ended September 30, 2022, driven primarily by favorable changes in the fair value of insurance liabilities, excluding changes in OCR, due to higher interest rates.

Ceded Business

There was no impact to the loss from operations before income taxes as all revenues and expenses are ceded back to Prudential Insurance or Pruco Life.

Six Months Ended September 30, 2022

Retained Business

Revenues were \$(173) million for the six months ended September 30, 2022, driven primarily by investment losses in the fixed maturity securities portfolio resulting from higher interest rates. Partially offsetting the impact of the investment losses were policy charges and fee income and net investment income.

Benefits and expenses were \$212 million for the six months ended September 30, 2022 and primarily driven by the increase in the fair value of insurance liabilities. Also contributing to benefits and expenses for the period were general, administrative and other expenses driven by acquisition-related expenses that we expect to decline in future periods.

Ceded Business

There was no impact to the loss from operations before income taxes as all revenues and expenses are ceded back to Prudential Insurance or Pruco Life.

PREDECESSOR COMPANY

LOSS FROM OPERATIONS BEFORE INCOME TAXES

Three Months Ended March 31, 2022

Income (loss) from operations before income taxes decreased \$2 billion from a gain of \$2.4 million for the three months ended March 31, 2021 to a gain of \$0.4 billion for the three months ended March 31, 2022, primarily driven by:

- Realized investment gains (losses), net decrease reflecting prior year's favorable impact related to the portions of our U.S. GAAP liability before NPR, that are excluded from our hedge targets driven by rising interest rates and favorable prior year equity market performance.

Three Months Ended September 30, 2021

Income (loss) from operations before income taxes increased \$3.8 billion from a loss of \$47.6 million for the three months ended September 30, 2020 to a gain of \$3.7 billion for the three months ended September 30, 2021, primarily driven by:

- Significant investment gains (losses), net reflecting a favorable impact related to the 2021 Variable Annuities Recapture and the portion of our U.S. GAAP liability before NPR, that are excluded from our hedge targets driven by rising interest rates. Also contributing is an unfavorable NPR adjustment.

Nine Months Ended September 30, 2021

Income (loss) from operations before income taxes increased \$9.7 billion from a loss of \$3.7 billion for the nine months ended September 30, 2020 to income of \$6.0 billion for the nine months ended September 30, 2021. Excluding the impact of our annual reviews and update of assumptions and other refinements, income (loss) from operations increased \$9.7 billion primarily driven by:

- Significant investment gains (losses), net reflecting a favorable impact related to the 2021 Variable Annuities Recapture and the portions of our U.S. GAAP liability before NPR, that are excluded from our hedge target driven by rising interest rates and favorable equity market performance. Also contributing is an unfavorable NPR adjustment.

The following table provides the net impact to the Unaudited Interim Statements of Operations for the Predecessor Company, which is primarily driven by the changes in the U.S. GAAP embedded derivative liability and hedge positions under the Asset Liability Management ("ALM") strategy, and the related amortization of DAC and other costs.

| | Predecessor Company | | |
|---|-----------------------------------|---------------------------------------|--------------------------------------|
| | Three Months Ended March 31 | Three Months Ended September 30 | Nine Months Ended September 30 |
| | 2022 | 2021 | |
| | (in millions) (1) | | |
| | | | |
| U.S. GAAP embedded derivative and hedging positions | | | |
| Change in value of U.S.GAAP liability, pre-NPR(2) | \$ 459 | \$ 47 | \$ 5,628 |
| Change in the NPR adjustment | 156 | (47) | (950) |
| Change in fair value of hedge assets, excluding capital hedges(3) | (392) | 63 | (3,049) |
| Change in fair value of capital hedges(4) | 39 | 37 | (766) |
| 2021 Variable Annuities Recapture Impact | — | 5,142 | 5,142 |
| Other | 218 | (203) | 903 |
| Realized investment gains (losses), net, and related adjustments | 480 | 5,039 | 6,908 |
| Market experience updates(5) | (57) | (14) | 147 |
| Charges related to realized investments gains (losses), net | (97) | 14 | (246) |
| Net impact from changes in the U.S. GAAP embedded derivative and hedge positions, after the impact of NPR, DAC and other costs(6) | \$ 326 | \$ 5,039 | \$ 6,809 |

(1) Positive amount represents income; negative amount represents a loss.

