

**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 June 30, 2024

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:

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

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

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

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

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-accelerated Filer	<input checked="" type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
		Emerging Growth Company	<input type="checkbox"/>

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

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

As of August 9, 2024, 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 price our products; (4) changes in interest rates and equity prices that may (a) adversely impact the profitability of our products, the value of separate accounts supporting these products or the value of assets we manage, (b) result in losses on derivatives we use to hedge risk or increase collateral posting requirements and (c) limit opportunities to invest at appropriate returns; (5) guarantees within certain of our products which are market sensitive and may decrease our earnings or increase the volatility of our results of operations or financial position; (6) liquidity needs resulting from (a) derivative collateral market exposure, (b) asset/liability mismatches, (c) the lack of available funding in the financial markets or (d) unexpected cash demands due to severe mortality calamity or lapse events; (7) financial or customer losses, or regulatory and legal actions, due to inadequate or failed processes or systems, external events, and human error or misconduct such as (a) disruption of our systems and data, (b) an information security breach, (c) a failure to protect the privacy of sensitive data, (d) reliance on third-parties or (e) labor and employment matters; (8) changes in the regulatory landscape, including related to (a) financial sector regulatory reform, (b) changes in tax laws, (c) fiduciary rules and other standards of care, (d) state insurance laws and developments regarding group-wide supervision, capital and reserves, or (e) privacy and cybersecurity regulation; (9) technological changes which may adversely impact companies in our investment portfolio or cause insurance experience to deviate from our assumptions; (10) ratings downgrades; (11) market conditions that may adversely affect the sales or persistency of our products; (12) competition; and (13) reputational damage. 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, 2023 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)

	June 30, 2024	December 31, 2023
ASSETS		
Fixed maturity securities, at fair value	\$ 5,382	\$ 5,210
Mortgage loans, at fair value	382	437
Short-term investments	22	21
Other invested assets (includes \$311 and \$141 of assets measured at fair value at June 30, 2024 and December 31, 2023, respectively)	409	211
Total investments	6,195	5,879
Cash and cash equivalents	379	940
Accrued investment income	65	60
Reinsurance recoverables, at fair value	151	206
Deposit asset, at fair value	404	438
Income taxes	78	99
Other assets (Receivables from parent and affiliates: June 30, 2024 - \$0; December 31, 2023 - \$0)	48	61
Separate account assets, at fair value	23,675	23,870
TOTAL ASSETS	\$ 30,995	\$ 31,553
LIABILITIES AND EQUITY		
LIABILITIES		
Insurance liabilities, at fair value	\$ 4,386	\$ 5,003
Net modified coinsurance payable, at fair value	128	78
Liabilities associated with secured borrowing arrangements	1,123	967
Other liabilities (Payables to parent and affiliates: June 30, 2024 - \$1; December 31, 2023 - \$10)	318	273
Separate account liabilities, at fair value	23,675	23,870
TOTAL LIABILITIES	29,630	30,191
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	1,714
Retained deficit	(325)	(290)
Accumulated other comprehensive loss	(27)	(65)
TOTAL EQUITY	1,365	1,362
TOTAL LIABILITIES AND EQUITY	\$ 30,995	\$ 31,553

See Notes to Unaudited Interim Consolidated Financial Statements

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

	Three Months Ended		Six Months Ended	
	June 30			
	2024	2023	2024	2023
REVENUES				
Premiums	\$ 8	\$ 7	\$ 18	\$ 14
Policy charges and fee income	113	115	225	232
Net investment income	75	78	145	154
Asset management and service fees	23	23	46	45
Other income	—	3	2	4
Investment losses, net	(147)	(287)	(468)	(122)
TOTAL REVENUES	72	(61)	(32)	327
BENEFITS AND EXPENSES				
Policyholder benefits and changes in fair value of insurance liabilities	62	(255)	(252)	85
Commission expense	23	23	46	46
General, administrative and other expenses	20	16	38	34
TOTAL BENEFITS AND EXPENSES	105	(216)	(168)	165
INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAXES				
	(33)	155	136	162
Less: Income tax expense (benefit)	(3)	25	21	25
NET INCOME (LOSS)	\$ (30)	\$ 130	\$ 115	\$ 137
Other comprehensive income (loss), before tax:				
Changes in own-credit risk related to insurance liabilities	61	(115)	48	(93)
Less: Income tax expense (benefit) related to other comprehensive income (loss)	13	(25)	10	(20)
Other comprehensive income (loss), net of taxes	48	(90)	38	(73)
COMPREHENSIVE INCOME	\$ 18	\$ 40	\$ 153	\$ 64

See Notes to Unaudited Interim Consolidated Financial Statements

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

	Common Stock	Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive Loss	Total Equity
Balance, December 31, 2023	\$ 3	\$ 1,714	\$ (290)	\$ (65)	\$ 1,362
Dividend to parent	—	—	(75)	—	(75)
Comprehensive income (loss):					
Net income	—	—	145	—	145
Other comprehensive loss, net of tax	—	—	—	(10)	(10)
Total comprehensive income					135
Balance, March 31, 2024	\$ 3	\$ 1,714	\$ (220)	\$ (75)	\$ 1,422
Dividend to parent	—	—	(75)	—	(75)
Comprehensive income (loss):					
Net loss	—	—	(30)	—	(30)
Other comprehensive income, net of tax	—	—	—	48	48
Total comprehensive income					18
Balance, June 30, 2024	<u>\$ 3</u>	<u>\$ 1,714</u>	<u>\$ (325)</u>	<u>\$ (27)</u>	<u>\$ 1,365</u>

	Common Stock	Additional Paid-in Capital	Retained Earnings	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	<u>\$ 3</u>	<u>\$ 1,714</u>	<u>\$ (279)</u>	<u>\$ 128</u>	<u>\$ 1,566</u>
Comprehensive income:					
Net income	—	—	130	—	130
Other comprehensive loss, net of tax	—	—	—	(90)	(90)
Total comprehensive income					40
Balance, June 30, 2023	<u>\$ 3</u>	<u>\$ 1,714</u>	<u>\$ (149)</u>	<u>\$ 38</u>	<u>\$ 1,606</u>

See Notes to Unaudited Interim Consolidated Financial Statements

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

	Six Months Ended June 30,	
	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 115	\$ 137
Adjustments to reconcile net income to net cash used in operating activities:		
Investment losses, net	468	122
Other, net	(10)	(22)
Change in:		
Insurance liabilities, at fair value	(468)	(552)
Deposit asset, at fair value	34	131
Net modified coinsurance receivable/payable, at fair value	50	442
Accrued investment income	(5)	(6)
Income taxes	11	23
Reinsurance recoverables, net	55	35
Derivatives, net	(431)	(342)
Other, net	11	(8)
Cash flows used in operating activities	(170)	(40)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturity securities, at fair value	238	227
Mortgage loans	66	49
Other invested assets	—	30
Short-term investments	32	61
Payments for the purchase/origination of:		
Fixed maturity securities, at fair value	(620)	(327)
Mortgage loans	(7)	(87)
Other invested assets	(4)	(14)
Short-term investments	(31)	(69)
Other, net	1	13
Cash flows used in investing activities	(325)	(117)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net policyholder's account withdrawals	(101)	(103)
Short-term borrowings from parent	—	80
Drafts outstanding	(17)	5
Net proceeds related to secured borrowing arrangements - repurchase agreements with maturities 90 days or less	200	203
Proceeds related to secured borrowing arrangements - repurchase agreements with maturities greater than 90 days	300	100
Repayments related to secured borrowing arrangements - repurchase agreements with maturities greater than 90 days	(300)	(200)
Net proceeds (repayments) related to secured borrowing arrangements - securities lending	2	(106)
Dividend to parent	(150)	—
Distribution to parent	—	(45)
Cash flows used in financing activities	(66)	(66)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(561)	(223)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	940	872
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 379	\$ 649

- During the six months ended June 30, 2023, 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 \$343 million of investments with a corresponding offset of \$343 million to the modified coinsurance payable.
- There was no significant non-cash novation activity during the six months ended June 30, 2024.

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”).

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 FLIAC. All intercompany transactions have been eliminated in consolidation.

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, 2023.

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.

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 did 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 six months ended June 30, 2023, approximately \$451 million and \$458 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.

There was no significant novation activity during the three and six months ended June 30, 2024 and we do not expect significant future novation activity under the current program. Since the acquisition of the Company on April 1, 2022, approximately 73 percent of account value in the Ceded Business has been novated to Pruco Life under this program.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation. The Company reclassified net proceeds related to repurchase agreements by disaggregating the cash flows related to repurchase agreements with original maturity dates greater than 90 days from those with original maturity dates less than 90 days within the Consolidated Statements of Cash Flows.

