

**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, 2023

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)

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

Title of Each Class

Not Applicable

Trading Symbol(s)

Not Applicable

Name of Each Exchange on Which Registered

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 9, 2023, 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.

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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 uncertain and evolving economic environment 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 priced 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, (e) privacy and cybersecurity regulation or (f) climate risk and environmental, social, and governance (ESG) 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 recent 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, 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	
	September 30, 2023	December 31, 2022
ASSETS		
Fixed maturity securities, at fair value	\$ 4,839	\$ 5,024
Equity securities, at fair value (cost - September 30, 2023 - \$0; December 31, 2022 - \$201)	—	175
Mortgage and other loans, at fair value	422	196
Short-term investments	30	42
Other invested assets (includes \$599 and \$430 of assets measured at fair value at September 30, 2023 and December 31, 2022, respectively)	617	450
Total investments	5,908	5,887
Cash and cash equivalents	592	872
Accrued investment income	57	52
Reinsurance recoverables, at fair value	179	235
Net modified coinsurance receivable, at fair value	—	18
Deposit asset, at fair value	430	607
Goodwill	—	93
Income tax	86	50
Other assets (Receivables from parent and affiliates: September 30, 2023 - \$0; December 31, 2022 - \$40)	106	127
Separate account assets, at fair value	22,557	23,601
TOTAL ASSETS	\$ 29,915	\$ 31,542
LIABILITIES AND EQUITY		
LIABILITIES		
Insurance liabilities, at fair value	\$ 4,574	\$ 5,546
Net modified coinsurance payable, at fair value	68	—
Cash collateral for repurchase agreements and securities lending transactions	1,009	417
Other liabilities (Payables to parent and affiliates: September 30, 2023 - \$0; December 31, 2022 - \$3)	331	391
Separate account liabilities, at fair value	22,557	23,601
Total liabilities	28,539	29,955
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 9)		
EQUITY		
Common stock, \$100 par value; 25,000 shares authorized, issued and outstanding	3	3
Additional paid-in capital	1,714	1,759
Retained deficit	(343)	(286)
Accumulated other comprehensive income	2	111
Total equity	1,376	1,587
TOTAL LIABILITIES AND EQUITY	\$ 29,915	\$ 31,542

See Notes to Unaudited Interim Consolidated Financial Statements

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

	Successor Company				Predecessor Company
	September 30				March 31
	Three Months Ended		Nine Months Ended	Six Months Ended	Three Months Ended
	2023	2022	2023	2022	2022
REVENUES					
Premiums	\$ 8	\$ 8	\$ 22	\$ 11	\$ 8
Policy charges and fee income	113	131	345	261	97
Net investment income	73	92	227	189	99
Asset management and service fees	23	26	68	48	20
Other income (loss)	1	(16)	5	(15)	(19)
Investment gains (losses), net	(482)	(455)	(604)	(1,753)	481
TOTAL REVENUES	(264)	(214)	63	(1,259)	686
BENEFITS AND EXPENSES					
Policyholder benefits and changes in fair value of insurance liabilities	(177)	(104)	(92)	(974)	—
Policyholder benefits	—	—	—	—	26
Interest credited to policyholders account balances	—	—	—	—	85
Amortization of deferred policy acquisition costs	—	—	—	—	104
Commission expense	22	27	68	45	35
Goodwill impairment	93	—	93	—	—
General, administrative and other expenses	21	17	55	55	3
TOTAL BENEFITS AND EXPENSES	(41)	(60)	124	(874)	253
INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAXES					
	(223)	(154)	(61)	(385)	433
Income tax expense (benefit)	(29)	3	(4)	(48)	77
NET INCOME (LOSS)	\$ (194)	\$ (157)	\$ (57)	\$ (337)	\$ 356
Other comprehensive income (loss), before tax:					
Changes in own-credit risk related to insurance liabilities	(45)	149	(138)	394	—
Net unrealized investment losses	—	—	—	—	(561)
Total	(45)	149	(138)	394	(561)
Less: Income tax expense (benefit) related to other comprehensive income (loss)	(9)	32	(29)	83	(118)
Other comprehensive income (loss), net of taxes	(36)	117	(109)	311	(443)
COMPREHENSIVE LOSS	\$ (230)	\$ (40)	\$ (166)	\$ (26)	\$ (87)

See Notes to Unaudited Interim Consolidated Financial Statements

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

	Successor Company				
	Common Stock	Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive Income	Total Equity
Balance, December 31, 2022	\$ 3	\$ 1,759	\$ (286)	\$ 111	\$ 1,587
Distribution to parent	—	(45)	—	—	(45)
Comprehensive income:					
Net income	—	—	7	—	7
Other comprehensive income, net of tax	—	—	—	17	17
Total comprehensive income					24
Balance, March 31, 2023	\$ 3	\$ 1,714	\$ (279)	\$ 128	\$ 1,566
Comprehensive income (loss):					
Net income	—	—	130	—	130
Other comprehensive loss, net of tax	—	—	—	(90)	(90)
Total comprehensive income					40
Balance, June 30, 2023	\$ 3	\$ 1,714	\$ (149)	\$ 38	\$ 1,606
Comprehensive loss:					
Net loss	—	—	(194)	—	(194)
Other comprehensive loss, net of tax	—	—	—	(36)	(36)
Total comprehensive loss					(230)
Balance, September 30, 2023	<u>\$ 3</u>	<u>\$ 1,714</u>	<u>\$ (343)</u>	<u>\$ 2</u>	<u>\$ 1,376</u>

	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, December 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, March 31, 2022 (Predecessor Company)	<u>\$ 3</u>	<u>\$ 286</u>	<u>\$ 1,273</u>	<u>\$ (273)</u>	<u>\$ 1,289</u>
Balance, April 1, 2022 (Successor Company)	\$ 3	\$ 1,759	\$ —	\$ —	\$ 1,762
Comprehensive income (loss):					
Net loss	—	—	(180)	—	(180)
Other comprehensive income, net of tax	—	—	—	194	194
Total comprehensive income					14
Balance, June 30, 2022 (Successor Company)	\$ 3	\$ 1,759	\$ (180)	\$ 194	\$ 1,776
Comprehensive income (loss):					
Net loss	—	—	(157)	—	(157)
Other comprehensive income, net of tax	—	—	—	117	117
Total comprehensive loss					(40)
Balance, September 30, 2022 (Successor Company)	<u>\$ 3</u>	<u>\$ 1,759</u>	<u>\$ (337)</u>	<u>\$ 311</u>	<u>\$ 1,736</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
	Nine Months Ended September 30	Six Months Ended September 30	Three Months Ended March 31
	2023	2022	2022
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ (57)	\$ (337)	\$ 356
Adjustments to reconcile net income (loss) to net cash from (used in) operating activities:			
Investment (gains) losses, net	604	1,753	(481)
Goodwill impairment	93	—	—
Interest credited to policyholder account balances	—	—	85
Other, net	(24)	(10)	2
Change in:			
Insurance liabilities, at fair value	(957)	(6,888)	—
Deposit asset, at fair value	177	1,748	—
Net modified coinsurance receivable/payable, at fair value	577	4,114	—
Future policy benefits	—	—	60
Accrued investment income	(9)	(20)	1
Deferred policy acquisition costs	—	—	104
Income taxes	(7)	262	142
Reinsurance recoverables, net	56	19	(39)
Derivatives, net	(526)	(37)	(1,079)
Other, net	(6)	(14)	(40)
Cash flows from (used in) operating activities	(79)	590	(889)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from the sale/maturity/prepayment of:			
Fixed maturity securities, at fair value	281	3,048	—
Fixed maturity securities, available-for-sale	—	—	422
Equity securities	—	—	95
Secured receivable	—	60	—
Mortgage and other loans	60	—	39
Other invested assets	39	5	1
Short-term investments	78	289	795
Payments for the purchase/origination of:			
Fixed maturity securities, at fair value	(630)	(4,134)	—
Fixed maturity securities, available-for-sale	—	—	(751)
Equity securities	—	(10)	—
Secured receivable	—	(7)	—
Mortgage and other loans	(332)	—	(13)
Other invested assets	(25)	(131)	—
Short-term investments	(81)	(23)	(94)
Derivatives, net	—	—	3
Other, net	4	(41)	—
Cash flows from (used in) investing activities	(606)	(944)	497
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net policyholder's account deposits (withdrawals)	(151)	(109)	62
Cash collateral for loaned securities	(106)	(36)	205
Drafts outstanding	(2)	(3)	(7)
Repurchase agreements	709	200	—
Distribution to parent	(45)	—	(306)
Cash flows from (used in) financing activities	405	52	(46)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(280)	(302)	(438)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	872	1,578	2,016
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 592	\$ 1,276	1,578

- During the nine months ended September 30, 2023 and 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 that resulted in non-cash transactions of \$491 million and \$4,116 million, respectively, of investments with a corresponding offset of \$491 million and \$4,116 million, respectively, to the modified coinsurance payable.
- There were no significant non-cash transactions for the the three months ended March 31,2022.

See Notes to Unaudited Interim Consolidated Financial Statements

Fortitude Life Insurance & Annuity Company

Notes to Unaudited Interim Consolidated Financial Statements

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 1 in the Company's Annual Report on Form 10-K for the year ended December 31, 2022 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 Successor Company and a variable interest entity (“VIE”) that meets the requirements for consolidation. All intercompany transactions have been eliminated in consolidation. The financial statements of the Predecessor Company were not consolidated as it was a single entity prior to acquisition.

Following the acquisition of FLIAC, purchase accounting was applied to FGH's financial statements and we 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 Notes 1 and 2 in the Company's Annual Report on Form 10-K for the year ended December 31, 2022 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 Company's Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

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.