(2) Represents the change in the liability (excluding NPR) for our variable annuities which is measured utilizing a valuation methodology that is required under U.S. GAAP. This liability includes such items as risk margins which are required by U.S. GAAP but not included in our best estimate of the liability.

(3) Represents the changes in fair value of the derivatives utilized to hedge potential claims associated with our variable annuity living benefit guarantees.

(4) Represents the changes in fair value of equity derivatives of the capital hedge program intended to protect a portion of the overall capital position of our business against exposure to the equity markets.

(5) Represents the immediate impacts in current period results from changes in current market conditions on estimates of profitability.

(6) Excludes amounts from the changes in unrealized gains and losses from fixed income instruments recorded in OCI (versus net income) of \$(70) million for the three months ended March 31, 2022 and \$(45) million and \$1,673 million for the three and nine months ended September 30, 2021, respectively.

For the three months ended March 31, 2022, the gain of \$326 million was driven by a favorable impact related to the U.S. GAAP liability before NPR, net of change in fair value of hedge assets (excluding capital hedge) largely due to rising interest rates.

For the three months ended September 30, 2021, the gain of \$5,039 million was driven by the favorable impact related to the 2021 Variable Annuities Recapture. See Note 1 to the Unaudited Interim Financial Statements for further details.

For the nine months ended September 30, 2021, the gain of \$6,809 million was driven by the favorable impact related to the 2021 Variable Annuities Recapture and the portions of our U.S. GAAP liability before NPR, net of the change in fair value of hedge assets (excluding capital hedges) primarily driven by rising interest rates and favorable equity market performance. Also contributing is an unfavorable NPR adjustment.

REVENUES, BENEFITS, AND EXPENSES

Three Months Ended March 31, 2022

Revenues decreased \$2.4 billion from a gain of \$3.1 billion for the three months ended March 31, 2021 to a gain of \$0.7 billion for the three months ended March 31, 2022 primarily driven by:

- Realized investment gains (losses), net decrease reflecting prior year's favorable impact related to the portions of our U.S. GAAP liability before NPR, that are excluded from our hedge targets driven by rising interest rates and favorable prior year equity market performance.

Three Months Ended September 30, 2021

Revenues increased \$4.8 billion from a gain of \$0.5 billion for the three months ended September 30, 2020 to a gain of \$5.3 billion for the three months ended September 30, 2021 primarily driven by:

- Significant investment gains (losses), net reflecting a favorable impact related to the 2021 Variable Annuities Recapture and the portion of our U.S. GAAP liability before NPR, that are excluded from our hedge targets driven by rising interest rates. Also contributing is an unfavorable NPR adjustment.

Benefits and expenses increased \$0.9 billion from \$0.6 billion for the three months ended September 30, 2020 to \$1.5 billion for the three months ended September 30, 2021 primarily driven by:

- Higher Commission expense primarily driven by the unwinding of assumed deferred acquisition costs, partially offset by ceding allowance received as part of the 2021 Variable Annuities Recapture.

Nine Months Ended September 30, 2021

Revenues increased \$10.7 billion from a loss of \$2.1 billion for the nine months ended September 30, 2020 to a gain of \$8.6 billion for the nine months ended September 30, 2021. Excluding the impact of our annual reviews and update to our assumptions and other refinements, revenues increased \$10.8 billion primarily driven by:

- Significant Realized investment gains (losses), net reflecting a favorable impact related to the 2021 Variable Annuities Recapture and the portions of our U.S. GAAP liability before NPR, that are excluded from our hedge target driven by rising interest rates and favorable equity market performance. Also contributing is an unfavorable NPR adjustment.

Benefits and expenses increased \$1.0 billion from \$1.6 billion for the nine months ended September 30, 2020 to \$2.6 billion for the nine months ended September 30, 2021. Excluding the impact of our annual reviews and update to our assumptions and other refinements, benefits and expenses increased \$1.1 billion primarily driven by:

- Higher Commission expense primarily driven by the unwinding of assumed deferred acquisition costs, partially offset by ceding allowance received as part of the 2021 Variable Annuities Recapture.