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 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 4 herein and Notes 2 and 4 in the Company's Annual Report on Form 10-K for the year ended December 31, 2023 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 Accounting Standards Codification ("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.

ASUs issued but not yet adopted as of June 30, 2024:

Standard	Description	Effective date and method of adoption	Effect on the financial statements or other significant matters
<i>ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures</i>	This ASU improves reportable segment disclosure requirements, primarily through enhanced disclosures regarding a company's significant segment expenses and certain other items. The update will also require expanded disclosures regarding the chief operating decision maker (CODM) and the information they are provided when assessing segment performance and allocating resources.	Effective for annual reporting periods beginning January 1, 2024, and interim reporting periods beginning January 1, 2025, using the retrospective method. Early adoption is permitted	The update is expected to expand the Company's disclosures but will not have an impact on the Company's financial position or results of operations.
<i>ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures</i>	This ASU improves income tax disclosure requirements by requiring 1. the use of consistent categories and greater disaggregation of information in the rate reconciliation and 2. income taxes paid disaggregated by jurisdiction.	Effective for annual reporting periods beginning January 1, 2025, and is required to be applied prospectively with the option of retrospective application. Early adoption is permitted.	The update is expected to expand the Company's disclosures but will not have an impact on the Company's financial position or results of operations.

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

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 we retain 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 June 30, 2024 and December 31, 2023, we had a modified coinsurance payable of \$1,726 million and \$1,603 million, respectively, equal to the assets held in the Ceded Business, and are included in the net modified coinsurance payable.

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

	June 30, 2024		
	Retained Business	Ceded Business	Total
	(in millions)		
ASSETS			
Total investments	\$ 4,550	\$ 1,645	\$ 6,195
Cash and cash equivalents	294	85	379
Accrued investment income	53	12	65
Reinsurance recoverables	—	151	151
Deposit asset	—	404	404
Income taxes	78	—	78
Other assets	47	1	48
Separate account assets	21,598	2,077	23,675
TOTAL ASSETS	\$ 26,620	\$ 4,375	\$ 30,995
LIABILITIES AND EQUITY			
LIABILITIES			
Insurance liabilities	\$ 2,233	\$ 2,153	\$ 4,386
Net modified coinsurance payable	—	128	128
Liabilities associated with secured borrowing arrangements	1,121	2	1,123
Other liabilities	303	15	318
Separate account liabilities	21,598	2,077	23,675
TOTAL LIABILITIES	25,255	4,375	29,630
EQUITY	1,365	—	1,365
TOTAL LIABILITIES AND EQUITY	\$ 26,620	\$ 4,375	\$ 30,995

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

	December 31, 2023		
	Retained Business	Ceded Business	Total
	(in millions)		
ASSETS			
Total investments	\$ 4,680	\$ 1,199	\$ 5,879
Cash and cash equivalents	534	406	940
Accrued investment income	51	9	60
Reinsurance recoverables	—	206	206
Deposit asset	—	438	438
Income taxes	99	—	99
Other assets	61	—	61
Separate account assets	21,800	2,070	23,870
TOTAL ASSETS	\$ 27,225	\$ 4,328	\$ 31,553
LIABILITIES AND EQUITY			
LIABILITIES			
Insurance liabilities	\$ 2,835	\$ 2,168	\$ 5,003
Net modified coinsurance payable	—	78	78
Liabilities associated with secured borrowing arrangements	967	—	967
Other liabilities	261	12	273
Separate account liabilities	21,800	2,070	23,870
TOTAL LIABILITIES	25,863	4,328	30,191
EQUITY	1,362	—	1,362
TOTAL LIABILITIES AND EQUITY	\$ 27,225	\$ 4,328	\$ 31,553

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

The following is comprehensive income by segment:

	Three Months Ended June 30, 2024		
	Retained Business	Ceded Business	Total
	(in millions)		
REVENUES			
Premiums	\$ 8	\$ —	\$ 8
Policy charges and fee income	113	—	113
Net investment income	59	16	75
Asset management and service fees	23	—	23
Investment gains (losses), net	(179)	32	(147)
TOTAL REVENUES	24	48	72
BENEFITS AND EXPENSES			
Policyholder benefits and changes in fair value of insurance liabilities	14	48	62
Commission expense	23	—	23
General, administrative and other expenses	20	—	20
TOTAL BENEFITS AND EXPENSES	57	48	105
LOSS FROM OPERATIONS BEFORE INCOME TAXES	(33)	—	(33)
Less: Income tax benefit	(3)	—	(3)
NET LOSS	\$ (30)	\$ —	\$ (30)
Other comprehensive income, before tax:			
Changes in own-credit risk related to insurance liabilities	61	—	61
Less: Income tax expense	13	—	13
Other comprehensive income, net of taxes	48	—	48
COMPREHENSIVE INCOME	\$ 18	\$ —	\$ 18

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

	Six Months Ended June 30, 2024		
	Retained Business	Ceded Business	Total
	(in millions)		
REVENUES			
Premiums	\$ 18	\$ —	\$ 18
Policy charges and fee income	225	—	225
Net investment income	115	30	145
Asset management and service fees	46	—	46
Other income	2	—	2
Investment gains (losses), net	(604)	136	(468)
TOTAL REVENUES	(198)	166	(32)
BENEFITS AND EXPENSES			
Policyholder benefits and changes in fair value of insurance liabilities	(418)	166	(252)
Commission expense	46	—	46
General, administrative and other expenses	38	—	38
TOTAL BENEFITS AND EXPENSES	(334)	166	(168)
INCOME FROM OPERATIONS BEFORE INCOME TAXES	136	—	136
Less: Income tax expense	21	—	21
NET INCOME	\$ 115	\$ —	\$ 115
Other comprehensive income, before tax:			
Changes in own-credit risk related to insurance liabilities	48	—	48
Less: Income tax expense	10	—	10
Other comprehensive income, net of taxes	38	—	38
COMPREHENSIVE INCOME	\$ 153	\$ —	\$ 153

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

	Three Months Ended June 30, 2023		
	Retained Business	Ceded Business	Total
	(in millions)		
REVENUES			
Premiums	\$ 7	\$ —	\$ 7
Policy charges and fee income	115	—	115
Net investment income	58	20	78
Asset management and service fees	23	—	23
Other income	2	1	3
Investment gains (losses), net	(402)	115	(287)
TOTAL REVENUES	(197)	136	(61)
BENEFITS AND EXPENSES			
Policyholder benefits and changes in fair value of insurance liabilities	(391)	136	(255)
Commission expense	23	—	23
General, administrative and other expenses	16	—	16
TOTAL BENEFITS AND EXPENSES	(352)	136	(216)
INCOME FROM OPERATIONS BEFORE INCOME TAXES	155	—	155
Less: Income tax expense	25	—	25
NET INCOME	\$ 130	\$ —	\$ 130
Other comprehensive loss, before tax:			
Changes in own-credit risk related to insurance liabilities	(115)	—	(115)
Less: Income tax benefit	(25)	—	(25)
Other comprehensive loss, net of taxes	(90)	—	(90)
COMPREHENSIVE INCOME	\$ 40	\$ —	\$ 40

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

	Six Months Ended June 30, 2023		
	Retained Business	Ceded Business	Total
	(in millions)		
REVENUES			
Premiums	\$ 14	\$ —	\$ 14
Policy charges and fee income	232	—	232
Net investment income	114	40	154
Asset management and service fees	45	—	45
Other income	3	1	4
Investment gains (losses), net	(372)	250	(122)
TOTAL REVENUES	36	291	327
BENEFITS AND EXPENSES			
Policyholder benefits and changes in fair value of insurance liabilities	(206)	291	85
Commission expense	46	—	46
General, administrative and other expenses	34	—	34
TOTAL BENEFITS AND EXPENSES	(126)	291	165
INCOME FROM OPERATIONS BEFORE INCOME TAXES	162	—	162
Less: Income tax expense	25	—	25
NET INCOME	\$ 137	\$ —	\$ 137
Other comprehensive loss, before tax:			
Changes in own-credit risk related to insurance liabilities	(93)	—	(93)
Less: Income tax benefit	(20)	—	(20)
Other comprehensive loss, net of taxes	(73)	—	(73)
COMPREHENSIVE INCOME	\$ 64	\$ —	\$ 64

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4. 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 4 to the Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023.

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 4 to the Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023 for further information.

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

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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.