Fair Value of Insurance Liabilities - Actuarial Assumption Update

During the third quarter of 2023, the Company completed its annual review of actuarial assumptions related to its fair value of insurance liabilities. Based on that review, the Company updated certain assumptions associated with its variable annuity contracts with guaranteed benefits, which resulted in an increase in its fair value of insurance liabilities of \$116 million. The increase was driven by updates to our assumptions regarding policyholder behavior, primarily to reflect lower observed surrender rates. The impact of the assumption update was included within “Policyholder benefits and changes in fair value of insurance liabilities” on the Consolidated Statement of Operations.

The assumptions used in establishing our insurance liabilities are generally based on the Company's experience, industry experience, market observable data, and/or other factors, as applicable. The Company evaluates its actuarial assumptions at least annually and updates them as appropriate, unless a material change that the Company feels is indicative of a long-term trend is observed in an interim period. Generally, the Company does not expect trends to change significantly in the short-term

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements

and, to the extent these trends may change, the Company expects such changes to be gradual over the long-term. See Note 7 in the Company's Annual Report on Form 10-K for the year ended December 31, 2022 for further discussion regarding significant assumptions related to our fair value of insurance liabilities.

Goodwill Impairment

As a result of our actuarial assumption update, the Company identified a triggering event in the third quarter of 2023 regarding its goodwill impairment analysis for the Retained Business. Following a qualitative analysis that indicated the fair value of the reporting unit may be lower than its carrying value, the Company performed a quantitative analysis that involved both discounted cash flow techniques and market price comparisons to establish fair values on its underlying assets and liabilities. After performing this quantitative analysis, the Company determined that the goodwill was fully impaired, and accordingly, recorded a non-cash goodwill impairment of \$93 million through the Consolidated Statement of Operations. Following this impairment, there was no remaining goodwill as of September 30, 2023.

The goodwill impairment was primarily driven by unfavorable actuarial assumption updates, as compared to its initial projections, related to the determination of the fair value of its insurance liabilities, and lower overall projected future earnings as a result of capital market volatility.

Novation of Ceded Business

In 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 total equity or net income but has resulted in the reduction of certain activity/balances associated with these policies. During the three and nine months ended September 30, 2023, approximately \$172 million and \$635 million, respectively, of account value which generally approximates fair values of insurance liabilities, was transferred out of the Company as a result of the novation program. As of September 30, 2023, approximately 72 percent of account value in the Ceded Business has been novated since the acquisition of the Company on April 1, 2022.

Reclassifications

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

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS

Accounting Policy Election

Fair Value Option

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. See Note 6 herein and Notes 2 and 6 in the Company's Annual Report on Form 10-K for the year ended December 31, 2022 for further information.

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.

Effective ASUs - 2023

ASU 2018-12, Financial Services - Insurance (Topic 944): *Targeted Improvements to the Accounting for Long-Duration Contracts*, was issued by the FASB. This update became effective January 1, 2023 but is not applicable due to our election to adopt the fair value option on all of our insurance liabilities, which includes our separate account liabilities.

ASU 2022-02, Financial Instruments - Credit Losses (Topic 326): *Troubled Debt Restructurings and Vintage Disclosures*, was issued by the FASB. This update became effective January 1, 2023 but is not applicable due to our election to adopt the fair value option on financial instruments that are within the scope of this update.

3. SEGMENT INFORMATION

FLIAC has 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. At September 30, 2023 and December 31, 2022, we had a modified coinsurance payable of \$1,493 million and \$1,745 million, respectively, equal to the assets held in the Ceded Business, and are included in the net modified coinsurance receivable/payable. Information prior to acquisition has not been revised for the segment presentation and is not comparable following the election of push-down accounting as of April 1, 2022.

During the third quarter of 2023, the Company determined that the goodwill associated with its Retained Business was fully impaired. Accordingly, the Company recorded a non-cash goodwill impairment of \$93 million through the Consolidated Statement of Operations. Following this impairment, there was no remaining goodwill as of September 30, 2023. See Note 1 contained herein for further information.

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements

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

	September 30, 2023		
	Retained Business	Ceded Business	Total
	(in millions)		
ASSETS			
Total investments	\$ 4,674	\$ 1,234	\$ 5,908
Cash and cash equivalents	335	257	592
Accrued investment income	50	7	57
Reinsurance recoverables	—	179	179
Deposit asset	—	430	430
Income tax	86	—	86
Other assets	93	13	106
Separate account assets	20,600	1,957	22,557
TOTAL ASSETS	\$ 25,838	\$ 4,077	\$ 29,915
LIABILITIES AND EQUITY			
LIABILITIES			
Insurance liabilities	\$ 2,542	\$ 2,032	\$ 4,574
Net modified coinsurance payable	—	68	68
Cash collateral for repurchase agreements and securities lending transactions	1,009	—	1,009
Other liabilities	311	20	331
Separate account liabilities	20,600	1,957	22,557
TOTAL LIABILITIES	24,462	4,077	28,539
EQUITY	1,376	—	1,376
TOTAL LIABILITIES AND EQUITY	\$ 25,838	\$ 4,077	\$ 29,915

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements

	December 31, 2022		
	Retained Business	Ceded Business	Total
	(in millions)		
ASSETS			
Total investments	\$ 4,257	\$ 1,630	\$ 5,887
Cash and cash equivalents	433	439	872
Accrued investment income	41	11	52
Reinsurance recoverables	—	235	235
Net modified coinsurance receivable	—	18	18
Deposit asset	—	607	607
Goodwill	93	—	93
Income tax	50	—	50
Other assets	113	14	127
Separate account assets	21,558	2,043	23,601
TOTAL ASSETS	\$ 26,545	\$ 4,997	\$ 31,542
LIABILITIES AND EQUITY			
LIABILITIES			
Insurance liabilities	\$ 2,941	\$ 2,605	\$ 5,546
Cash collateral for repurchase agreements and securities lending transactions	311	106	417
Other liabilities	148	243	391
Separate account liabilities	21,558	2,043	23,601
TOTAL LIABILITIES	24,958	4,997	29,955
EQUITY			
	1,587	—	1,587
TOTAL LIABILITIES AND EQUITY	\$ 26,545	\$ 4,997	\$ 31,542

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements

The following is comprehensive income by segment:

	Three Months Ended September 30, 2023		
	Retained Business	Ceded Business	Total
	(in millions)		
REVENUES			
Premiums	\$ 8	\$ —	\$ 8
Policy charges and fee income	113	—	113
Net investment income	56	17	73
Asset management and service fees	23	—	23
Other income	1	—	1
Investment losses, net	(433)	(49)	(482)
TOTAL REVENUES	(232)	(32)	(264)
BENEFITS AND EXPENSES			
Policyholder benefits and changes in fair value of insurance liabilities	(145)	(32)	(177)
Commission expense	22	—	22
Goodwill impairment	93	—	93
General, administrative and other expenses	21	—	21
TOTAL BENEFITS AND EXPENSES	(9)	(32)	(41)
LOSS FROM OPERATIONS BEFORE INCOME TAXES	(223)	—	(223)
Income tax benefit	(29)	—	(29)
NET LOSS	\$ (194)	\$ —	\$ (194)
Other comprehensive loss, before tax:			
Changes in own-credit risk related to insurance liabilities	(45)	—	(45)
Less: Income tax benefit	(9)	—	(9)
Other comprehensive loss, net of taxes	(36)	—	(36)
COMPREHENSIVE LOSS	\$ (230)	\$ —	\$ (230)

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements

	Nine Months Ended September 30, 2023		
	Retained Business	Ceded Business	Total
	(in millions)		
REVENUES			
Premiums	\$ 22	\$ —	\$ 22
Policy charges and fee income	345	—	345
Net investment income	170	57	227
Asset management and service fees	68	—	68
Other income	4	1	5
Investment gains (losses), net	(806)	202	(604)
TOTAL REVENUES	(197)	260	63
BENEFITS AND EXPENSES			
Policyholder benefits and changes in fair value of insurance liabilities	(352)	260	(92)
Commission expense	68	—	68
Goodwill impairment	93	—	93
General, administrative and other expenses	55	—	55
TOTAL BENEFITS AND EXPENSES	(136)	260	124
LOSS FROM OPERATIONS BEFORE INCOME TAXES	(61)	—	(61)
Income tax benefit	(4)	—	(4)
NET LOSS	\$ (57)	\$ —	\$ (57)
Other comprehensive loss, before tax:			
Changes in own-credit risk related to insurance liabilities	(138)	—	(138)
Less: Income tax benefit	(29)	—	(29)
Other comprehensive loss, net of taxes	(109)	—	(109)
COMPREHENSIVE LOSS	\$ (166)	\$ —	\$ (166)

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements

	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	\$ (157)	\$ —	\$ (157)
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	\$ (40)	\$ —	\$ (40)

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements

	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)

4. INVESTMENTS

We have elected to apply the fair value option for FLIAC's entire portfolio of fixed maturity and equity securities and mortgage and other 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, net" in the consolidated statement of income rather than in "Accumulated other comprehensive income" ("AOCI") as a component of equity in the consolidated statements 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 and mortgage and other loans. 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 at the end of this note under "Predecessor Company".