Retained Business Strategies and Risk Management

We manage the Retained Business with a focus on long-term economics and a willingness to sustain short-term volatility in our earnings, while remaining compliant with our risk appetite framework. Our overall business strategy is to generate above-market risk adjusted returns by:

- Ensuring we have a strong statutory balance sheet following capital market stresses, including but not limited to, sharp reductions in equity prices and interest rates and increases in credit spreads,
- Leveraging our investment capabilities to deploy a portion of our asset portfolio into private fixed income securities with a sufficiently wide spread to comparable public securities,
- Investing in high-quality liquid public fixed income securities and preserving a cash balance sufficient to pay current claims and expenses, while maintaining collateral to satisfy margin requirements in connection with the derivative transactions forming our Asset Liability Matching (ALM) strategy, as described below.

The primary risk exposures of our Retained Business relate to actual deviations from, or changes to, the pricing assumptions developed at acquisition for these products, including capital markets assumptions such as equity market returns, interest rates and market volatility, along with actuarial assumptions such as contractholder mortality, the timing and amount of annuitization and withdrawals, and contract lapses. For these risk exposures, achievement of our expected returns is subject to the risk that actual experience will differ from the pricing assumptions developed at acquisition for these products. We have developed and implemented a risk management strategy to mitigate the potential adverse effects of fluctuations in capital markets, specifically equity markets and interest rates, primarily through a combination of i) Product Design Features and ii) our ALM strategy.

Product Design Features

A portion of the variable annuity contracts includes an asset transfer feature. This feature is implemented at the contract level, and transfers assets between certain variable investment sub-accounts selected by the annuity contractholder and, depending on the benefit feature, a fixed-rate account in the general account or a bond fund sub-account within the separate account. The objective of the asset transfer feature is to reduce our exposure to equity market risk and market volatility. The transfers are based on a static mathematical formula used with the particular benefit which considers a number of factors, including, but not limited to, the impact of investment performance on the contractholder's total account value. Other product design features we utilize include, among others, asset allocation restrictions, minimum issuance age requirements and certain limitations on the amount of contractholder purchase payments.

ALM Strategy

We employ an ALM strategy that utilizes a combination of both fixed income instruments and derivatives to meet expected claims associated with our variable annuity living and death benefit guarantees. The economic liability we manage with this ALM strategy consists of expected living and death benefit claims net of expected separate account fee revenue. For the portion of our ALM strategy executed with derivatives, we enter into a range of exchange-traded and over-the-counter ("OTC") equity, interest rate and credit derivatives, including, but not limited to: equity and treasury futures; total return, credit default and interest rate swaps; and options, including equity options, swaptions, and floors and caps. The intent of this strategy is to more efficiently manage the capital and liquidity associated with these products. We explicitly consider liquidity and risk-based capital as well as current market conditions in our asset/liability management strategies. Below is specific discussion on our ALM strategy regarding interest and equity risks:

Market Risk Related to Interest Rates

In order to mitigate the impact that an unfavorable interest rate environment has on our net interest margins, we employ strategic asset allocations and derivative strategies within a disciplined risk management framework. These strategies seek to target the interest rate sensitivity of the assets to a certain percentage of the estimated interest rate sensitivity of the product liabilities. Our asset/liability management program is holistic, in that it considers contributions from both our fixed income asset portfolio, as well as our interest rate derivatives, in offsetting the interest rate sensitivity of our liabilities.

We use duration and convexity analyses to measure price sensitivity to interest rate changes. Duration measures the relative sensitivity of the fair value of a financial instrument to changes in interest rates. Convexity measures the rate of change in duration with respect to changes in interest rates. We use asset/liability management and derivative strategies to manage our interest rate exposure by managing the relative sensitivity of asset and liability values to interest rate changes to within a certain prescribed tolerance range.