	June 30, 2024				
	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	\$ —	\$ 504	\$ —	\$ —	\$ 504
Obligations of U.S. states and their political subdivisions	—	116	—	—	116
Foreign government bonds	—	1	—	—	1
U.S. corporate public securities	—	2,779	—	—	2,779
U.S. corporate private securities	—	145	269	—	414
Foreign corporate public securities	—	256	—	—	256
Foreign corporate private securities	—	30	56	—	86
Asset-backed securities (2)	—	787	275	—	1,062
Commercial mortgage-backed securities	—	12	—	—	12
Residential mortgage-backed securities	—	137	5	—	142
Total fixed maturity securities	—	4,767	605	—	5,372
Mortgage loans (3)	—	—	382	—	382
Short-term investments	—	22	—	—	22
Cash and cash equivalents	379	—	—	—	379
Other invested assets - derivatives	1	826	—	(545)	282
Deposit asset	—	—	404	—	404
Reinsurance recoverables	—	—	151	—	151
Subtotal excluding separate account assets	380	5,615	1,542	(545)	6,992
Separate account assets	—	23,675	—	—	23,675
Total assets	\$ 380	\$ 29,290	\$ 1,542	\$ (545)	\$ 30,667
Liabilities					
Insurance liabilities	\$ —	\$ —	\$ 4,386	\$ —	\$ 4,386
Other liabilities - derivatives	8	1,051	—	(911)	148
Net modified coinsurance payable	—	—	128	—	128
Separate account liabilities	—	23,675	—	—	23,675
Total liabilities	\$ 8	\$ 24,726	\$ 4,514	\$ (911)	\$ 28,337

- (1) “Netting” amounts represent offsetting considerations as disclosed in Note 6.
(2) Includes credit-tranched securities collateralized by syndicated bank loans, sub-prime mortgages, auto loans, credit cards, education loans and other asset types.
(3) As of June 30, 2024, the aggregate fair value of mortgage loans was lower than the aggregate unpaid principal by \$2 million.

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 June 30, 2024 the fair values of these private equity funds and fixed maturity securities were \$29 million and \$10 million, respectively.

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	June 30, 2024				
	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	\$ —	\$ 429	\$ —	\$ —	\$ 429
Obligations of U.S. states and their political subdivisions	—	116	—	—	116
U.S. corporate public securities	—	1,992	—	—	1,992
U.S. corporate private securities	—	—	267	—	267
Foreign corporate public securities	—	121	—	—	121
Foreign corporate private securities	—	—	56	—	56
Asset-backed securities (2)	—	733	259	—	992
Commercial mortgage-backed securities	—	12	—	—	12
Residential mortgage-backed securities	—	19	5	—	24
Total fixed maturity securities	—	3,422	587	—	4,009
Mortgage loans (3)	—	—	382	—	382
Short-term investments	—	2	—	—	2
Cash and cash equivalents	294	—	—	—	294
Other invested assets - derivatives	1	532	—	(507)	26
Subtotal excluding separate account assets	295	3,956	969	(507)	4,713
Separate account assets	—	21,598	—	—	21,598
Total assets	\$ 295	\$ 25,554	\$ 969	\$ (507)	\$ 26,311
Liabilities					
Insurance liabilities	\$ —	—	\$ 2,233	\$ —	\$ 2,233
Other liabilities - derivatives	8	1,008	—	(873)	143
Separate account liabilities	—	21,598	—	—	21,598
Total liabilities	\$ 8	\$ 22,606	\$ 2,233	\$ (873)	\$ 23,974

- (1) “Netting” amounts represent offsetting considerations as disclosed in Note 6.
- (2) Includes credit-tranched securities collateralized by syndicated bank loans, sub-prime mortgages, auto loans, credit cards, education loans and other asset types.
- (3) As of June 30, 2024, the aggregate fair value of mortgage loans was lower than the aggregate unpaid principal by \$2 million.

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 June 30, 2024 the fair values of these private equity funds and fixed maturity securities were \$29 million and \$10 million, respectively.

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	June 30, 2024							
	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	\$	—	\$	75	\$	—	\$	75
Foreign government bonds		—		1		—		1
U.S. corporate public securities		—		787		—		787
U.S. corporate private securities		—		145		2		147
Foreign corporate public securities		—		135		—		135
Foreign corporate private securities		—		30		—		30
Asset-backed securities(2)		—		54		16		70
Residential mortgage-backed securities		—		118		—		118
Total fixed maturity securities		—		1,345		18		1,363
Short-term investments		—		20		—		20
Cash and cash equivalents		85		—		—		85
Other invested assets - derivatives		—		294		—	(38)	256
Deposit asset		—		—		404		404
Reinsurance recoverables		—		—		151		151
Subtotal excluding separate account assets		85		1,659		573	(38)	2,279
Separate account assets		—		2,077		—		2,077
Total assets	\$	85	\$	3,736	\$	573	\$ (38)	\$ 4,356
Liabilities								
Insurance liabilities	\$	—	\$	—	\$	2,153	\$	—
Other liabilities - derivatives		—		43		—	(38)	5
Net modified coinsurance payable		—		—		128		128
Separate account liabilities		—		2,077		—		2,077
Total liabilities	\$	—	\$	2,120	\$	2,281	\$ (38)	\$ 4,363

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

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

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	December 31, 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	\$	—	\$	581	\$	—	\$	—	\$	581
Obligations of U.S. states and their political subdivisions		—		129		—		—		129
Foreign government bonds		—		1		—		—		1
U.S. corporate public securities		—		2,762		—		—		2,762
U.S. corporate private securities		—		146		245		—		391
Foreign corporate public securities		—		150		—		—		150
Foreign corporate private securities		—		31		57		—		88
Asset-backed securities(2)		—		706		246		—		952
Commercial mortgage-backed securities		—		12		—		—		12
Residential mortgage-backed securities		—		131		5		—		136
Total fixed maturity securities		—		4,649		553		—		5,202
Mortgage loans (3)		—		—		437		—		437
Short-term investments		—		17		4		—		21
Cash and cash equivalents		940		—		—		—		940
Other invested assets - derivatives		—		811		—		(694)		117
Deposit asset		—		—		438		—		438
Reinsurance recoverables		—		—		206		—		206
Subtotal excluding separate account assets		940		5,477		1,638		(694)		7,361
Separate account assets		—		23,870		—		—		23,870
Total assets	\$	940	\$	29,347	\$	1,638	\$	(694)	\$	31,231
Liabilities										
Insurance liabilities		—		—		5,003		—		5,003
Other liabilities - derivatives		71		1,230		—		(1,207)		94
Net modified coinsurance payable		—		—		78		—		78
Separate account liabilities		—		23,870		—		—		23,870
Total liabilities	\$	71	\$	25,100	\$	5,081	\$	(1,207)	\$	29,045

- (1) “Netting” amounts represent offsetting considerations as disclosed in Note 6.
- (2) Includes credit-tranched securities collateralized by syndicated bank loans, sub-prime mortgages, auto loans, credit cards, education loans and other asset types.
- (3) As of December 31, 2023, the difference between the aggregate fair value and the aggregate unpaid principal of mortgage loans was de minimis.

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 December 31, 2023 the fair values of these private equity funds and fixed maturity securities were \$24 million and \$8 million, respectively.

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	December 31, 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	\$ —	\$ 506	\$ —	\$ —	\$ 506
Obligations of U.S. states and their political subdivisions	—	129	—	—	129
U.S. corporate public securities	—	2,099	—	—	2,099
U.S. corporate private securities	—	—	244	—	244
Foreign corporate public securities	—	124	—	—	124
Foreign corporate private securities	—	—	56	—	56
Asset-backed securities(2)	—	706	246	—	952
Commercial mortgage-backed securities	—	12	—	—	12
Residential mortgage-backed securities	—	23	5	—	28
Total fixed maturity securities	\$ —	\$ 3,599	\$ 551	\$ —	\$ 4,150
Mortgage loans (3)	—	—	437	—	437
Cash and cash equivalents	534	—	—	—	534
Other invested assets	—	638	—	(638)	—
Subtotal excluding separate account assets	534	4,237	988	(638)	5,121
Separate account assets	—	21,800	—	—	21,800
Total assets	\$ 534	\$ 26,037	\$ 988	\$ (638)	\$ 26,921
Liabilities					
Insurance liabilities	—	—	2,835	—	2,835
Other liabilities - derivatives	71	1,174	—	(1,151)	94
Separate account liabilities	—	21,800	—	—	21,800
Total liabilities	\$ 71	\$ 22,974	\$ 2,835	\$ (1,151)	\$ 24,729

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

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

(3) As of December 31, 2023, the difference between the aggregate fair value and the aggregate unpaid principal of mortgage loans was de minimis.