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements

SUCCESSOR COMPANY

Other Invested Assets

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

	September 30, 2023			December 31, 2022		
	Retained Business	Ceded Business	Total	Retained Business	Ceded Business	Total
	(in millions)					
LPs/LLCs:						
Equity method:						
Private equity	\$ —	\$ 4	\$ 4	\$ —	\$ 4	\$ 4
Real estate-related	—	5	5	—	5	5
Subtotal equity method	—	9	9	—	9	9
Fair value:						
Private equity	346	—	346	344	1	345
Total LPs/LLCs	346	9	355	344	10	354
Derivative instruments	180	71	251	85	—	85
Policy loans	11	—	11	11	—	11
Total other invested assets	\$ 537	\$ 80	\$ 617	\$ 440	\$ 10	\$ 450

Accrued Investment Income

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

	September 30, 2023			December 31, 2022		
	Retained Business	Ceded Business	Total	Retained Business	Ceded Business	Total
	(in millions)					
Fixed maturity securities	\$ 42	\$ 6	\$ 48	\$ 37	\$ 10	\$ 47
Mortgage and other loans	3	—	3	1	—	1
Short-term investments and cash equivalents	5	1	6	3	1	4
Total accrued investment income	\$ 50	\$ 7	\$ 57	\$ 41	\$ 11	\$ 52

As of September 30, 2023, the aggregate fair value of mortgage and other loans that were 90 days or more past due and in non-accrual status was \$2 million. The aggregate unpaid principal balance for these loans approximated fair value as of September 30, 2023. As of December 31, 2022, there were no mortgage and other loans that were 90 days or more past due or in non-accrual status.

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements

Net Investment Income

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

	Three Months Ended September 30, 2023			Nine Months Ended September 30, 2023		
	Retained Business	Ceded Business	Total	Retained Business	Ceded Business	Total
	(in millions)					
Fixed maturities securities	\$ 58	\$ 13	\$ 71	\$ 156	\$ 40	\$ 196
Equity securities	—	—	—	—	2	2
Mortgage and other loans	6	—	6	14	—	14
Other invested assets	14	1	15	33	2	35
Short-term investments and cash equivalents	1	4	5	6	16	22
Gross investment income	79	18	97	209	60	269
Less: investment expenses	(23)	(1)	(24)	(39)	(3)	(42)
Net investment income	\$ 56	\$ 17	\$ 73	\$ 170	\$ 57	\$ 227

	Three Months Ended September 30, 2022			Six Months Ended September 30, 2022		
	Retained Business	Ceded Business	Total	Retained Business	Ceded Business	Total
	(in millions)					
Fixed maturities securities	\$ 42	\$ 34	\$ 76	\$ 78	\$ 78	\$ 156
Equity securities	—	1	1	—	2	2
Secured receivable	—	7	7	—	18	18
Other invested assets	9	1	10	9	5	14
Short-term investments and cash equivalents	—	3	3	—	5	5
Gross investment income	51	46	97	87	108	195
Less: investment expenses	(4)	(1)	(5)	(5)	(1)	(6)
Net investment income	\$ 47	\$ 45	\$ 92	\$ 82	\$ 107	\$ 189

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

Investment Gains (Losses), Net

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

	Three Months Ended September 30, 2023								
	Retained Business			Ceded Business			Total Business		
	Unrealized	Realized	Total	Unrealized	Realized	Total	Unrealized	Realized	Total
	(in millions)								
Fixed maturity securities	\$ (252)	\$ (4)	\$ (256)	\$ (6)	\$ (14)	\$ (20)	\$ (258)	\$ (18)	\$ (276)
Derivatives	—	(177)	(177)	—	(29)	(29)	—	(206)	(206)
Total	\$ (252)	\$ (181)	\$ (433)	\$ (6)	\$ (43)	\$ (49)	\$ (258)	\$ (224)	\$ (482)

	Nine Months Ended September 30, 2023								
	Retained Business			Ceded Business			Total Business		
	Unrealized	Realized	Total	Unrealized	Realized	Total	Unrealized	Realized	Total
	(in millions)								
Fixed maturity securities	\$ (158)	\$ (32)	\$ (190)	\$ 3	\$ (21)	\$ (18)	\$ (155)	\$ (53)	\$ (208)
Equity securities	—	—	—	5	—	5	5	—	5
Derivatives	—	(616)	(616)	—	215	215	—	(401)	(401)
Total	\$ (158)	\$ (648)	\$ (806)	\$ 8	\$ 194	\$ 202	\$ (150)	\$ (454)	\$ (604)

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements

Three Months Ended September 30, 2022

	Retained Business			Ceded Business			Total Business		
	Unrealized	Realized	Total	Unrealized	Realized	Total	Unrealized	Realized	Total
	(in millions)								
Fixed maturity securities	\$ (312)	\$ (26)	\$ (338)	\$ 40	\$ (160)	\$ (120)	\$ (272)	\$ (186)	\$ (458)
Secured receivable	—	—	—	—	(8)	(8)	—	(8)	(8)
Equity securities	—	—	—	(13)	—	(13)	(13)	—	(13)
Derivatives	—	(125)	(125)	—	149	149	—	24	24
Total	\$ (312)	\$ (151)	\$ (463)	\$ 27	\$ (19)	\$ 8	\$ (285)	\$ (170)	\$ (455)

Six Months Ended September 30, 2022

	Retained Business			Ceded Business			Total Business		
	Unrealized	Realized	Total	Unrealized	Realized	Total	Unrealized	Realized	Total
	(in millions)								
Fixed maturity securities	\$ (607)	\$ (97)	\$ (704)	\$ 100	\$ (498)	\$ (398)	\$ (507)	\$ (595)	\$ (1,102)
Secured receivable	—	—	—	—	(59)	(59)	—	(59)	(59)
Equity securities	—	—	—	(32)	—	(32)	(32)	—	(32)
Derivatives	—	133	133	—	(693)	(693)	—	(560)	(560)
Total	\$ (607)	\$ 36	\$ (571)	\$ 68	\$ (1,250)	\$ (1,182)	\$ (539)	\$ (1,214)	\$ (1,753)

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, by type, the securities that we have agreed to repurchase, all of which are contained in the Retained Business. The below amounts represent the cash received under the outstanding repurchase agreements.

	September 30, 2023				December 31, 2022			
	Remaining Contractual Maturities of the Agreements							
	Up to 30 days	30-90 days	1-5 Years	Total	Up to 30 days	30-90 days	Total	
	(in millions)							
U.S. corporate public securities	\$ 101	\$ 414	\$ 494	\$ 1,009	\$ 111	\$ 200	\$ 311	

The market value of the securities posted as collateral under the repurchase agreements was \$1,015 million and \$326 million as of September 30, 2023 and December 31, 2022, respectively.

The following table sets forth the remaining contractual maturities of the Successor Company's securities lending transactions by the security type that was loaned, all of which are contained in the Ceded Business. The amounts below represent the cash collateral received for the loaned securities.

	September 30, 2023				December 31, 2022			
	Remaining Contractual Maturities of the Agreements							
	Overnight & Continuous	Up to 30 days	30-90 days	Total	Overnight & Continuous	Up to 30 days	30-90 days	Total
	(in millions)							
Equity securities	\$ —	\$ —	\$ —	\$ —	\$ 106	\$ —	\$ —	\$ 106

There were no outstanding securities lending agreements at September 30, 2023. The market value of the securities loaned at December 31, 2022 was \$103 million.

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements

PREDECESSOR COMPANY

The following table sets forth the sources of proceeds and related investment losses for available-for-sale fixed maturity securities:

	Three months ended March 31
	2022
	(in millions)
Fixed maturities, available-for-sale:	
Proceeds from sales(1)	\$ 294
Proceeds from maturities/prepayments	108
Gross investment losses on sales and maturities	(21)

(1) Excludes activity from non-cash related proceeds due to the timing of trade settlements of \$20 million for three months ended March 31, 2022.

Allowance for credit losses

The activity in the allowance for credit losses for fixed maturity securities, available-for-sale, was de minimis for the three months ended March 31, 2022.

The allowance for credit losses for mortgage and other loans declined by \$1 million for the three months ended March 31, 2022. The decrease related to the improving credit environment.

See Note 2 to the Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022 for additional information about the Predecessor Company's methodology for developing the allowance for credit losses.

Net Investment Income

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

	Three Months Ended March 31, 2022
	(in millions)
Fixed maturities securities (1)	\$ 61
Equity securities	1
Mortgage and other loans	11
Other invested assets	29
Short-term investments and cash equivalents	1
Gross investment income	103
Less: investment expenses	(4)
Net investment income	\$ 99

(1) Includes fixed maturity securities classified as available-for-sale and trading.

Investment Gains, Net

The following table sets forth "Investment gains, net" by investment type, for the periods indicated:

	Three Months Ended March 31, 2022
	(in millions)
Fixed maturity securities (1)	\$ (21)
Derivatives	502
Total	\$ 481

(1) Includes fixed maturity securities classified as available-for-sale and excludes fixed maturity securities classified as trading.

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements

5. 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: swaps, swaptions, futures, 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

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

Interest Rate Contracts

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

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

Swaptions are options that give the holder the right but not obligation to enter into a specified interest rate swap. The Company uses these instruments for protection against the direction of future interest rates. Swaptions are included in the interest rate swaps line item on the subsequent tables within this note.

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 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.

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements

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, primarily in the retained business, sells credit protection using credit derivatives in order to generate a credit spread for the benefit of the Company's investment portfolio. In addition, the Company, primarily in the ceded business, has also purchased credit protection using credit derivatives in order to hedge specific credit exposures in the Company's investment portfolio.

Primary Risks Managed and/or Accessed 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. 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.