Market Risk Related to Equity Prices

We have exposure to equity risk primarily through the impact of changes in equities prices on the incidence and magnitude of future contractholder claims, as well as fee revenue. We manage this risk using equity-based derivatives. As with interest rate risk, we target the equity sensitivity of the assets (equity derivatives) to a certain percentage of the estimated equity market sensitivity of the economic liability. We manage the relative sensitivity of asset and liability values to equity price changes to within a certain prescribed tolerance range.

We manage equity risk against benchmarks in respective markets. We benchmark returns of equity holdings against a blend of market indices, mainly the S&P 500 and Russell 2000 for U.S. equities. We benchmark foreign equity returns against the MSCI EAFE, a market index of European, Australian and Far Eastern equities. We target price sensitivities that approximate those of the benchmark indices. For equity investments within the separate accounts, the investment risk is borne by the separate account contractholder rather than by the Company.

Income Taxes

For information regarding income taxes, see Note 8 to the Unaudited Interim Financial Statements.

Liquidity and Capital Resources

This section supplements and should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources” included in the Predecessor Company's Annual Report on Form 10-K for the year ended December 31, 2021.

Overview

Liquidity is a measure of a company’s ability to generate cash flows sufficient to meet the short-term and long-term cash requirements of the Company. Capital refers to the long-term financial resources available to support the operations of our business, fund business growth, and provide a cushion to withstand adverse circumstances. Our ability to generate and maintain sufficient liquidity and capital depends on the profitability of our business, general economic conditions, our ability to borrow and our access to capital markets.

Effective and prudent liquidity and capital management is a priority across the organization. Management monitors the liquidity of the Company on a daily basis and projects borrowing and capital needs over a multi-year time horizon. We use a Risk Appetite Framework ("RAF") to ensure that all risks taken by the Company aligns with our capacity and willingness to take those risks. The RAF provides a dynamic assessment of capital and liquidity stress impacts, including scenarios similar to, and more severe than, those occurring due to COVID-19, and is intended to ensure that sufficient resources are available to absorb those impacts. We believe that our capital and liquidity resources are sufficient to satisfy the capital and liquidity requirements of the Company.

Our businesses are subject to comprehensive regulation and supervision by domestic and international regulators. These regulations currently include requirements (many of which are the subject of ongoing rule-making) relating to capital, leverage, liquidity, stress-testing, overall risk management, credit exposure reporting and credit concentration. For information on these regulatory initiatives and their potential impact on us, see “Business - Regulation” and “Risk Factors” included in the Predecessor Company's Annual Report on Form 10-K for the year ended December 31, 2021.

Capital

We manage FLIAC to regulatory capital levels and utilize the risk-based capital (“RBC”) ratio as a primary measure of capital adequacy. RBC is calculated based on statutory financial statements and risk formulas consistent with the practices of the National Association of Insurance Commissioners (“NAIC”). RBC considers, among other things, risks related to the type and quality of the invested assets, insurance-related risks associated with an insurer’s products and liabilities, equity market and interest rate risks and general business risks. RBC determines the minimum amount of capital required of an insurer to support its operations and underwriting coverage. The ratio of a company’s Total Adjusted Capital (TAC) to RBC is the corresponding RBC ratio. RBC ratio calculations are intended to assist insurance regulators in measuring an insurer’s solvency and ability to pay future claims. The reporting of RBC measures is not intended for the purpose of ranking any insurance company or for use in connection with any marketing, advertising or promotional activities, but is available to the public. The Company’s capital levels substantially exceed the minimum level required by applicable insurance regulations. Our regulatory capital levels may be affected in the future by changes to the applicable regulations, proposals for which are currently under consideration by both domestic and international insurance regulators.

The regulatory capital level of the Company can be materially impacted by interest rate and equity market fluctuations, changes in the values of derivatives, the level of impairments recorded, and credit quality migration of the investment portfolio, among other items. In addition, the reinsurance of business or the recapture of business subject to reinsurance arrangements due to defaults by, or credit quality migration affecting, the reinsurers or for other reasons could negatively impact regulatory capital levels. The Company’s regulatory capital level is also affected by statutory accounting rules, which are subject to change by each applicable insurance regulator.