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 December 31, 2023 the fair values of these private equity funds and fixed maturity securities were \$24 million and \$8 million, respectively.

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	December 31, 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	\$	—	\$	75	\$	—	\$	75
Foreign government bonds		—		1		—		1
U.S. corporate public securities		—		663		—		663
U.S. corporate private securities		—		146		1		147
Foreign corporate public securities		—		26		—		26
Foreign corporate private securities		—		31		1		32
Residential mortgage-backed securities		—		108		—		108
Total fixed maturity securities	\$	—	\$	1,050	\$	2	\$	1,052
Short-term investments		—		17		4		21
Cash and cash equivalents		406		—		—		406
Other invested assets - derivatives		—		173		—	(56)	117
Deposit asset		—		—		438		438
Reinsurance recoverables		—		—		206		206
Subtotal excluding separate account assets		406		1,240		650	(56)	2,240
Separate account assets		—		2,070		—		2,070
Total assets	\$	406	\$	3,310	\$	650	\$ (56)	\$ 4,310
Liabilities								
Insurance liabilities		—		—		2,168		2,168
Other liabilities - derivatives		—		56		—	(56)	—
Net modified coinsurance payable		—		—		78		78
Separate account liabilities		—		2,070		—		2,070
Total liabilities	\$	—	\$	2,126	\$	2,246	\$ (56)	\$ 4,316

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

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Quantitative Information Regarding Internally Priced Level 3 Assets and Liabilities – The tables below present information about the significant unobservable inputs used for recurring fair value measurements regarding certain Level 3 assets and liabilities. Excluded from the tables are assets that are externally priced and for which information about the inputs is not readily available to the Company, accordingly, certain fair value amounts may not reconcile to the "Assets and Liabilities by Hierarchy Level" tables disclosed earlier in this footnote.

June 30, 2024								Impact of Increase in Input on Fair Value(1)
Fair Value	Valuation Techniques	Unobservable Inputs	Minimum	Maximum	Weighted Average			
(in millions)								
Assets:								
Retained business								
Fixed maturity securities								
U.S. corporate private securities	\$ 226	Discounted cash flow	Discount rate	5.09 %	10.36 %	7.15 %	Decrease	
Foreign corporate private securities	35	Discounted cash flow	Discount rate	4.82 %	6.85 %	5.83 %	Decrease	
Asset-backed securities	102	Discounted cash flow	Discount rate	6.66 %	12.70 %	8.22 %	Decrease	
	132	Trade price	Trade price	N/A	N/A	N/A	Increase	
Total asset-backed securities	234							
Mortgage loans								
Residential mortgage loans	305	Level yield	Market yield	5.39 %	10.22 %	7.35 %	Decrease	
Commercial mortgage loans	77	Discounted cash flow	Discount rate	6.43 %	7.66 %	7.30 %	Decrease	
Total Mortgage loans	382							
Ceded business								
Deposit asset	404	Fair values are determined using the same unobservable inputs as insurance liabilities.						
Reinsurance recoverables	151	Fair values are determined using the same unobservable inputs as insurance liabilities.						
Liabilities:								
Insurance liabilities								
Retained business	\$ 2,233	Discounted cash flow	Equity volatility curve (2)	15 %	25 %		Increase	
			Lapse rate(3)	0.65 %	13 %		Decrease	
			Spread over risk free (4)	0.00 %	2.06 %		Decrease	
			Utilization rate(5)	87.5 %	100 %		Increase	
			Withdrawal rate (6)	See table footnote (6) below.				
			Mortality rate(7)	0 %	16 %		Decrease	
Ceded business	2,153	Discounted cash flow	Equity volatility curve (2)	15 %	25 %		Increase	
			Lapse rate(3)	0.65 %	13 %		Decrease	
			Spread over risk free (4)	0.00 %	1.83 %		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	128	Fair values are determined using the same unobservable inputs as insurance liabilities.						

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December 31, 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	\$ 203	Discounted cash flow	Discount rate	5.19 %	9.36 %	6.93 %	Decrease
Foreign corporate private securities	36	Discounted cash flow	Discount rate	4.65 %	6.78 %	5.72 %	Decrease
Asset-backed securities	107	Discounted cash flow	Discount rate	6.37 %	12.17 %	7.96 %	Decrease
	113	Trade price	Trade price	N/A	N/A	N/A	Increase
	220						
Mortgage loans							
Residential mortgage loans	361	Level yield	Market yield	6.43 %	11.61 %	7.94 %	Decrease
Commercial mortgage loans	76	Discounted cash flow	Discount rate	5.87 %	7.15 %	6.72 %	Decrease
Total Mortgage loans	437						
Ceded business							
Deposit asset	438	Fair values are determined using the same unobservable inputs as insurance liabilities.					
Reinsurance recoverables	206	Fair values are determined using the same unobservable inputs as insurance liabilities.					
Liabilities:							
Retained business							
Insurance liabilities	\$ 2,835	Discounted cash flow	Equity volatility curve (2)	15 %	25 %		Increase
			Lapse rate(3)	0.65 %	13 %		Decrease
			Spread over risk free (4)	0.00 %	1.94 %		Decrease
			Utilization rate(5)	87.5 %	100 %		Increase
			Withdrawal rate (6)	See table footnote (6) below.			
			Mortality rate(7)	0 %	16 %		Decrease
Ceded business							
Insurance liabilities	\$ 2,168	Discounted cash flow	Equity volatility curve (2)	15 %	25 %		Increase
			Lapse rate(3)	0.65 %	13 %		Decrease
			Spread over risk free (4)	0.00 %	1.73 %		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							
	78	Fair values are determined using the same unobservable inputs as insurance liabilities.					

- (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 own-credit risk (OCR), which is the risk that the obligation will not be fulfilled by the Company. OCR 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.

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- (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 June 30, 2024 and December 31, 2023, the minimum withdrawal rate assumption is 88% 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%.
- (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, by business segment, and in the aggregate. In addition, the following tables include 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.

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Three Months Ended June 30, 2024

	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	Change in unrealized gains (losses) for assets still held(1)
(in millions)											
Retained Business											
Fixed maturity securities											
U.S. corporate private securities	\$ 271	\$ (4)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 267	(2)
Foreign corporate private securities	57	(1)	—	—	—	—	—	—	—	56	(1)
Residential mortgage-backed securities	5	—	—	—	—	—	—	—	—	5	—
Asset-backed securities	258	—	4	—	—	(3)	—	—	—	259	—
Mortgage loans											
Residential mortgage loans	348	(2)	3	—	—	(44)	—	—	—	305	(4)
Commercial mortgage loans	77	—	—	—	—	—	—	—	—	77	(1)
Ceded Business											
U.S. corporate private securities	1	—	1	—	—	—	—	—	—	2	—
Asset-backed securities	28	—	—	—	—	(2)	—	—	(10)	16	—
Deposit asset	426	(21)	—	—	—	—	(1)	—	—	404	—
Reinsurance recoverables	155	(4)	—	—	—	—	—	—	—	151	—
Net modified coinsurance receivable (payable)	(72)	(56)	—	—	—	—	—	—	—	(128)	—

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

Six Months Ended June 30, 2024

	Fair Value, beginning of year	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	Change in unrealized gains (losses) for assets still held(1)
(in millions)											
Retained Business											
Fixed maturity securities											
U.S. corporate private securities	\$ 244	\$ (1)	\$ 24	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 267	\$ —
Foreign corporate private securities	56	—	—	—	—	—	—	—	—	56	—
Residential mortgage-backed securities	5	—	—	—	—	—	—	—	—	5	—
Asset-backed securities	246	(1)	18	—	—	(4)	—	—	—	259	(2)
Mortgage loans											
Residential mortgage loans	361	3	7	—	—	(66)	—	—	—	305	1
Commercial mortgage loans	76	1	—	—	—	—	—	—	—	77	—
Ceded Business											
U.S. corporate private securities	1	—	1	—	—	—	—	—	—	2	—
Asset-backed securities	—	—	28	—	—	(2)	—	—	(10)	16	—
Foreign corporate private securities	1	—	—	—	—	(1)	—	—	—	—	—
Short-term investments	4	—	3	—	—	(7)	—	—	—	—	—
Deposit asset	438	(31)	—	—	—	—	(3)	—	—	404	—
Reinsurance recoverables	206	(55)	—	—	—	—	—	—	—	151	—
Net modified coinsurance receivable (payable)	(78)	(50)	—	—	—	—	—	—	—	(128)	—