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements

Primary Underlying Risk/Instrument Type	September 30, 2023			December 31, 2022		
	Gross Notional Values/Units	Fair Value		Gross Notional Values/Units	Fair Value	
		Assets	Liabilities		Assets	Liabilities
	(in millions)					
Retained Business						
Interest Rate						
Interest Rate Swaps	\$ 18,846	\$ 481	\$ (890)	\$ 12,131	\$ 228	\$ (553)
Currency/Interest Rate						
Foreign Currency Swaps	100	8	—	100	11	—
Credit						
Credit Default Swaps	520	7	—	520	5	—
Equity						
Equity Futures	(1,657)	72	—	(1,737)	46	—
Total Return Swaps	1,079	65	(139)	—	24	(49)
Equity Options	4,046	167	(34)	3,286	118	—
Total Derivatives, Retained Business	22,934	800	(1,063)	14,300	432	(602)
Ceded Business						
Interest Rate						
Interest Rate Swaps	840	56	(16)	2,517	48	(117)
Currency/Interest Rate						
Foreign Currency Swaps	39	6	—	48	6	—
Credit						
Credit Default Swaps	—	—	—	71	1	—
Equity						
Total Return Swaps	9	—	—	—	—	—
Equity Options	3,230	99	(74)	7,139	180	(356)
Total Derivatives, Ceded Business	4,118	161	(90)	9,775	235	(473)
Total Derivatives (1)	\$ 27,052	\$ 961	\$ (1,153)	\$ 24,075	\$ 667	\$ (1,075)

(1) Recorded in “Other invested assets” and “Other liabilities” in the Consolidated Statements of Financial Position.

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements

Offsetting Assets and Liabilities

The following table presents recognized derivative instruments that are offset in the 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 Consolidated Statements of Financial Position.

	September 30, 2023				
	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					
Retained Business	\$ 247	\$ (67)	\$ 180	\$ (180)	\$ —
Ceded Business	161	(90)	71	—	71
Total	<u>\$ 408</u>	<u>\$ (157)</u>	<u>\$ 251</u>	<u>\$ (180)</u>	<u>\$ 71</u>
Offsetting of Financial Liabilities:					
Derivatives					
Retained Business	\$ 510	\$ (510)	\$ —	\$ —	\$ —
Ceded Business	90	(90)	—	—	—
Total	<u>\$ 600</u>	<u>\$ (600)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Repurchase agreements	<u>\$ 1,009</u>	<u>\$ —</u>	<u>\$ 1,009</u>	<u>\$ (1,009)</u>	<u>\$ —</u>
	December 31, 2022				
	Gross Amounts of Recognized Financial Instruments	Gross Amounts Offset in the Statement of Financial Position	Net Amounts Presented in the Statement of Financial Position	Financial Instruments/ Collateral(1)	Net Amount
	(in millions)				
Offsetting of Financial Assets:					
Derivatives					
Retained Business	\$ 183	\$ (98)	\$ 85	\$ (85)	\$ —
Ceded Business	235	(235)	—	—	—
Total	<u>\$ 418</u>	<u>\$ (333)</u>	<u>\$ 85</u>	<u>\$ (85)</u>	<u>\$ —</u>
Offsetting of Financial Liabilities:					
Derivatives					
Retained Business	\$ 353	\$ (353)	\$ —	\$ —	\$ —
Ceded Business	473	(272)	201	—	201
Total	<u>\$ 826</u>	<u>\$ (625)</u>	<u>\$ 201</u>	<u>\$ —</u>	<u>\$ 201</u>
Repurchase agreements	<u>\$ 311</u>	<u>\$ —</u>	<u>\$ 311</u>	<u>\$ (311)</u>	<u>\$ —</u>
Securities lending transactions	<u>\$ 106</u>	<u>\$ —</u>	<u>\$ 106</u>	<u>\$ (103)</u>	<u>\$ 3</u>

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

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements

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.

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 Company's Annual Report on Form 10-K for the year ended December 31, 2022.

Classification of Derivatives Activity

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 under the updated segmentation and is not comparable following the change in ownership on April 1, 2022.

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

	Successor Company			
	Three Months Ended	Nine Months Ended	Three Months Ended	Six Months Ended
	September 30, 2023		September 30, 2022	
	Investment gains (losses), net			
	(in millions)			
Retained Business				
Interest Rate	\$ (206)	\$ (168)	\$ (259)	\$ (704)
Currency/Interest Rate	—	—	12	12
Credit	2	4	(2)	(2)
Equity	27	(452)	124	827
Total, Retained Business	(177)	(616)	(125)	133
Ceded Business				
Interest Rate	5	72	(36)	(56)
Currency	—	—	—	2
Currency/Interest Rate	—	—	(36)	94
Credit	2	3	2	(4)
Equity	(36)	140	219	(729)
Total, Ceded Business	(29)	215	149	(693)
Total	\$ (206)	\$ (401)	\$ 24	\$ (560)

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements

	Predecessor Company			
	Three Months Ended March 31, 2022			
	Investment Gains, net	Net Investment Income	Other Income	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/Interest Rate	(6)	—	—	—
Credit	(12)	—	—	—
Equity	59	—	—	—
Embedded Derivatives	986	—	—	—
Total Derivatives Not Qualifying as Hedge Accounting Instruments	500	—	—	—
Total	\$ 501	\$ 1	\$ 2	\$ 4

6. 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 Note 6 to the Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

Fair Value Option Election

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. See Notes 2 and 6 to the Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022 for further information.

- Fixed maturity securities
- Equity securities
- Mortgage and other loans
- Reinsurance recoverable
- Separate account assets and liabilities
- Net modified coinsurance receivable/payable
- Deposit asset
- Insurance liabilities

Fortitude Life Insurance & Annuity Company
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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, 2023									
	Level 1	Level 2	Level 3	Netting (1)	Total					
	(in millions)									
Total Business										
Assets										
Fixed maturity securities										
U.S Treasury securities and obligations of U.S. government authorities and agencies	\$	—	\$	469	\$	—	\$	—	\$	469
Obligations of U.S. states and their political subdivisions		—		113		—		—		113
Foreign government bonds		—		4		—		—		4
U.S. corporate public securities		—		2,522		—		—		2,522
U.S. corporate private securities		—		142		205		—		347
Foreign corporate public securities		—		143		—		—		143
Foreign corporate private securities		—		30		48		—		78
Asset-backed securities (2)		—		706		213		—		919
Commercial mortgage-backed securities		—		16		—		—		16
Residential mortgage-backed securities		—		221		—		—		221
Total fixed maturity securities		—		4,366		466		—		4,832
Mortgage and other loans (3)		—		—		422		—		422
Short-term investments		—		30		—		—		30
Cash and cash equivalents		592		—		—		—		592
Other invested assets (4)		72		889		—		(710)		251
Deposit asset		—		—		430		—		430
Reinsurance recoverables		—		—		179		—		179
Subtotal excluding separate account assets		664		5,285		1,497		(710)		6,736
Separate account assets		—		22,557		—		—		22,557
Total assets	\$	664	\$	27,842	\$	1,497	\$	(710)	\$	29,293
Liabilities										
Insurance liabilities	\$	—	\$	—	\$	4,574	\$	—	\$	4,574
Other liabilities - derivatives		—		1,153		—		(1,153)		—
Net modified coinsurance payable		—		—		68		—		68
Separate account liabilities		—		22,557		—		—		22,557
Total liabilities	\$	—	\$	23,710	\$	4,642	\$	(1,153)	\$	27,199

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

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

(3) As of September 30, 2023, the difference between the aggregate fair value and the aggregate unpaid principal of mortgage and other loans was de minimis.

(4) Other invested assets within the above chart are comprised of derivatives.

Excluded from the above chart are private equity funds, which are classified as other invested assets on the Consolidated Statements of Financial Position, and certain fixed maturity securities, for which fair value is measured at net asset value (“NAV”) per share (or its equivalent) as a practical expedient. At September 30, 2023 the fair values of private equity funds and fixed maturity securities were \$346 million and \$7 million.

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements

	Successor Company									
	September 30, 2023									
	Level 1	Level 2	Level 3	Netting (1)	Total					
	(in millions)									
Retained Business										
Assets										
Fixed maturity securities										
U.S Treasury securities and obligations of U.S. government authorities and agencies	\$	—	\$	395	\$	—	\$	—	\$	395
Obligations of U.S. states and their political subdivisions		—		113		—		—		113
U.S. corporate public securities		—		1,877		—		—		1,877
U.S. corporate private securities		—		—		205		—		205
Foreign corporate public securities		—		114		—		—		114
Foreign corporate private securities		—		—		43		—		43
Asset-backed securities (2)		—		706		213		—		919
Commercial mortgage-backed securities		—		16		—		—		16
Residential mortgage-backed securities		—		26		—		—		26
Total fixed maturity securities		—		3,247		461		—		3,708
Mortgage and other loans		—		—		422		—		422
Cash and cash equivalents		335		—		—		—		335
Other invested assets(3)		72		728		—		(620)		180
Subtotal excluding separate account assets		407		3,975		883		(620)		4,645
Separate account assets		—		20,600		—		—		20,600
Total assets	\$	407	\$	24,575	\$	883	\$	(620)	\$	25,245
Liabilities										
Insurance liabilities	\$	—	\$	—	\$	2,542	\$	—	\$	2,542
Other liabilities - derivatives		—		1,063		—		(1,063)		—
Separate account liabilities		—		20,600		—		—		20,600
Total liabilities	\$	—	\$	21,663	\$	2,542	\$	(1,063)	\$	23,142

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

(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 within the above chart are comprised of derivatives.

Excluded from the above chart are private equity funds, which are classified as other invested assets on the Consolidated Statements of Financial Position, and certain fixed maturity securities, both of which fair value is measured at net asset value (“NAV”) per share (or its equivalent) as a practical expedient. At September 30, 2023 the fair values of private equity funds and fixed maturity securities were \$346 million and \$7 million, respectively.