The Predecessor Company made distributions to its parent, PAI, for the periods indicated below. Following the previously discussed change in ownership, the Successor Company made no dividends to FGH during the six months ended September 30, 2022.

| | Return of Capital | Dividends |
|--------------------|-------------------|-----------|
| | (in millions) | |
| March 31, 2022 | \$ 306 | \$ — |
| September 30, 2021 | \$ 3,813 | \$ — |
| June 30, 2021 | \$ — | \$ 188 |
| March 31, 2021 | \$ — | \$ 192 |

Liquidity

Our liquidity is managed to ensure stable, reliable and cost-effective sources of cash flows to meet all of our obligations. Liquidity is provided by a variety of sources, as described more fully below, including portfolios of liquid assets. Our investment portfolios are integral to the overall liquidity of the Company. We use a projection process for cash flows from operations to ensure sufficient liquidity to meet projected cash outflows, including claims.

Liquidity is measured against internally-developed benchmarks that take into account the characteristics of both the asset portfolio and the liabilities that they support. We consider attributes of the various categories of liquid assets (for example, type of asset and credit quality) in calculating internal liquidity measures to evaluate our liquidity under various stress scenarios, including company-specific and market-wide events. We continue to believe that cash generated by ongoing operations and the liquidity profile of our assets provide sufficient liquidity under reasonably foreseeable stress scenarios.

The principal sources of the Company’s liquidity are premiums and certain annuity considerations, investment and fee income, investment maturities, sales of investments and internal borrowings. The principal uses of that liquidity include benefits, claims, and payments to policyholders and contractholders in connection with surrenders, withdrawals and net policy loan activity. Other uses of liquidity include commissions, general and administrative expenses, purchases of investments, the payment of dividends and returns of capital to the parent company, hedging and reinsurance activity and payments in connection with financing activities.

In managing liquidity, we consider the risk of policyholder and contractholder withdrawals of funds earlier than our assumptions when selecting assets to support these contractual obligations. We also consider the risk of future collateral requirements under stressed market conditions in respect of the derivatives we utilize.

Liquid Assets

Liquid assets include cash and cash equivalents, short-term investments, U.S. Treasury fixed maturities and fixed maturities that are not designated as held-to-maturity, and public equity securities. As of September 30, 2022 and December 31, 2021, the Company had liquid assets of \$7 billion and \$12 billion, respectively. The portion of liquid assets comprised of cash and cash equivalents and short-term investments was \$1.3 billion and \$2.9 billion as of September 30, 2022 and December 31, 2021, respectively.

Effective April 1, 2022 FLIAC entered into an intercompany liquidity agreement with FGH that allowed the Successor Company to borrow funds of up to \$50 million to meet its short-term liquidity and other capital needs. During the third quarter of 2022, the borrowing capacity of the agreement was increased to \$150 million. As of September 30, 2022, there were no borrowings under the agreement. In November 2022, FLIAC borrowed \$75 million of funds under the agreement and expects to repay the outstanding amount, plus interest, in full within one month of borrowing.

Liquidity Regarding Hedging Activities

The hedging portion of our risk management strategy for the Retained Business is being managed within the Company. We enter into a range of exchange-traded, cleared, and other OTC derivatives in order to hedge market sensitive exposures against changes in certain capital market risks. The portion of the risk management strategy comprising the hedging portion requires access to liquidity to meet the Company's payment obligations relating to these derivatives, such as payments for periodic settlements, purchases, maturities and terminations. These liquidity needs can vary materially due to, among other items, changes in interest rates, equity markets, mortality, and policyholder behavior.

The hedging portion of the risk management strategy may also result in derivative-related collateral postings to (when we are in a net pay position) or from (when we are in a net receive position) counterparties. The net collateral position depends on changes in interest rates and equity markets related to the amount of the exposures hedged. Depending on market conditions, the collateral posting requirements can result in material liquidity needs when we are in a net pay position.

Repurchase Agreements and Securities Lending

In the normal course of business, we may enter into repurchase agreements and securities lending agreements with unaffiliated financial institutions, which are typically large or highly rated, to earn spread income and facilitate trading activity. Under these agreements, the Company transfers securities to the counterparty and receives cash as collateral. The cash received is generally invested in short-term investments or fixed maturity securities.