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

Three Months Ended June 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	Change in unrealized gains (losses) for assets still held(1)
(in millions)											
Retained Business											
Fixed maturity securities											
U.S. corporate private securities	\$ 182	\$ 1	\$ 27	\$ —	\$ —	\$ —	\$ —	\$ 18	\$ (18)	\$ 210	\$ 2
Foreign corporate private securities	36	(2)	—	—	—	—	—	—	—	34	(3)
Asset-backed securities	191	—	18	—	—	(1)	—	—	—	208	1
Mortgage loans											
Residential mortgage loans	158	—	31	—	—	(38)	—	—	—	151	—
Commercial mortgage loans	48	—	30	—	—	—	—	—	—	78	—
Ceded Business											
Foreign corporate private securities	—	—	5	—	—	(2)	—	—	—	3	—
Deposit asset	608	(10)	—	—	—	—	(122)	—	—	476	—
Reinsurance recoverables	247	(47)	—	—	—	—	—	—	—	200	—
Net modified coinsurance payable	(45)	(36)	—	—	—	—	—	—	—	(81)	—

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

Six Months Ended June 30, 2023

	Fair Value, beginning of year	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	Change in unrealized gains (losses) for assets still held(1)
(in millions)											
Retained Business											
Fixed maturity securities											
U.S. corporate private securities	\$ 146	\$ 1	\$ 46	\$ —	\$ —	\$ (1)	\$ —	\$ 18	\$ —	\$ 210	\$ 1
Foreign corporate private securities	36	(2)	—	—	—	—	—	—	—	34	(2)
Asset-backed securities	155	(2)	56	—	—	(1)	—	—	—	208	(1)
Mortgage loans											
Residential mortgage loans	161	—	44	—	—	(54)	—	—	—	151	—
Commercial mortgage loans	35	—	43	—	—	—	—	—	—	78	—
Ceded Business											
Foreign corporate private securities	—	—	5	—	—	(2)	—	—	—	3	—
Deposit asset	607	(8)	—	—	—	—	(123)	—	—	476	—
Reinsurance recoverables	235	(35)	—	—	—	—	—	—	—	200	—
Net modified coinsurance receivable (payable)	18	(99)	—	—	—	—	—	—	—	(81)	—

- (1) Changes in 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.

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

Three Months Ended June 30, 2024

	Fair Value, end of period						
	Incurred losses			Change in fair value (discount rate)	Fee income and 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	\$ 2,342	\$ (121)	\$ 105	\$ (137)	\$ 44	\$ —	\$ 2,233
Ceded Business	2,203	(96)	59	(14)	1	—	2,153

Six Months Ended June 30, 2024

	Incurred losses						
	Fair Value, beginning of year	Reduction in estimates of ultimate losses	Increase in estimates of ultimate losses	Change in fair value (discount rate)	Fee income and paid losses	Other	Fair Value, end of period
(in millions)							
Insurance Liabilities							
Retained Business	\$ 2,835	\$ (506)	\$ 213	\$ (382)	\$ 73	\$ —	\$ 2,233
Ceded Business	2,168	(192)	218	(45)	4	—	2,153

Three Months Ended June 30, 2023

	Three Months Ended June 30, 2019						
	Incurred losses			Change in fair value (discount rate)	Fee income and 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	\$ 3,056	\$ (354)	\$ 103	\$ (189)	\$ 96	\$ (1)	\$ 2,711
Ceded Business	2,695	(559)	143	(20)	14	—	2,273

Six Months Ended June 30, 2023

	Reconciliation of Insurance Liabilities						
	Fair Value, beginning of year	Incurred losses		Change in fair value (discount rate)	Fee income and paid losses	Other	Fair Value, end of period
		Reduction in estimates of ultimate losses	Increase in estimates of ultimate losses				
(in millions)							
Insurance Liabilities							
Retained Business	\$ 2,941	\$ (702)	\$ 235	\$ 46	\$ 196	\$ (5)	\$ 2,711
Ceded Business	2,605	(625)	210	56	27	—	2,273

"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).

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

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:

	June 30, 2024			December 31, 2023		
	Retained Business	Ceded Business	Total	Retained Business	Ceded Business	Total
	(in millions)					
Assets:						
Reinsurance recoverables	\$ —	\$ (55)	\$ (55)	\$ —	\$ (29)	\$ (29)
Modified coinsurance receivable	—	73	73	—	(238)	(238)
Deposit asset	—	(34)	(34)	—	(169)	(169)
Liabilities:						
Insurance liabilities	\$ (602)	\$ (15)	\$ (617)	\$ (106)	\$ (437)	\$ (543)

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.

	June 30, 2024									
	Fair Value					Carrying Amount				
	Level 1	Level 2	Level 3	Total	Total					
	(in millions)									
Assets:										
Accrued investment income	\$	—	\$	65	\$	—	\$	65	\$	65
Other invested assets - Other		81		—		11		92		92
Liabilities:										
Liabilities associated with secured borrowing arrangements										
Repurchase agreements	\$	—	\$	1,000	\$	—	\$	1,000	\$	1,121
Securities lending transactions		—		2		—		2		2

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

	December 31, 2023									
	Fair Value				Carrying Amount					
	Level 1	Level 2	Level 3	Total	Total					
	(in millions)									
Assets:										
Accrued investment income	\$	—	\$	60	\$	—	\$	60	\$	60
Other invested assets - Other		50		—		11		61		61
Liabilities:										
Liabilities associated with secured borrowing arrangements										
Repurchase agreements	\$	—	\$	825	\$	—	\$	825	\$	967

5. INVESTMENTS

Other Invested Assets

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

	June 30, 2024			December 31, 2023		
	Retained Business	Ceded Business	Total	Retained Business	Ceded Business	Total
	(in millions)					
LPs/LLCs:						
Equity method:						
Private equity	\$ —	\$ 3	\$ 3	\$ —	\$ 4	\$ 4
Real estate-related	—	3	3	—	5	5
Subtotal equity method	—	6	6	—	9	9
Fair value:						
Private equity	29	—	29	24	—	24
Total LPs/LLCs	29	6	35	24	9	33
Derivative instruments	26	256	282	—	117	117
Other	92	—	92	61	—	61
Total other invested assets	<u>\$ 147</u>	<u>\$ 262</u>	<u>\$ 409</u>	<u>\$ 85</u>	<u>\$ 126</u>	<u>\$ 211</u>

Accrued Investment Income

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

	June 30, 2024			December 31, 2023		
	Retained Business	Ceded Business	Total	Retained Business	Ceded Business	Total
	(in millions)					
Fixed maturity securities	\$ 50	\$ 12	\$ 62	\$ 48	\$ 8	\$ 56
Mortgage loans	2	—	2	3	—	3
Short-term investments and cash equivalents	1	—	1	—	1	1
Total accrued investment income	<u>\$ 53</u>	<u>\$ 12</u>	<u>\$ 65</u>	<u>\$ 51</u>	<u>\$ 9</u>	<u>\$ 60</u>

The aggregate fair value of mortgage and other loans that were 90 days or more past due and in non-accrual status was \$1 million and \$2 million as of June 30, 2024 and December 31, 2023, respectively.

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 June 30, 2024			Six Months Ended June 30, 2024		
	Retained Business	Ceded Business	Total	Retained Business	Ceded Business	Total
	(in millions)					
Fixed maturities securities	\$ 62	\$ 13	\$ 75	\$ 122	\$ 25	\$ 147
Mortgage loans	8	—	8	16	—	16
Other invested assets	—	1	1	3	(1)	2
Short-term investments and cash equivalents	8	2	10	14	6	20
Gross investment income	78	16	94	155	30	185
Less: investment expenses (1)	(19)	—	(19)	(40)	—	(40)
Net investment income	\$ 59	\$ 16	\$ 75	\$ 115	\$ 30	\$ 145

	Three Months Ended June 30, 2023			Six Months Ended June 30, 2023		
	Retained Business	Ceded Business	Total	Retained Business	Ceded Business	Total
	(in millions)					
Fixed maturities securities	\$ 51	\$ 13	\$ 64	\$ 98	\$ 27	\$ 125
Equity securities	—	1	1	—	2	2
Mortgage loans	4	—	4	8	—	8
Other invested assets	7	—	7	19	1	20
Short-term investments and cash equivalents	3	6	9	5	12	17
Gross investment income	65	20	85	130	42	172
Less: investment expenses (1)	(7)	—	(7)	(16)	(2)	(18)
Net investment income	\$ 58	\$ 20	\$ 78	\$ 114	\$ 40	\$ 154

(1) For the three and six months ended June 30, 2024, investment expenses within the Retained Business includes \$18 million and \$33 million, respectively, of expense related to liabilities associated with repurchase agreements. For the three and six months ended June 30, 2023, investment expenses within the Retained Business includes \$4 million and \$9 million, respectively, of expense related to liabilities associated with repurchase agreements.