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	Successor Company										
	September 30, 2023										
	Level 1		Level 2		Level 3		Netting (1)		Total		
	(in millions)										
Ceded Business											
Assets											
Fixed maturity securities											
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$	—	\$	74	\$	—	\$	—	\$	74	
Foreign government bonds		—		4		—		—		4	
U.S. corporate public securities		—		645		—		—		645	
U.S. corporate private securities		—		142		—		—		142	
Foreign corporate public securities		—		29		—		—		29	
Foreign corporate private securities		—		30		5		—		35	
Residential mortgage-backed securities		—		195		—		—		195	
Total fixed maturity securities		—		1,119		5		—		1,124	
Short-term investments		—		30		—		—		30	
Cash and cash equivalents		257		—		—		—		257	
Other invested assets(3)		—		161		—		(90)		71	
Deposit asset		—		—		430		—		430	
Reinsurance recoverables		—		—		179		—		179	
Subtotal excluding separate account assets		257		1,310		614		(90)		2,091	
Separate account assets		—		1,957		—		—		1,957	
Total assets	\$	257	\$	3,267	\$	614	\$	(90)	\$	4,048	
Liabilities											
Insurance liabilities	\$	—	\$	—	\$	2,032	\$	—	\$	2,032	
Other liabilities - derivatives		—		90		—		(90)		—	
Net modified coinsurance payable		—		—		68		—		68	
Separate account liabilities		—		1,957		—		—		1,957	
Total liabilities	\$	—	\$	2,047	\$	2,100	\$	(90)	\$	4,057	

- (1) “Netting” amounts represent offsetting considerations as disclosed in Note 5.
(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 within the above chart are comprised of derivatives.

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements

	Successor Company									
	December 31, 2022									
	Level 1	Level 2	Level 3	Netting(1)	Total					
	(in millions)									
Total Business										
Assets										
Fixed Maturity Securities										
U.S Treasury securities and obligations of U.S. government authorities and agencies	\$	—	\$	696	\$	—	\$	—	\$	696
Obligations of U.S. states and their political subdivisions		—		166		—		—		166
Foreign government bonds		—		5		—		—		5
U.S. corporate public securities		—		2,796		—		—		2,796
U.S. corporate private securities		—		144		146		—		290
Foreign corporate public securities		—		211		—		—		211
Foreign corporate private securities		—		31		36		—		67
Asset-backed securities(2)		—		377		155		—		532
Commercial mortgage-backed securities		—		43		—		—		43
Residential mortgage-backed securities		—		218		—		—		218
Total Fixed Maturity Securities		—		4,687		337		—		5,024
Equity securities		175		—		—				175
Mortgage and other loans (3)		—		—		196		—		196
Short-term investments		—		42		—		—		42
Cash and cash equivalents		872		—		—		—		872
Other invested assets(4)		46		621		—		(582)		85
Deposit asset		—		—		607		—		607
Reinsurance recoverables		—		—		235		—		235
Net modified coinsurance receivable		—		—		18		—		18
Subtotal excluding separate account assets		1,093		5,350		1,393		(582)		7,254
Separate account assets		—		23,601		—		—		23,601
Total assets	\$	1,093	\$	28,951	\$	1,393	\$	(582)	\$	30,855
Liabilities										
Insurance liabilities		—		—		5,546		—		5,546
Other liabilities - derivatives		—		1,076		—		(875)		201
Separate account liabilities		—		23,601		—		—		23,601
Total liabilities	\$	—	\$	24,677	\$	5,546	\$	(875)	\$	29,348

- (1) "Netting" amounts represent offsetting considerations as disclosed in Note 5.
- (2) Includes credit-tranched securities collateralized by syndicated bank loans, sub-prime mortgages, auto loans, credit cards, education loans and other asset types.
- (3) As of December 31, 2022, the difference between the aggregate fair value and the aggregate unpaid principal of mortgage and other loans was de minimis.
- (4) Other invested assets within the above chart are comprised of derivatives. Excluded from the above chart are private equity funds for which fair value is measured at net asset value ("NAV") per share (or its equivalent) as a practical expedient. At December 31, 2022 the fair values of such investments were \$345 million, respectively.

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements

	Successor Company				
	December 31, 2022				
	Level 1	Level 2	Level 3	Netting(1)	Total
	(in millions)				
Retained Business					
Assets					
Fixed Maturity Securities					
U.S Treasury securities and obligations of U.S. government authorities and agencies	\$ —	\$ 582	\$ —	\$ —	\$ 582
Obligations of U.S. states and their political subdivisions	—	136	—	—	136
U.S. corporate public securities	—	2,018	—	—	2,018
U.S. corporate private securities	—	—	146	—	146
Foreign corporate public securities	—	122	—	—	122
Foreign corporate private securities	—	—	36	—	36
Asset-backed securities(2)	—	358	155	—	513
Commercial mortgage-backed securities	—	43	—	—	43
Residential mortgage-backed securities	—	20	—	—	20
Total Fixed Maturity Securities	\$ —	\$ 3,279	\$ 337	\$ —	\$ 3,616
Mortgage and other loans	—	—	196	—	196
Short-term investments	—	3	—	—	3
Cash and cash equivalents	433	—	—	—	433
Other invested assets(3)	46	386	—	(347)	85
Subtotal excluding separate account assets	479	3,668	533	(347)	4,333
Separate account assets	—	21,558	—	—	21,558
Total assets	\$ 479	\$ 25,226	\$ 533	\$ (347)	\$ 25,891
Liabilities					
Insurance liabilities	—	—	2,941	—	2,941
Other liabilities - derivatives	—	602	—	(602)	—
Separate account liabilities	—	21,558	—	—	21,558
Total liabilities	\$ —	\$ 22,160	\$ 2,941	\$ (602)	\$ 24,499

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

(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 within the above chart are comprised of derivatives. Excluded from the above chart are private equity funds for which fair value is measured at net asset value (“NAV”) per share (or its equivalent) as a practical expedient. At December 31, 2022, the fair values of such investments were \$344 million.

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements

	Successor Company									
	December 31, 2022									
	Level 1	Level 2	Level 3	Netting(1)	Total					
	(in millions)									
Ceded Business										
Assets										
Fixed maturity securities										
U.S Treasury securities and obligations of U.S. government authorities and agencies	\$	—	\$	114	\$	—	\$	—	\$	114
Obligations of U.S. states and their political subdivisions		—		30		—		—		30
Foreign government bonds		—		5		—		—		5
U.S. corporate public securities		—		778		—		—		778
U.S. corporate private securities		—		144		—		—		144
Foreign corporate public securities		—		89		—		—		89
Foreign corporate private securities		—		31		—		—		31
Asset-backed securities(2)		—		19		—		—		19
Residential mortgage-backed securities		—		198		—		—		198
Total fixed maturity securities	\$	—	\$	1,408	\$	—	\$	—	\$	1,408
Equity securities		175		—		—		—		175
Short-term investments		—		39		—		—		39
Cash and cash equivalents		439		—		—		—		439
Other invested assets(3)		—		235		—		(235)		—
Deposit asset		—		—		607		—		607
Reinsurance recoverables		—		—		235		—		235
Net modified coinsurance receivable		—		—		18		—		18
Subtotal excluding separate account assets		614		1,682		860		(235)		2,921
Separate account assets		—		2,043		—		—		2,043
Total assets	\$	614	\$	3,725	\$	860	\$	(235)	\$	4,964
Liabilities										
Insurance liabilities		—		—		2,605		—		2,605
Other liabilities - derivatives		—		473		—		(272)		201
Separate account liabilities		—		2,043		—		—		2,043
Total liabilities	\$	—	\$	2,516	\$	2,605	\$	(272)	\$	4,849

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

(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 within the above chart are comprised of derivatives. Excluded from the above chart are private equity funds for which fair value is measured at net asset value ("NAV") per share (or its equivalent) as a practical expedient. At December 31, 2022, the fair values of such investments were \$1 million.

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Notes to Unaudited Interim Consolidated Financial Statements

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, 2023							
	Fair Value	Valuation Techniques	Unobservable Inputs	Minimum	Maximum	Weighted Average	Impact of Increase in Input on Fair Value(1)
	(in millions)						
Assets:							
Retained business							
Fixed maturity securities							
U.S. corporate private securities	\$ 173	Discounted cash flow	Discount rate	5.01 %	9.24 %	7.22 %	Decrease
	32	Trade price	Trade price	N/A	N/A	N/A	Increase
Total U.S. corporate private securities	205						
Foreign corporate private securities	34	Discounted cash flow	Discount rate	4.69 %	6.89 %	5.79 %	Decrease
	9	Trade price	Trade price	N/A	N/A	N/A	Increase
Total Foreign corporate private securities	43						
Asset-backed securities	79	Discounted cash flow	Discount rate	7.65 %	8.99 %	8.44 %	Decrease
	134	Trade price	Trade price	N/A	N/A	N/A	Increase
Total asset-backed securities	213						
Mortgage and other loans							
Residential mortgage loans	237	Level yield	Market yield	6.43 %	10.26 %	8.19 %	Decrease
	107	Trade price	Trade price	N/A	N/A	N/A	Increase
Commercial mortgage loans	78	Trade price	Trade price	N/A	N/A	N/A	Increase
Total Mortgage and other loans	422						
Ceded business							
Foreign corporate private securities	5	Discounted cash flow	Discount rate	13.58 %	20.00 %	14.45 %	Decrease
Deposit asset	430	Fair values are determined using the same unobservable inputs as insurance liabilities.					
Reinsurance recoverables	179	Fair values are determined using the same unobservable inputs as insurance liabilities.					
Liabilities:							
Insurance liabilities							
Retained business							
	\$ 2,542	Discounted cash flow	Equity volatility curve (2)	17 %	25 %		Increase
			Lapse rate(3)	0.65 %	13 %		Decrease
			Spread over risk free (4)	0.00 %	2.25 %		Decrease
			Utilization rate(5)	87.5 %	100 %		Increase
			Withdrawal rate (6)	See table footnote (6) below.			
			Mortality rate(7)	0 %	16 %		Decrease
Ceded business	2,032	Discounted cash flow	Equity volatility curve (2)	17 %	25 %		Increase
			Lapse rate(3)	0.65 %	13 %		Decrease
			Spread over risk free (4)	0.00 %	1.95 %		Decrease
			Utilization rate(5)	87.5 %	100 %		Increase
			Withdrawal rate (6)	See table footnote (6) below.			
			Mortality rate(7)	0 %	16 %		Decrease
Net modified coinsurance payable	68	Fair values are determined using the same unobservable inputs as insurance liabilities.					