For repurchase agreements, a liability representing the amount that the securities will be repurchased is recorded in "Other liabilities" in our consolidated statement of financial position. For securities lending agreements, a liability representing the return of cash collateral is recorded in "Other liabilities" in our consolidated statement of financial position. As of September 30, 2022, the liabilities associated with our outstanding repurchase and securities lending agreements were \$200 million and \$169 million, respectively.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk is defined as the risk of loss from changes in interest rates and equity prices resulting from asset/liability mismatches where the change in the value of our liabilities is not offset by the change in value of our assets. Following the acquisition of the Company from PAI on April 1, 2022, we have updated certain aspects of our hedging strategy that have resulted in changes to our economic exposure to market risk as previously described in Item 7A, “Quantitative and Qualitative Disclosures about Market Risk,” in the Predecessor Company’s Annual Report on Form 10-K, for the year ended December 31, 2021, filed with the Securities and Exchange Commission. See also Item 1A, “Risk Factors” included in the Annual Report on Form 10-K for the year ended December 31, 2021, for a discussion of how difficult conditions in the financial markets and the economy generally may materially adversely affect our business and results of our operations.

Market Risk Management

Management of market risk, which we consider to be a combination of both investment risk and market risk exposures, includes the identification and measurement of various forms of risk, the establishment of risk thresholds and the creation of processes intended to maintain risks within these thresholds while optimizing returns on the underlying assets or liabilities.

Our risk management process utilizes a variety of tools and techniques, including:

- Measurement of price sensitivity to market changes (e.g., interest rates, equity index prices, foreign exchange);
- Hedge Target definition;
- Asset/liability management, which includes our hedging programs; and
- Stress scenario testing related to our risk appetite framework

Measurement of Price Sensitivity to Market Changes

We measure the price sensitivity to market changes on a daily basis. Sensitivities of both assets and liabilities are gauged and these measurements form the basis for actions we take under our asset/liability and hedging programs. We measure both a target level of price sensitivity, as well as tolerance levels above and below the target, for each market change.

Hedge Target

The definition of the Hedge Target is critical for market risk management, as it specifies the measure of a liability and its attendant price sensitivities. We use a fair value-based measure of the liability as our hedge target. Consistent with our approach to risk manage the full economics of the business, we have established a hedge target that reflects the net present value of the full set of product cash flows. For most of the products in the business, this generally includes:

- Living benefit rider claims we expect to pay in the future;
- Living benefit rider fees we receive over time;
- M&E fees we receive on the base variable annuity contracts;
- Net revenue sharing income we contractually receive; and
- Certain product-related expenses.
- Guaranteed death benefits/fees

Asset/Liability Management

We manage assets to liability-based measures. For example, we identify target durations for assets based on Hedge Target characteristics and asset portfolios are managed to within ranges around them. This mitigates potential unanticipated economic losses from interest rate and equity price movements. We utilize a combination of fixed income securities and derivatives to implement asset/liability management.

To the extent that we identify a mismatch between asset and liability sensitivities, we enter into derivatives transactions to cover the difference. Derivatives are used to supplement risk mitigation provided by the fixed income securities portfolio. Our derivatives primarily include swaps, futures and options contracts that are exchange-traded or contracted in the OTC market.

Stress Scenario Testing Related to Our Risk Appetite Framework

We have established a risk appetite framework that limits the amount of market risks we can take after consideration of our asset/liability management initiatives. We run stress scenario tests periodically to assess the impact of extreme market movements on our balance sheet. This ensures that we have sufficient capital under stressed market conditions.

Market Risk Related to Interest Rates

We perform liability-driven investing and engage in careful asset/liability management. Asset/liability mismatches create the risk that changes in liability values will differ from the changes in the value of the related assets. Additionally, changes in interest rates may impact other items including, but not limited to, the following:

- Net investment spread between the amounts that we are required to pay and the rate of return we are able to earn on investments for certain products supported by general account investments;
- Asset-based fees earned on assets under management or contractholder account values;
- Estimated total gross profits;
- Net exposure to the guarantees provided under certain products; and
- Our capital levels.