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 June 30, 2024								
	Retained Business			Ceded Business			Total Business		
	Unrealized	Realized	Total	Unrealized	Realized	Total	Unrealized	Realized	Total
	(in millions)								
Fixed maturity securities	\$ (75)	\$ (1)	\$ (76)	\$ (4)	\$ —	\$ (4)	\$ (79)	\$ (1)	\$ (80)
Mortgage loans	(5)	2	(3)	—	—	—	(5)	2	(3)
Derivatives	—	(100)	(100)	—	36	36	—	(64)	(64)
Total	\$ (80)	\$ (99)	\$ (179)	\$ (4)	\$ 36	\$ 32	\$ (84)	\$ (63)	\$ (147)

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Six Months Ended June 30, 2024									
	Retained Business			Ceded Business			Total Business		
	Unrealized	Realized	Total	Unrealized	Realized	Total	Unrealized	Realized	Total
(in millions)									
Fixed maturity securities	\$ (152)	\$ —	\$ (152)	\$ (14)	\$ —	\$ (14)	\$ (166)	\$ —	\$ (166)
Mortgage loans	—	2	2	—	—	—	—	2	2
Derivatives	—	(454)	(454)	—	150	150	—	(304)	(304)
Total	\$ (152)	\$ (452)	\$ (604)	\$ (14)	\$ 150	\$ 136	\$ (166)	\$ (302)	\$ (468)

Three Months Ended June 30, 2023									
	Retained Business			Ceded Business			Total Business		
	Unrealized	Realized	Total	Unrealized	Realized	Total	Unrealized	Realized	Total
(in millions)									
Fixed maturity securities	\$ (61)	\$ (2)	\$ (63)	\$ (12)	\$ (8)	\$ (20)	\$ (73)	\$ (10)	\$ (83)
Equity securities	—	—	—	(2)	—	(2)	(2)	—	(2)
Derivatives	—	(339)	(339)	—	137	137	—	(202)	(202)
Total	\$ (61)	\$ (341)	\$ (402)	\$ (14)	\$ 129	\$ 115	\$ (75)	\$ (212)	\$ (287)

Six Months Ended June 30, 2023									
	Retained Business			Ceded Business			Total Business		
	Unrealized	Realized	Total	Unrealized	Realized	Total	Unrealized	Realized	Total
(in millions)									
Fixed maturity securities	\$ 95	\$ (28)	\$ 67	\$ 9	\$ (8)	\$ 1	\$ 104	\$ (36)	\$ 68
Equity securities	—	—	—	5	—	5	5	—	5
Derivatives	—	(439)	(439)	—	244	244	—	(195)	(195)
Total	\$ 95	\$ (467)	\$ (372)	\$ 14	\$ 236	\$ 250	\$ 109	\$ (231)	\$ (122)

Secured Borrowing Arrangements

In the normal course of business, FLIAC sells securities under agreements to repurchase and enters into securities lending transactions. These balances are recorded within "Liabilities associated with secured borrowing arrangements" in the Consolidated Statements of Financial Position.

Repurchase Agreements

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.

	June 30, 2024				December 31, 2023			
	Up to 30 days	30 days up to 1 year	1-5 years	Total	Up to 30 days	30 days up to 1 year	1-5 years	Total
(in millions)								
U.S. corporate public securities	\$ 217	\$ 402	\$ 502	\$ 1,121	\$ 356	\$ 108	\$ 503	\$ 967

The market value of the securities posted as collateral under the repurchase agreements was \$1,149 million and \$999 million as of June 30, 2024 and December 31, 2023, respectively.

During the six months ended June 30, 2024, the Company returned a net \$46 million of fixed maturity securities and short-term investments that were received as collateral, on a non-cash basis, related to liabilities associated with repurchase agreements. During the six months ended June 30, 2023, the Company returned \$11 million of fixed maturity securities that were received as collateral, on a non-cash basis, related to liabilities associated with repurchase agreements.

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Securities Lending Transactions

As of June 30, 2024 there were \$2 million of liabilities associated with securities lending transactions, all of which are included in the Ceded Business. The remaining contractual maturity of these liabilities are within the range of 30 days up to 1 year. The market value of the U.S corporate public debt securities that were loaned under these transactions was \$2 million. There were no outstanding securities lending agreements as of December 31, 2023.

6. DERIVATIVES AND HEDGING

Types of Derivative Instruments and Derivative Strategies

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

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

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

Interest Rate Contracts

Interest rate swaps, options, 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.

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

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.

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Foreign Exchange Contracts

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

Under currency forwards, the Company agrees with counterparties to deliver a specified amount of an identified currency at a specified future date. Typically, the price is agreed upon at the time of the contract and payment for such a contract is made at the specified future date. The Company executes forward sales of the hedged currency in exchange for U.S. dollars at a specified exchange rate. The maturities of these forwards correspond with the future periods in which the non-U.S. dollar-denominated earnings are expected to be generated.

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

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.

Primary Underlying Risk/Instrument Type	June 30, 2024				December 31, 2023		
	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	\$ 33,495	\$ 432	\$ (791)	\$ 31,096	\$ 580	\$ (923)	
Interest rate options	215	—	(2)	215	10	(15)	
Currency/Interest Rate							
Foreign currency swaps	100	8	—	102	5	—	
Equity							
Equity futures	(1,966)	1	(8)	(2,025)	—	(71)	
Total return swaps	1,079	6	(65)	1,079	—	(143)	
Equity options	2,912	86	(150)	4,046	43	(94)	
Total Derivatives, Retained Business	35,835	533	(1,016)	34,513	638	(1,246)	
Ceded Business							
Interest Rate							
Interest rate swaps	505	16	(8)	605	22	(12)	
Currency/Interest Rate							
Foreign currency swaps	35	4	—	37	3	—	
Equity							
Total return swaps	266	—	(5)	281	—	—	
Equity options	2,686	274	(30)	2,847	148	(44)	
Total Derivatives, Ceded Business	3,492	294	(43)	3,770	173	(56)	
Total Derivatives (1)	\$ 39,327	\$ 827	\$ (1,059)	\$ 38,283	\$ 811	\$ (1,302)	

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

Fortitude Life Insurance & Annuity Company
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Offsetting Assets and Liabilities

The following table presents recognized derivative instruments and secured borrowings 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.

June 30, 2024							
	Gross Amounts of Recognized Financial Instruments	Gross Amounts Offset in the Statements of Financial Position		Net Amounts Presented in the Statement of Financial Position	Financial Instruments/ Collateral(1)	Net Amount	
		Counterparty Netting	Cash Collateral				
	(in millions)						
Offsetting of Financial Assets:							
Derivatives							
Retained Business	\$ 533	\$ (507)	\$ —	\$ 26	\$ —	\$ 26	
Ceded Business	294	(38)	—	256	—	256	
Total	<u>\$ 827</u>	<u>\$ (545)</u>	<u>\$ —</u>	<u>\$ 282</u>	<u>\$ —</u>	<u>\$ 282</u>	
Offsetting of Financial Liabilities:							
Derivatives							
Retained Business	\$ 1,016	\$ (507)	\$ (366)	\$ 143	\$ (143)	\$ —	
Ceded Business	43	(38)	—	5	—	5	
Total	<u>\$ 1,059</u>	<u>\$ (545)</u>	<u>\$ (366)</u>	<u>\$ 148</u>	<u>\$ (143)</u>	<u>\$ 5</u>	
Repurchase agreements	\$ 1,121	\$ —	\$ —	\$ 1,121	\$ (1,121)	\$ —	
Securities lending transactions	\$ 2	\$ —	\$ —	\$ 2	\$ (2)	\$ —	
December 31, 2023							
	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	
		Counterparty Netting	Cash Collateral				
	(in millions)						
Offsetting of Financial Assets:							
Derivatives							
Retained Business	\$ 638	\$ (638)	\$ —	\$ —	\$ —	\$ —	
Ceded Business	173	(56)	—	117	—	117	
Total	<u>\$ 811</u>	<u>\$ (694)</u>	<u>\$ —</u>	<u>\$ 117</u>	<u>\$ —</u>	<u>\$ 117</u>	
Offsetting of Financial Liabilities:							
Derivatives							
Retained Business	\$ 1,246	\$ (638)	\$ (514)	\$ 94	\$ (94)	\$ —	
Ceded Business	56	(56)	—	—	—	—	
Total	<u>\$ 1,302</u>	<u>\$ (694)</u>	<u>\$ (514)</u>	<u>\$ 94</u>	<u>\$ (94)</u>	<u>\$ —</u>	
Repurchase agreements	\$ 967	\$ —	\$ —	\$ 967	\$ (967)	\$ —	

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

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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 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 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, 2023.