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Notes to Unaudited Interim Consolidated Financial Statements

Successor Company								
December 31, 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								
U.S. corporate private securities	\$ 146	Discounted cash flow	Discount rate	4.75 %	8.03 %	6.56 %	Decrease	
Foreign corporate public securities	36	Discounted cash flow	Discount rate	4.33 %	6.38 %	5.36 %	Decrease	
Asset-backed securities	155	Discounted cash flow	Discount rate	7.19 %	8.51 %	7.94 %	Decrease	
Mortgage and other loans								
Residential mortgage loans	161	Level yield	Market yield	5.75 %	9.97 %	8.40 %	Increase	
Commercial mortgage loans	35	Trade price	Trade price	N/A	N/A	N/A	Increase	
Total Mortgage and other loans	196							
Ceded business								
Deposit asset	607	Fair values are determined using the same unobservable inputs as insurance liabilities.						
Reinsurance recoverables	235	Fair values are determined using the same unobservable inputs as insurance liabilities.						
Net modified coinsurance receivable	18	Fair values are determined using the same unobservable inputs as insurance liabilities.						
Liabilities:								
Retained business								
Insurance liabilities	\$ 2,941	Discounted cash flow	Equity volatility curve (2)	19.5 %	26 %		Increase	
			Lapse rate(3)	1 %	20 %		Decrease	
			Spread over risk free (4)	0.00 %	2.43 %		Decrease	
			Utilization rate(5)	92.5 %	100 %		Increase	
			Withdrawal rate (6)	See table footnote (6) below.				
			Mortality rate(7)	0 %	16 %		Decrease	
Ceded business								
Insurance liabilities	\$ 2,605	Discounted cash flow	Equity volatility curve (2)	19.5 %	26 %		Increase	
			Lapse rate(3)	1 %	20 %		Decrease	
			Spread over risk free (4)	0.00 %	2.21 %		Decrease	
			Utilization rate(5)	92.5 %	100 %		Increase	
			Withdrawal rate (6)	See table footnote (6) below.				
			Mortality rate(7)	0 %	16 %		Decrease	

- (1) Conversely, the impact of a decrease in input would have the opposite impact on fair value as that presented in the table.
- (2) The equity volatility curve assumption is based on 1 year and 2 year index-specific at-the-money implied volatilities grading to 10 year total variance. Increased volatility increases the fair value of the liability.
- (3) 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.
- (4) The spread over the risk-free rate swap curve represents the premium added to the proxy for the risk-free rate to reflect the Company's estimates of rates that a market participant would use to value the living benefits in both the accumulation and payout phases and index-linked interest crediting guarantees. 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.
- (5) 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. 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.
- (6) 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, 2023 and December 31, 2022, the minimum withdrawal rate assumption is 77% and the maximum withdrawal rate assumption may be greater than 100%. The fair value of the liability will generally increase the closer the withdrawal rate is to 100% and decrease as the withdrawal rate moves further away from 100%.

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- (7) 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.

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.

Insurance Liabilities, at fair value – 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.

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

	Successor Company															
	Three Months Ended September 30, 2023															
	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)																
Retained Business																
Fixed maturity securities																
U.S. corporate private securities	\$	210	\$	(5)	\$	—	\$	—	\$	—	\$	—	\$	205	\$	(4)
Foreign corporate private securities		34		—		—		—		9		—		43		—
Asset-backed securities		208		—		6		—		(1)		—		213		(1)
Mortgage and other loans																
Residential mortgage loans		151		—		246		—		(53)		—		344		—
Commercial mortgage loans		78		—		—		—		—		—		78		—
Ceded Business																
Foreign corporate private securities		3		—		5		—		(3)		—		5		—
Deposit asset		476		(13)		—		—		(33)		—		430		—
Reinsurance recoverables		200		(21)		—		—		—		—		179		—
Net modified coinsurance receivable (payable)		(81)		13		—		—		—		—		(68)		—

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements

Successor Company												
Nine Months Ended September 30, 2023												
	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)												
Retained Business												
Fixed maturity securities												
U.S. corporate private securities	\$ 146	\$ (4)	\$ 46	\$ —	\$ —	\$ (1)	\$ —	\$ 18	\$ —	\$ 205	\$ (3)	
Foreign corporate private securities	36	(2)	—	—	—	—	—	9	—	43	(2)	
Asset-backed securities	155	(2)	62	—	—	(2)	—	—	—	213	(2)	
Mortgage and other loans												
Residential mortgage loans	161	—	290	—	—	(107)	—	—	—	344	—	
Commercial mortgage loans	35	—	43	—	—	—	—	—	—	78	—	
Ceded Business												
Foreign corporate private securities	—	—	10	—	—	(5)	—	—	—	5	—	
Deposit asset	607	(21)	—	—	—	—	(156)	—	—	430	—	
Reinsurance recoverables	235	(56)	—	—	—	—	—	—	—	179	—	
Net modified coinsurance receivable (payable)	18	(86)	—	—	—	—	—	—	—	(68)	—	

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements

	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 maturities													
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

	Successor Company							
	Three Months Ended September 30, 2023							
	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								
Retained Business	\$ 2,711	\$ (122)	\$ 425	\$ (570)	\$ 98	\$ —	\$ 2,542	
Ceded Business	2,273	(317)	144	(84)	16	—	2,032	

	Successor Company						
	Nine Months Ended September 30, 2023						
	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							
Retained Business	\$ 2,941	\$ (824)	\$ 660	\$ (524)	\$ 294	\$ (5)	\$ 2,542
Ceded Business	2,605	(942)	354	(28)	43	—	2,032

	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). Activity related to our level 3 liabilities is primarily recognized in earnings within change in Policyholder benefits and changes in fair value of insurance liabilities with the exception of changes related to the Company's own-credit risk, which are included in "Change in fair value (discount rate)" above and recorded in other comprehensive income (loss). The components of the assumption update are included in "Incurred Losses", see Note 1 for further information.

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements

	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)
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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	—	—	

- (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.

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Change in Fair Value of Insurance Contracts

The components of the change in fair value of our insurance contracts are reported in several line items within Revenues and Benefits and expenses in our consolidated statements of income 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. Policyholder 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					
	September 30, 2023			December 31, 2022		
	Retained Business	Ceded Business	Total	Retained Business	Ceded Business	Total
	(in millions)					
Assets:						
Reinsurance recoverables	\$ —	\$ (56)	\$ (56)	\$ —	\$ (15)	\$ (15)
Modified coinsurance receivable	—	(338)	(338)	—	(5,640)	(5,640)
Deposit asset	—	(177)	(177)	—	(1,989)	(1,989)
Liabilities:						
Insurance liabilities	\$ (399)	\$ (573)	\$ (972)	\$ (421)	\$ (7,644)	\$ (8,065)

Changes in insurance liabilities attributable to the Company's own-credit risk are recorded in other comprehensive income (loss). Changes in the modified coinsurance payable are reported in Policyholder benefits and changes in fair value of insurance liabilities, however, they are not included in the above chart as they relate to the investment portfolio within the modified coinsurance agreement.

Fair Value 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 Consolidated Statements of Financial Position. In some cases the carrying amount equals or approximates fair value.

	Successor Company					
	September 30, 2023					
	Fair Value					Carrying Amount
	Level 1	Level 2	Level 3	Total	Total	
	(in millions)					
Assets:						
Accrued investment income	\$ —	\$ 57	\$ —	\$ 57	\$	57
Other invested assets - Policy loans	—	—	11	11		11
Liabilities:						
Repurchase agreements	\$ —	\$ 1,009	\$ —	\$ 1,009	\$	1,009

	Successor Company									
	December 31, 2022									
	Fair Value					Carrying Amount				
	Level 1	Level 2	Level 3	Total	Total					
	(in millions)									
Assets:										
Accrued investment income	\$	—	\$	52	\$	—	\$	52	\$	52
Other invested assets - Policy loans		—		—		11		11		11
Liabilities:										
Repurchase agreements	\$	—	\$	311	\$	—	\$	311	\$	311
Cash collateral for loaned securities		—		106		—		106		106

Fortitude Life Insurance & Annuity Company
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7. 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".

For the three and nine months ended September 30, 2023, the Successor Company's income tax provision amounted to an income tax benefit of approximately \$29 million and \$4 million or 13.0 percent and 6.6 percent of loss from operations before income taxes, respectively. The effective tax rate for the Successor Company differed from the U.S. statutory tax rate of 21 percent in each period due primarily to non-taxable investment income, deductible foreign taxes paid, non-deductible goodwill impairment, transfer pricing adjustments, and an increase to the valuation allowance on deferred tax assets, as discussed further below.

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 rate differed from the U.S. statutory tax rate of 21 percent primarily due to non-taxable investment income and tax credits.