In order to mitigate the impact that an unfavorable interest rate environment has on our net interest margins, we employ a proactive asset/liability management program, which includes strategic asset allocation and derivative strategies within a disciplined risk management framework. We seek to hedge the interest rate sensitivity of our liabilities with our fixed income assets and derivatives. Our asset/liability management program also helps manage duration gaps and other risks between assets and liabilities through the use of derivatives. We adjust this dynamic process as customer behavior changes and as changes in the market environment occur.

We use duration and convexity analyses to measure price sensitivity to interest rate changes. Duration measures the relative sensitivity of the fair value of a financial instrument to changes in interest rates. Convexity measures the rate of change in duration with respect to changes in interest rates. We use asset/liability management and derivative strategies to manage our interest rate exposure by matching the relative sensitivity of asset and liability values to interest rate changes, or controlling “duration mismatch” of assets and liability duration targets. In certain markets, capital market limitations that hinder our ability to acquire assets that approximate the duration of some of our liabilities are considered in setting duration targets. We consider risk-based capital as well as current market conditions in our asset/liability management strategies.

The Company also mitigates interest rate risk through a market value adjusted (“MVA”) provision on certain of the Company’s annuity products’ fixed investment options. This MVA provision limits interest rate risk by subjecting the contractholder to an MVA when funds are withdrawn or transferred to variable investment options before the end of the guarantee period. In the event of rising interest rates, which generally make the fixed maturity securities underlying the guarantee less valuable, the MVA could be negative. In the event of declining interest rates, which generally make the fixed maturity securities underlying the guarantee more valuable, the MVA could be positive. The resulting increase or decrease in the value of the fixed option, from the calculation of the MVA, is designed to offset the decrease or increase in the market value of the securities underlying the guarantee.

We assess the impact of interest rate movements on the value of our Retained Business financial assets, financial liabilities, and derivatives using hypothetical test scenarios that assume either upward or downward 100 basis point parallel shifts in the yield curve from prevailing interest rates. The following table sets forth the net estimated potential change in fair value on these financial instruments from hypothetical 100 basis point upward and downward parallel shift at September 30, 2022. While the test scenario is for illustrative purposes only and does not reflect our expectations regarding future interest rates or the performance of fixed income markets, it is a near-term, reasonably possible hypothetical change that illustrates the potential impact of such events. These test scenarios do not measure the changes in value that could result from non-parallel shifts in the yield curve, which we would expect to produce different changes in discount rates for different maturities. As a result, the actual change in fair value from a 100 basis point change in interest rates could be different from that indicated by these calculations. The estimated changes in fair values do not include separate account assets.

| | | September 30, 2022 | | | |
|--|----------|-----------------------------------|------------------|------------------|--|
| | | Hypothetical Change in Fair Value | | | |
| | Notional | Fair Value | 100 bps Decrease | 100 bps Increase | |
| (in millions) | | | | | |
| Assets | | | | | |
| Fixed maturity securities | | \$ 3,903 | \$ 410 | \$ (370) | |
| | | | | | |
| Liabilities | | | | | |
| Interest rate swaps | \$ 9,761 | \$ 334 | \$ 441 | \$ (402) | |
| Non-OCR fair value of variable annuity liabilities | | 1,630 | (1,095) | 919 | |
| | | | \$ (654) | \$ 517 | |
| Net change | | | \$ (244) | \$ 147 | |

Market Risk Related to Equity Prices

We have exposure to equity risk primarily through asset/liability mismatches, including our equity-based derivatives, and variable annuity contracts. We manage equity risk against benchmarks in respective markets. We benchmark our return on equity holdings against a blend of market indices, mainly the S&P 500 and Russell 2000 for U.S. equities. We benchmark foreign equities against the MSCI EAFE, a market index of European, Australian and Far Eastern equities. We target price sensitivities that approximate those of the benchmark indices. For equity investments within the separate accounts, the investment risk is borne by the separate account contractholder rather than by the Company.