Classification of Derivatives Activity

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

	Three Months Ended			Six Months Ended		
	June 30, 2024					
	Investment gains (losses), net	Other income	Total	Investment gains (losses), net	Other income	Total
	(in millions)					
Retained Business						
Interest Rate	\$ (19)	\$ —	\$ (19)	\$ (93)	\$ —	\$ (93)
Currency/Interest Rate	—	1	1	—	3	3
Credit	1	—	1	3	—	3
Equity	(82)	—	(82)	(364)	—	(364)
Total, Retained Business	(100)	1	(99)	(454)	3	(451)
Ceded Business						
Interest Rate	1	—	1	3	—	3
Currency/Interest Rate	1	—	1	1	—	1
Equity	34	—	34	146	—	146
Total, Ceded Business	36	—	36	150	—	150
Total	\$ (64)	\$ 1	\$ (63)	\$ (304)	\$ 3	\$ (301)

	Three Months Ended	Six Months Ended
	June 30, 2023	
	Investment gains (losses), net	
	(in millions)	
Retained Business		
Interest Rate	\$ (77)	\$ 38
Credit	2	2
Equity	(264)	(479)
Total, Retained Business	(339)	(439)
Ceded Business		
Interest Rate	36	67
Credit	1	1
Equity	100	176
Total, Ceded Business	137	244
Total	<u>\$ (202)</u>	<u>\$ (195)</u>

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 months ended June 30, 2024, the Company's income tax provision amounted to an income tax benefit of approximately \$3 million, or 9.1 percent of loss from operations before income taxes. For the six months ended June 30, 2024, the Company's income tax provision amounted to an income tax expense of approximately \$21 million, or 15.4 percent of income from operations before income taxes. The effective tax rate differed from the U.S. statutory tax rate of 21 percent in each period due primarily to non-taxable investment income, intercompany cost allocations, and the deductible foreign taxes paid and accrued.

For the three months ended June 30, 2023, the Company's income tax provision amounted to an income tax expense of approximately \$25 million, or 16.1 percent of income from operations before income tax. For the six months ended June 30, 2023, the Company's income tax provision amounted to an income tax expense of approximately \$25 million or 15.4 percent of income from operations before income taxes. The effective tax rate differed from the U.S. statutory tax rate of 21 percent in each period due primarily to non-taxable investment income and a decrease in the valuation allowance on deferred tax assets.

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 both June 30, 2024 and December 31, 2023, the Company had a valuation allowance of \$36 million 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.

8. EQUITY

Dividends and Distributions to Parent

During the first quarter of 2024, a \$150 million dividend was approved by the Company's board of directors, \$75 million of which was considered an ordinary dividend and was not subject to approval by the Arizona Department of Insurance and Financial Institutions ("DIFI") prior to payment and was accrued for as of March 31, 2024. The other \$75 million was conditioned upon the Company receiving written approval from the Arizona DIFI prior to payment and was not accrued for as of March 31, 2024. In April 2024, the Company received written approval from the Arizona DIFI and the \$150 million dividend was distributed in cash to FGH in the second quarter of 2024.

During the first quarter of 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.

Fortitude Life Insurance & Annuity Company
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Accumulated Other Comprehensive Income (Loss)

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

AOCI is comprised entirely of changes in own-credit risk related to insurance liabilities. The balance of and changes in each component of AOCI are as follows:

	Changes in Own-Credit Risk Related to Insurance Liabilities (in millions)
Balance, December 31, 2023	\$ (65)
Change in OCI	(13)
Less: Income tax benefit	(3)
Balance, March 31, 2024	\$ (75)
Change in OCI	61
Less: Income tax expense	13
Balance, June 30, 2024	\$ (27)

	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

9. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

As of June 30, 2024, the Company had commitments totaling \$280 million to purchase or fund investments related to private fixed maturity securities 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

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

connection with these matters, after consideration of applicable reserves and rights to indemnification, should not have a material adverse effect on the Company's financial position.

Litigation and Regulatory Matters

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

The Company establishes accruals for litigation and regulatory matters when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. For litigation and regulatory matters where a loss may be reasonably possible, but not probable, or is probable but not reasonably estimable, no accrual is established, but the matter, if material, is disclosed. The Company estimates that as of June 30, 2024, 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, 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

The 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 Company's expenses are allocations or charges from FGH. These expenses primarily relate to general and administrative expenses which include accounting, actuarial, risk management, and data processing services. FGH also provides the Company with personnel and certain other services. The allocation of costs for other services are based on estimated level of usage, transactions or time incurred in providing the respective services. During the three and six months ended June 30, 2024, FLIAC was allocated \$12 million and \$21 million, respectively, of costs for these services. During the three and six months ended June 30, 2023, FLIAC was allocated \$9 million and \$17 million, respectively, of costs for these services.

Intercompany Liquidity Agreement

FLIAC entered into an intercompany liquidity agreement with FGH that allows the Company to borrow or loans funds of up to \$300 million to meet the short-term liquidity and other capital needs of itself and FGH and its affiliates.

The Company did not borrow or loan any funds under the agreement during the six months ended June 30, 2024. During the six months ended June 30, 2023, the Company borrowed a total of \$200 million of funds under the agreement, of which \$80 million was outstanding at June 30, 2023 but was subsequently repaid in full, plus interest, in July 2023.

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 38.5% equity investment in its parent, FGH. In addition, FLIAC entered into an investment management and consulting services agreement with an affiliate of Carlyle.

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 June 30, 2024 and December 31, 2023, assets under management had a market value of \$562 million and \$529 million, respectively, and were comprised primarily of private credit fixed income assets. FLIAC recognized \$11 million and \$22 million of investment income on such assets during the three and six months ended June 30, 2024, respectively. FLIAC recognized \$6 million and \$11 million of net investment income on such assets during the three and six months ended June 30, 2023., respectively.

In connection with the investment management agreements, as of June 30, 2024, FLIAC has unfunded commitments of \$93 million to fund private investments where one or more Carlyle entities serves as general partner to the fund.

Affiliated Asset Transfers

The Company may participate in affiliated asset transfers with its parent and affiliates. Book and market value differences for trades with its parent and affiliates are recognized within "Investment gains (losses), net". The table below shows affiliated asset trades for the six months ended June 30, 2023. There were no affiliated asset transfers during the six months ended June 30, 2024.

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	—

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

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”).

The following analysis of our financial condition and results of operations should be read 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, 2023, 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.

Group Supervision Updates

Effective April 1, 2024, the Bermuda Monetary Authority ("BMA") made a final determination that it is appropriate for the BMA to be the group supervisor for FGH Parent, L.P. and its subsidiaries (collectively, "Fortitude Re"). FGH Parent, L.P. is a Bermuda-domiciled exempted limited partnership, which serves as the holding company for the Company and its affiliates. As a result of the BMA's determination to be group supervisor of Fortitude Re, Fortitude Re will be subject to group capital standards, additional examination as an insurance group, and participation in supervisory college activities as determined by the BMA and other competent authorities supervising the entities in the insurance group. The Arizona Department of Insurance and Financial Institutions ("DIFI") will remain the supervisor of FLIAC and its affiliated U.S. insurance subsidiaries within Fortitude Re and will coordinate its activities with the BMA regarding overall supervision of Fortitude Re. At this time, we are in the process of determining the additional costs and impacts resulting from the BMA's designation as group supervisor for Fortitude Re.

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 did 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 six months ended June 30, 2023, approximately \$451 million and \$458 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.

There was no significant novation activity during the three and six months ended June 30, 2024 and we do not expect significant future novation activity under the current program. Since the acquisition of the Company on April 1, 2022, approximately 73 percent of account value in the Ceded Business has been novated to Pruco Life under this program.

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, 2023.

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 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.

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 Accounting Standards Codification ("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.