For the three months ended March 31, 2022, the Predecessor Company's income tax provision amounted to an income tax expense of \$77 million or 17.8 percent of income from operations before income tax. The effective tax rate differed from the U.S. statutory tax rate of 21 percent primarily due to non-taxable investment income and tax credits.

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. As of September 30, 2023 and December 31, 2022, the Company had a valuation allowance of \$38 million and \$37 million, respectively, regarding 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. The increase in the valuation allowance from December 31, 2022 to September 30, 2023 is due to additional unrealized capital losses on our fixed maturity securities portfolio.

8. EQUITY

Additional Paid-in Capital

During the three months ended March 31, 2023, the Company established a \$45 million distribution payable to its parent company, FGH, as a result of updated information regarding certain tax assets related to the acquisition of FLIAC, which resulted in an offsetting reduction to "Additional paid-in capital". The distribution payable was settled during the second quarter of 2023.

Accumulated Other Comprehensive Income (Loss)

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

As discussed in Note 1, we have elected to apply push-down 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 5, 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:

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	Successor Company
	Changes in Own-Credit Risk Related to Insurance Liabilities
	(in millions)
Balance, December 31, 2022	\$ 111
Change in OCI	22
Less: Income tax expense	5
Balance, March 31, 2023	\$ 128
Change in OCI	(115)
Less: Income tax benefit	(25)
Balance, June 30, 2023	\$ 38
Change in OCI	(45)
Less: Income tax benefit	(9)
Balance, September 30, 2023	\$ 2

	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)	\$ (1)	\$ —	\$ (272)	\$ (273)
Balance, April 1, 2022 (Successor Company)	\$ —	\$ —	\$ —	\$ —
Change in OCI before reclassifications	—	245	—	245
Income tax expense	—	(51)	—	(51)
Balance, June 30, 2022 (Successor Company)	\$ —	\$ 194	\$ —	\$ 194
Change in OCI before reclassifications	—	149	—	149
Income tax expense	—	(32)	—	(32)
Balance, September 30, 2022 (Successor Company)	\$ —	\$ 311	\$ —	\$ 311

(1) Includes cash flow hedges of \$29 million as of March 31, 2022.

Reclassifications out of Accumulated Other Comprehensive Income (Loss)

	Predecessor Company
	Three Months Ended March 31, 2022
	(in millions)
Amounts reclassified from AOCI(1)(2):	
Net unrealized investment gains (losses):	
Cash flow hedges—Currency/ Interest rate(3)	\$ 5
Net unrealized investment losses on available-for-sale securities	(20)
Total net unrealized investment gains (losses)(4)	(15)
Total reclassifications for the period	\$ (15)

(1) All amounts are shown before tax.

(2) Positive amounts indicate gains/benefits reclassified out of AOCI. Negative amounts indicate losses/costs reclassified out of AOCI.

(3) See Note 5 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.

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Notes to Unaudited Interim Consolidated Financial Statements

Net Unrealized Investment Losses

Net unrealized investment losses on available-for-sale fixed maturity securities and certain other invested assets and other assets were included in the Predecessor Company's Statements of Financial Position as a component of AOCI. 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 indicated below, split between amounts related to net unrealized investment 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				Accumulated Other Comprehensive Income (Loss) Related To Net Unrealized Investment Gains (Losses)
	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)	
	(in millions)				
Balance, December 31, 2021	\$ 240	\$ (15)	\$ (7)	\$ (47)	\$ 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>\$ (336)</u>	<u>\$ (6)</u>	<u>\$ (1)</u>	<u>\$ 71</u>	<u>\$ (272)</u>

(1) Includes cash flow hedges. See Note 5 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.

9. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

As of September 30, 2023, the Company had commitments totaling \$377 million to purchase or fund investments related to private fixed maturity securities, alternative investments, and mortgage loans. These amounts include unfunded commitments that are not unconditionally cancellable. See Note 10 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.

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements

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, 2023, 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 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.

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

10. 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 nine months ended September 30, 2023, FLIAC was allocated \$8 million and \$25 million of costs for these 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

FLIAC entered into an intercompany liquidity agreement with FGH that allows the Successor Company to borrow funds of up to \$300 million to meet its short-term liquidity and other capital needs. During the three months ended September 30, 2023, the Company borrowed and repaid \$82 million of funds under the agreement. In October 2023, the Successor Company borrowed an additional \$75 million of funds under the agreement, all of which was also repaid in October 2023. Including the activity in October 2023, the Company has borrowed a total of \$357 million of funds under the agreement during 2023, all of which has been repaid with interest.

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 71.3% 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 three months 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. As of September 30, 2023 and December 31, 2022, assets under management had a market value of \$773 million and \$732 million, respectively, and were comprised primarily of private credit fixed income assets and limited partnership interests or investments in limited partnerships. FLIAC recognized \$12 million and \$23 million of investment income on such assets during the three and nine months ended September 30, 2023, respectively. 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, 2023, FLIAC has unfunded commitments of \$162 million to fund private investments where one or more Carlyle entities serves as general partner to the fund.

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 nine months ended September 30, 2023.

Affiliate	Date	Transaction	Security Type	Fair Value	Book Value	Investment Gains (Losses), Net
(in millions)						
Fortitude Re Investments, LLC	May 2023	Sale	Limited Partnership	\$ 12	\$ 12	\$ —
Fortitude Re Investments, LLC	May 2023	Sale	Limited Partnership	7	7	—

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements

Distribution to Parent

During the three months ended March 31, 2023, the Company established a \$45 million distribution payable to its parent company, FGH, as a result of updated information regarding certain tax assets related to the acquisition of FLIAC, which resulted in an offsetting reduction to "Additional paid-in capital". The distribution payable was settled during the second quarter of 2023.

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.

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.

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.

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. These expenses were recorded as "Net investment income" in the Company's Unaudited Consolidated Interim Statements of Operations and Comprehensive Income (Loss).

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. These revenues were recorded as "Asset management and service fees" 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, Provident Global Funding, LLC ("PGF"). For these OTC derivative contracts, PGF had a substantially equal and offsetting position with an external counterparty. See Note 5 for additional information.

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements

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 "Investment gains (losses), net". The table below shows affiliated asset trades for the three months ended March 31, 2022.

Affiliate	Date	Transaction	Security Type	Fair Value	Book Value	Realized Investment Gain (Loss)
					(in millions)	
Pruco Life	January 2022	Sale	Fixed Maturity Securities	4	5	(1)
Prudential Financial	January 2022	Sale	Commercial Mortgage Loan	29	30	(1)
Pruco Life	January 2022	Sale	Derivatives	—	—	—
Pruco Life	February 2022	Sale	Fixed Maturity Securities	129	138	(9)
Prudential Financial	March 2022	Sale	Fixed Maturity Securities	\$ 33	\$ 33	\$ —

Contributed Capital and Dividends

Through March 31, 2022, 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.

Fortitude Life Insurance & Annuity Company
Notes to Unaudited Interim Consolidated Financial Statements

Reinsurance with Affiliates of Predecessor Company

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

	Three Months Ended March 31
	2022
	(in millions)
Premiums:	
Direct	\$ 9
Ceded	(1)
Net premiums	8
Policy charges and fee income:	
Direct	102
Ceded	(5)
Net policy charges and fee income	97
Asset management and service fees:	
Direct	22
Ceded	(2)
Net asset management and service fees	20
Realized investment gains (losses), net:	
Direct	312
Ceded	169
Realized investment gains (losses), net	481
Policyholders' benefits (including change in reserves):	
Direct	31
Ceded	(5)
Net policyholders' benefits (including change in reserves)	26
Interest credited to policyholders' account balances:	
Direct	91
Ceded	(6)
Net interest credited to policyholders' account balances	85
Reinsurance expense allowances and general and administrative expenses, net of capitalization and amortization	(41)

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, 2023 and its results of operations for the three months ended September 30, 2023. 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. The Company's results of operations for the nine months ended September 30, 2023 are not comparable with the same period of 2022 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 Company’s Annual Report on Form 10-K for the year ended December 31, 2022, 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.

Fair Value of Insurance Liabilities - Assumption Update

During the third quarter of 2023, the Company completed its annual review of actuarial assumptions related to its fair value of insurance liabilities. Based on that review, the Company updated certain assumptions associated with its variable annuity contracts with guaranteed benefits, which resulted in an increase in its fair value of insurance liabilities of \$116 million. The increase was driven by updates to our assumptions regarding policyholder behavior, primarily to reflect lower observed surrender rates. The impact of the assumption update was included within "Policyholder benefits and changes in fair value of insurance liabilities" on the Consolidated Statement of Operations.

The assumptions used in establishing our insurance liabilities are generally based on the Company's experience, industry experience, market observable data, and/or other factors, as applicable. The Company evaluates its actuarial assumptions at least annually and updates them as appropriate, unless a material change that the Company feels is indicative of a long-term trend is observed in an interim period. Generally, the Company does not expect trends to change significantly in the short-term and, to the extent these trends may change, the Company expects such changes to be gradual over the long-term. See Note 7 in the Company's Annual Report on Form 10-K for the year ended December 31, 2022 for further discussion regarding significant assumptions related to our fair value of insurance liabilities.

Goodwill Impairment

As a result of our actuarial assumption update, the Company identified a triggering event in the third quarter of 2023 regarding its goodwill impairment analysis for the Retained Business. Following a qualitative analysis that indicated the fair value of the reporting unit may be lower than its carrying value, the Company performed a quantitative analysis that involved both discounted cash flow techniques and market price comparisons to establish fair values on its underlying assets and liabilities. After performing this quantitative analysis, the Company determined that the goodwill was fully impaired, and accordingly, recorded a non-cash goodwill impairment of \$93 million through the Consolidated Statement of Operations. Following this impairment, there was no remaining goodwill as of September 30, 2023.