We estimate our equity risk from a hypothetical 10% decline in equity benchmark levels. The following table sets forth the net estimated potential loss in fair value from such a decline in certain of our Retained Business financial assets, financial liabilities, and derivatives as of September 30, 2022. For comparison, we have also shown the impact of a 10 percent increase in equity prices in those same financial assets, financial liabilities and derivatives. While these scenarios are for illustrative purposes only and do not reflect our expectations regarding future performance of equity markets or of our equity portfolio, they do represent near-term, reasonably possible hypothetical changes that illustrate the potential impact of such events. In addition, these scenarios do not reflect the impact of basis risk, such as potential differences in the performance of the investment funds underlying the variable annuity products relative to the market indices we use as a basis for developing our hedging strategy. The impact of basis risk could result in larger differences between the change in fair value of the equity-based derivatives and the liability in comparison to these scenarios. In calculating these amounts, we exclude separate account equity securities.

| | | September 30, 2022 | | | |
|--|----------|-----------------------------------|---------------------|---------------------|--|
| | | Hypothetical Change in Fair Value | | | |
| | Notional | Fair Value | 10 percent decrease | 10 percent increase | |
| (in millions) | | | | | |
| Assets | | | | | |
| Equity futures | \$ 1,728 | \$ 180 | \$ 173 | \$ (173) | |
| Total return swaps | — | 94 | 93 | (93) | |
| Equity options | 3,686 | 232 | 132 | (98) | |
| | | \$ 506 | \$ 398 | \$ (364) | |
| Liabilities | | | | | |
| Non-OCR fair value of variable annuity liabilities | | \$ 1,630 | \$ (404) | \$ 374 | |
| | | | | | |
| Net change | | \$ | (6) | 10 | |

Item 4. Controls and Procedures

In order to provide reasonable assurance that the information we must disclose in our filings with the SEC is recorded, processed, summarized and reported on a timely basis, the Company's management, including our Chief Executive Officer and Chief Financial Officer, has reviewed and evaluated the effectiveness of our disclosure controls and procedures, as defined in Securities Exchange Act of 1934, as amended ("Exchange Act") Rule 15d-15(e), as of September 30, 2022. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2022 our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

During the quarter ended September 30, 2022, management has advanced efforts to integrate FLIAC into FGH's internal controls over financial reporting. As part of these integration efforts, management has evaluated and implemented changes to business processes and controls, including controls over financial data received from significant service providers. Other than these integration efforts, there were no other changes in our internal control over financial reporting during the quarter ended September 30, 2022 which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our principal executive officer and principal financial officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

See Note 10 to the Unaudited Interim Financial Statements under “Litigation and Regulatory Matters” for a description of certain pending litigation and regulatory matters affecting us, and certain risks to our business presented by such matters, which is incorporated herein by reference.

Item 1A. Risk Factors

You should carefully consider the risks described under “Risk Factors” in the Predecessor Company's Annual Report on Form 10-K for the year ended December 31, 2021. These risks could materially affect our business, results of operations or financial condition, or cause our actual results to differ materially from those expected or those expressed in any forward-looking statements made by, or on behalf of, the Company. These risks are not exclusive, and additional risks to which we are subject include, but are not limited to, the factors mentioned under “Forward-Looking Statements” and the risks of our businesses described elsewhere in this Quarterly Report on Form 10-Q.

Item 6. Exhibits

EXHIBIT INDEX

[31.1 Section 302 Certification of the Chief Executive Officer](#)

[31.2 Section 302 Certification of the Chief Financial Officer](#)

[32.1 Section 906 Certification of the Chief Executive Officer](#)

[32.2 Section 906 Certification of the Chief Financial Officer](#)

101.INS - XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

101.SCH - XBRL Taxonomy Extension Schema Document.

101.CAL - XBRL Taxonomy Extension Calculation Linkbase Document

101.LAB - XBRL Taxonomy Extension Label Linkbase Document

101.PRE - XBRL Taxonomy Extension Presentation Linkbase Document

101.DEF - XBRL Taxonomy Extension Definition Linkbase Document

104.Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

SIGNATURES

Pursuant to the requirements 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.

FORTITUDE LIFE INSURANCE & ANNUITY COMPANY

By: /s/ Kai Talarek

Name Kai Talarek
Senior Vice President and Chief Financial Officer
(Authorized Signatory and Principal Financial Officer)

Date: November 10, 2022