ASUs issued but not yet adopted as of June 30, 2024:

Standard	Description	Effective date and method of adoption	Effect on the financial statements or other significant matters
<i>ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures</i>	This ASU improves reportable segment disclosure requirements, primarily through enhanced disclosures regarding a company's significant segment expenses and certain other items. The update will also require expanded disclosures regarding the chief operating decision maker (CODM) and the information they are provided when assessing segment performance and allocating resources.	Effective for annual reporting periods beginning January 1, 2024, and interim reporting periods beginning January 1, 2025, using the retrospective method. Early adoption is permitted	The update is expected to expand the Company's disclosures but will not have an impact on the Company's financial position or results of operations.
<i>ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures</i>	This ASU improves income tax disclosure requirements by requiring 1. the use of consistent categories and greater disaggregation of information in the rate reconciliation and 2. income taxes paid disaggregated by jurisdiction.	Effective for annual reporting periods beginning January 1, 2025, and is required to be applied prospectively with the option of retrospective application. Early adoption is permitted.	The update is expected to expand the Company's disclosures but will not have an impact on the Company's financial position or results of operations.

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 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 Company by reportable segment.

Retained Business

Assets decreased \$605 million to \$26,620 million at June 30, 2024 from \$27,225 million at December 31, 2023. The decrease was primarily driven by lower separate account assets resulting from net redemptions and the impact of higher interest rates, partially offset by favorable equity market movements. Also contributing to the decline between periods was a decrease in the fair value of fixed maturity securities due to the impact of higher interest rates.

Liabilities decreased \$608 million to \$25,255 million at June 30, 2024 from \$25,863 million at December 31, 2023. The decrease was primarily driven by lower separate account liabilities, corresponding to the decrease in separate account assets, as discussed above, partially offset by higher liabilities associated with secured borrowing arrangements..

Equity increased \$3 million to \$1,365 million at June 30, 2024 from \$1,362 million at December 31, 2023, driven by the year-to-date impacts of net income of \$115 million and the \$38 million net-of-tax improvement in accumulated other comprehensive loss related to movements in our own-credit risk (OCR) on the fair value of insurance liabilities. Mostly offsetting the increase was a \$150 million dividend payment to FGH during the six months ended June 30, 2024

Ceded Business

Assets increased \$47 million to \$4,375 million at June 30, 2024 from \$4,328 million at December 31, 2023. The increase was driven by higher derivative fair values related to equity options, partially offset by declines in reinsurance recoverables and the deposit asset, which generally correspond with lower insurance liabilities.

Liabilities increased \$47 million to \$4,375 million at June 30, 2024 from \$4,328 million at December 31, 2023. The increase was primarily driven by an increase in the net modified coinsurance payable resulting from higher fair values related to investments.

There was no equity within our Ceded Business at both June 30, 2024 and December 31, 2023 as the assets are fully offset by the liabilities.

Results of Operations

INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAXES

Quarter-to-Date Comparison to Prior Period

Retained Business

Loss from operations before income taxes was \$33 million for the three months ended June 30, 2024 compared to income from operations before income taxes of \$155 million for the three months ended June 30, 2023. The change was driven primarily by the impact of higher credit spreads which resulted in higher investment losses related to fixed maturity securities and less favorable movements in the fair value of insurance liabilities, excluding changes in OCR.

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.

Year-to-Date Comparison to Prior Period

Retained Business

Income from operations before income taxes was \$136 million for the six months ended June 30, 2024 compared to income from operations before income taxes of \$162 million for the six months ended June 30, 2023. The decrease was primarily driven by higher equity-related losses in our derivatives portfolio resulting from equity market movements which more than offset the favorable impact on the fair value of insurance liabilities, excluding changes in OCR.

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

Quarter-to-Date Comparison to Prior Period

Retained Business

Revenues were \$24 million for the three months ended June 30, 2024 compared to \$(197) million during the three months ended June 30, 2023. The change was primarily driven by lower investment losses on equity derivatives due to less favorable equity market movements.

Benefits and expenses were \$57 million in the three months ended June 30, 2024 compared to \$(352) million during the three months ended June 30, 2023. The change was driven by less favorable decreases in the fair value of insurance liabilities, excluding changes in OCR, resulting from less favorable 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.

Year-to-Date Comparison to Prior Period

Retained Business

Revenues were \$(198) million for the six months ended June 30, 2024 compared to \$36 million for the six months ended June 30, 2023, the change between periods was primarily driven by higher investment losses on fixed maturity securities due to higher interest rates.

Benefits and expenses were \$(334) million for the six months ended June 30, 2024 compared to \$(126) million for the six months ended June 30, 2023, the change between periods was primarily driven by more favorable declines in the fair value of insurance liabilities, excluding changes in OCR, during the six months ended June 30, 2024 due to the impacts of higher interest rates.

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.

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, 2023.

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 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, 2023.

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.

Dividends and Distributions to Parent

During the first quarter of 2024, a \$150 million dividend was approved by the Company's board of directors, \$75 million of which was considered an ordinary dividend and was not subject to approval by the Arizona Department of Insurance and Financial Institutions ("DIFI") prior to payment and was accrued for as of March 31, 2024. The other \$75 million was conditioned upon the Company receiving written approval from the Arizona DIFI prior to payment and was not accrued for as of March 31, 2024. In April 2024, the Company received written approval from the Arizona DIFI and the \$150 million dividend was distributed in cash to FGH in the second quarter of 2024.

During the first quarter of 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.

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, and fixed maturity securities. As of June 30, 2024 and December 31, 2023, the Company had liquid assets of \$5.8 billion and \$6.2 billion, respectively, which includes \$1.5 billion of modified coinsurance assets contained within the Ceded business, for each respective period. As of June 30, 2024 and

December 31, 2023, the portion of liquid assets comprised of cash and cash equivalents and short-term investments was \$0.4 billion and \$1.0 billion, respectively.

Intercompany Liquidity Agreement

FLIAC entered into an intercompany liquidity agreement with FGH that allows the Company to borrow or loans funds of up to \$300 million to meet the short-term liquidity and other capital needs of itself and FGH and its affiliates.

The Company did not borrow or loan any funds under the agreement during the six months ended June 30, 2024. During the six months ended June 30, 2023, the Company borrowed a total of \$200 million of funds under the agreement, of which \$80 million was outstanding at June 30, 2023 but was subsequently repaid in full, plus interest, in July 2023.

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.

Secured Borrowing Arrangements

In the normal course of business, we may enter into repurchase agreements and securities lending transactions 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 and fixed maturity securities.

A liability representing the amount that the securities will be repurchased is recorded in "Liabilities associated with secured borrowing arrangements" in our consolidated statement of financial position. As of June 30, 2024, the liabilities associated with our outstanding repurchase agreements and securities lending transactions were \$1,121 million and \$2 million, respectively.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of June 30, 2024, there have been no material changes in our economic exposure to market risk from December 31, 2023, a description of which may be found in our Annual Report on Form 10-K for the year ended December 31, 2023, 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, 2023, 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 June 30, 2024. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2024 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 June 30, 2024 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, 2023. 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 5. Other Information

Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers

On August 9, 2024, Greta Hager, 44, was appointed as Senior Vice President, Chief Financial Officer, and member of the Board of Directors of Fortitude Life Insurance & Annuity Company (“FLIAC”). Ms. Hager succeeds Kai Talarek, who is taking on the responsibilities of Chief Growth & Optimization Officer of FGH Parent, L.P. (“FGH” and, together with its subsidiaries, “Fortitude Re”). Ms. Hager’s appointments and Mr. Talarek’s departures as officer and director of FLIAC become effective on August 19, 2024.

We believe Ms. Hager will be a valuable member of FLIAC’s management team and Board because of her deep experience in the insurance industry and key leadership roles within finance. Ms. Hager will also serve as Senior Vice President, Chief Financial Officer of FGH. Ms. Hager has more than 20 years of experience as a finance professional, most recently as the Head of Financial Planning and Analysis at Mass Mutual, a position she held from July 2019 until her departure to join Fortitude. Prior to that experience she served in various strategic leadership roles in both finance and accounting at AIG. Ms. Hager began her career at the public accounting firm Grant Thornton where she served as an audit professional as well as a leader within their National Professional Standards Group. Ms. Hager holds a B.S. in Business Administration from the University of Houston and was licensed as a Certified Public Accountant in Texas.

FGH provides personnel to FLIAC, including Ms. Hager, pursuant to a Services Agreement between FLIAC and FGH, and FGH determines and pays Ms. Hager’s salary, bonuses, and all other compensation. There are no family relationships among Ms. Hager and any of FLIAC’s directors and executive officers. Ms. Hager is not a party to any material plan, contract or arrangement (whether or not written) with FLIAC, and there are no arrangements or understandings between Ms. Hager and any other person pursuant to which she was selected to serve as an officer or director of FLIAC. Ms. Hager is not a participant in any related party transaction required to be reported pursuant to Item 404(a) of Regulation S-K, and there are no material plans, contracts or arrangements (whether or not written) to which Ms. Hager participates that were entered into or materially amended in connection with her appointment.

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: August 9, 2024