The goodwill impairment was primarily driven by unfavorable actuarial assumption updates, as compared to its initial projections, related to the determination of the fair value of its insurance liabilities, and lower overall projected future earnings as a result of capital market volatility.

Novation of Ceded Business

In 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 total equity or net income but has resulted in the reduction of certain activity/balances associated with these policies. During the three and nine months ended September 30, 2023, approximately \$172 million and \$635 million, respectively, of account value which generally approximates fair values of insurance liabilities, was transferred out of the Company as a result of the novation program. As of September 30, 2023, approximately 72 percent of account value in the Ceded Business has been novated since the acquisition of the Company on April 1, 2022.

Banking Receiverships

In 2023, multiple banks (such as Silicon Valley Bank, Signature Bank, and First Republic Bank) have been placed into receivership or acquired by another bank pursuant to the Federal Deposit Insurance Corporation's regulatory authority. As of September 30, 2023, we did not have cash deposits or direct equity or fixed income general account investments in these banks.

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 Company's Annual Report on Form 10-K for the year ended December 31, 2022.

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 Consolidated 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; and
- Taxes on income, including valuation allowances

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.

Effective ASUs - September 30, 2023

ASU 2018-12, Financial Services - Insurance (Topic 944): *Targeted Improvements to the Accounting for Long-Duration Contracts*, was issued by the FASB. This update became effective January 1, 2023 but is not applicable due to our election to adopt the fair value option on all of our insurance liabilities, which includes our separate account liabilities.

ASU 2022-02, Financial Instruments - Credit Losses (Topic 326): *Troubled Debt Restructurings and Vintage Disclosures*, was issued by the FASB. This update became effective January 1, 2023 but is not applicable due to our election to adopt the fair value option on financial instruments that are within the scope of this update.

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 assumed by Prudential Insurance and Pruco Life.

Changes in Financial Position

The following is a discussion regarding changes in the financial position of the Successor Company by reportable segment.

Retained Business

Assets declined approximately \$707 million to \$25,838 million at September 30, 2023 from \$26,545 million at December 31, 2022. The decrease was primarily driven by a decline in separate account assets, due primarily to equity market movements. Also impacting the decline in assets was the impairment of goodwill. Partially offsetting the decline was a net increase in cash and invested assets driven by purchases of mortgage loans and higher other invested assets related to derivatives. See "Goodwill Impairment" within the "Overview" section herein Item 2 for further information.

Liabilities decreased approximately \$496 million to \$24,462 million at September 30, 2023 from \$24,958 million at December 31, 2022. The decrease was primarily driven by lower separate account liabilities, corresponding to the decrease in separate account assets, as discussed above. Also contributing to the decline in liabilities was a decrease in the fair value of insurance liabilities due to favorable interest rate and equity market movements, partially offset by the impact of the actuarial assumption update. Partially offsetting the decrease in overall liabilities was an increase in our repurchase agreement liability. See "Actuarial Assumption Update" within the "Overview" section herein Item 2 for further information.

Equity decreased approximately \$211 million to \$1,376 million at September 30, 2023 from \$1,587 million at December 31, 2022, with a net loss of \$57 million and an increase in our own-credit risk (OCR) impact on the fair value of insurance liabilities, net of tax, of \$109 million reflected in accumulated other comprehensive income. Also contributing to the decline in equity was a reduction in additional paid-in capital related to a \$45 million distribution to FGH as a result of updated information regarding certain tax assets related to the acquisition of FLIAC. See "Capital" within the "Liquidity and Capital Resources" herein Item 2 for further information regarding the distribution to FGH.

Ceded Business

Assets decreased \$920 million to \$4,077 million at September 30, 2023 from \$4,997 million at December 31, 2022 due primarily to novation activity during 2023. See "Novation of Ceded Business" within the "Overview" section herein Item 2 for further information.

Liabilities decreased \$920 million to \$4,077 million at September 30, 2023 from \$4,997 million at December 31, 2022 due primarily to the above-mentioned novation activity during 2023.

There was no equity within our Ceded Business at both September 30, 2023 and December 31, 2022 as the assets are fully offset by the liabilities.

Results of Operations

As noted under Accounting Policies and Pronouncements, the Company's results of operations for the nine months ended September 30, 2023 are not comparable with the same period of 2022. As a result, the following discussion regarding the results of operations of the Successor Company for this specific period will not be compared to previous period and will be based solely on activity for the period subsequent to the acquisition.

SUCCESSOR COMPANY

LOSS FROM OPERATIONS BEFORE INCOME TAXES

Three Months Comparison to Prior Period

Retained Business

Loss from operations before income taxes was \$223 million for the three months ended September 30, 2023 compared to a loss from operations before income taxes of \$154 million for the three months ended September 30, 2022. The increase in the loss from operations was driven primarily by the actuarial assumption update and the impairment of goodwill, partially offset by lower investment losses in the fixed maturity securities portfolio.

Ceded Business

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

Nine Months Ended September 30, 2023

Retained Business

The loss from operations before income taxes of \$61 million was driven by investment losses, the actuarial assumption update, and the goodwill impairment. Partially offsetting this activity were policy charges and fee income, net investment income, and an favorable movements in the fair value of insurance liabilities, excluding changes in OCR, due primarily to favorable interest rate and equity market movements.

Ceded Business

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

REVENUES, BENEFITS, AND EXPENSES

Three Months Comparison to Prior Period

Retained Business

Revenues were \$(232) million for the three months ended September 30, 2023 compared to \$(255) million during the three months ended September 30, 2022. The change was primarily driven by lower investment losses in the fixed maturity securities portfolio, partially offset by lower policy charges and fee income driven by lower assets under management due to the run off of the business.

Benefits and expenses were \$(9) million in the three months ended September 30, 2023 compared to \$(101) million during the three months ended September 30, 2022. The change was driven primarily by the actuarial assumption update and the impairment of goodwill.

Ceded Business

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

Nine Months Ended September 30, 2023

Retained Business

Revenues were \$(197) million, driven primarily by investment losses in both fixed maturity securities and derivatives, partially offset by policy charges and fee income and net investment income.

Benefits and expenses were \$(136) million, driven primarily by decreases in the fair value of insurance liabilities, excluding changes in OCR, due to favorable interest rate and equity market movements, partially offset by the actuarial assumption update.

Ceded Business

There was no impact to the income 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 Comparison to Prior Period

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.

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.

	Three Months Ended March 31
	2022
	(in millions) (1)
U.S. GAAP embedded derivative and hedging positions	
Change in value of U.S. GAAP liability, pre-NPR(2)	\$ 459
Change in the NPR adjustment	156
Change in fair value of hedge assets, excluding capital hedges(3)	(392)
Change in fair value of capital hedges(4)	39
Other	218
Realized investment gains (losses), net, and related adjustments	480
Market experience updates(5)	(57)
Charges related to realized investments gains (losses), net	(97)
Net impact from changes in the U.S. GAAP embedded derivative and hedge positions, after the impact of NPR, DAC and other costs(6)	<u>\$ 326</u>

(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.

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.

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.

Income Taxes

For information regarding income taxes, see Note 7 to the Consolidated 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 Company’s Annual Report on Form 10-K for the year ended December 31, 2022.

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 Company’s Annual Report on Form 10-K for the year ended December 31, 2022.

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 Successor Company made a distribution of \$45 million to its parent, FGH, during the nine months ended September 30, 2023 after receiving updated information regarding certain tax assets related to the acquisition of FLIAC.

The Predecessor Company made distributions of \$306 million to its parent, PAI, for the three months ended March 31, 2022.

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, borrowings from its parent and affiliates, and banking relationships through secured or unsecured agreements. 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, fixed maturity securities, and public equity securities. As of September 30, 2023 and December 31, 2022, the Company had liquid assets of \$5.5 billion and \$6.1 billion, respectively, which includes \$1.4 billion and \$2.1 billion of modified coinsurance assets contained within the Ceded business, for each respective period. As of September 30, 2023 and December 31, 2022, the portion of liquid assets comprised of cash and cash equivalents and short-term investments was \$0.6 billion and \$0.9 billion, respectively. The decline between periods for each of these balances was driven by novation activity in the Ceded business. See "Novation of Ceded Business" within the "Overview" section herein Item 2 for further information.

FLIAC entered into an intercompany liquidity agreement with FGH that allows the Successor Company to borrow funds of up to \$300 million to meet its short-term liquidity and other capital needs. During the three months ended September 30, 2023, the Company borrowed and repaid \$82 million of funds under the agreement. In October 2023, the Successor Company borrowed an additional \$75 million of funds under the agreement, all of which was also repaid in October 2023. Including the activity in October 2023, the Company has borrowed a total of \$357 million of funds under the agreement during 2023, all of which has been repaid with interest.

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, fixed maturity securities, or mortgage and other loans.

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, 2023, the liabilities associated with our outstanding repurchase agreements were \$1,009 million. There were no outstanding securities lending agreements as of September 30, 2023.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of September 30, 2023, there have been no material changes in our economic exposure to market risk from December 31, 2022, a description of which may be found in our Annual Report on Form 10-K for the year ended December 31, 2022, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," filed with the SEC. See Item 1A, "Risk Factors" included in the Annual Report on Form 10-K for the year ended December 31, 2022, 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.

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, 2023. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2023 our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2023 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 9 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 Company's Annual Report on Form 10-K for the year ended December 31, 2022. 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
Executive Vice President and Chief Financial Officer
(Authorized Signatory and Principal Financial Officer)

Date: November 9, 2023