



# **Symetra Financial Corporation**

## **Condensed Consolidated Financial Statements**

**September 30, 2019**



**SYMETRA FINANCIAL CORPORATION**  
**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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**SYMETRA FINANCIAL CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(In millions, except share and per share data)

	As of September 30, 2019 (Unaudited)	As of December 31, 2018
<b>ASSETS</b>		
Investments:		
Fixed maturities:		
Available-for-sale, at fair value (amortized cost: <b>\$32,015.2</b> and \$30,800.3, respectively) .	<b>\$ 33,520.9</b>	\$ 30,324.1
Trading, at fair value .....	<b>1,682.8</b>	1,095.8
Marketable equity securities, at fair value .....	<b>119.4</b>	97.7
Mortgage loans, net .....	<b>6,895.5</b>	6,485.1
Investments in limited partnerships (includes <b>\$263.3</b> and \$48.2 at fair value, respectively).	<b>363.3</b>	178.3
Derivatives, at fair value .....	<b>482.7</b>	178.9
Policy loans and other invested assets .....	<b>131.9</b>	83.7
Total investments .....	<b>43,196.5</b>	38,443.6
Cash and cash equivalents .....	<b>627.3</b>	247.3
Accrued investment income .....	<b>347.6</b>	330.0
Reinsurance recoverables .....	<b>6,000.8</b>	6,228.8
DAC and VOBA .....	<b>796.2</b>	1,023.0
Receivables and other assets .....	<b>339.0</b>	269.9
Other intangible assets, net .....	<b>1,124.0</b>	1,188.3
Goodwill .....	<b>563.0</b>	563.0
Deferred income tax assets, net .....	<b>—</b>	65.0
Separate account assets .....	<b>1,064.0</b>	904.3
Total assets .....	<b>\$ 54,058.4</b>	\$ 49,263.2
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
Funds held under deposit contracts .....	<b>\$ 39,735.1</b>	\$ 37,366.9
Future policy benefits .....	<b>550.5</b>	523.2
Policy and contract claims .....	<b>269.6</b>	203.0
Other policyholders' funds .....	<b>143.8</b>	149.5
Funds withheld liability .....	<b>5,983.6</b>	5,589.9
Notes payable, net .....	<b>703.9</b>	705.7
Deferred income tax liabilities, net .....	<b>168.6</b>	—
Other liabilities .....	<b>1,045.9</b>	498.0
Separate account liabilities .....	<b>1,064.0</b>	904.3
Total liabilities .....	<b>49,665.0</b>	45,940.5
Commitments and contingencies (Note 11)		
Common stock, \$0.01 par value; <b>1,000</b> shares authorized; <b>100</b> issued and outstanding .....	<b>—</b>	—
Additional paid-in capital .....	<b>3,516.7</b>	3,516.7
Retained earnings (deficit) .....	<b>(136.7)</b>	127.3
Accumulated other comprehensive income (loss), net of taxes .....	<b>1,013.4</b>	(321.3)
Total stockholder's equity .....	<b>4,393.4</b>	3,322.7
Total liabilities and stockholder's equity .....	<b>\$ 54,058.4</b>	\$ 49,263.2

See accompanying notes.

**SYMETRA FINANCIAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME (LOSS)**  
(In millions)  
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues:				
Premiums .....	\$ 292.7	\$ 254.5	\$ 877.7	\$ 761.3
Net investment income .....	310.4	260.4	896.1	935.9
Policy fees, contract charges, and other .....	92.5	82.5	260.9	243.2
Net realized gains (losses):				
Total other-than-temporary impairment losses on securities .....	(1.8)	(0.7)	(4.6)	(3.7)
Less: portion recognized in other comprehensive income .....	0.4	0.1	0.8	0.1
Net impairment losses on securities recognized in earnings .....	(1.4)	(0.6)	(3.8)	(3.6)
Other net realized gains (losses) .....	(122.6)	(93.3)	(472.5)	(150.4)
Net realized gains (losses) .....	(124.0)	(93.9)	(476.3)	(154.0)
Total revenues .....	571.6	503.5	1,558.4	1,786.4
Benefits and expenses:				
Policyholder benefits and claims .....	243.6	197.4	765.3	636.8
Interest credited .....	202.0	171.5	582.9	675.5
Other underwriting and operating expenses .....	136.5	133.4	408.4	383.1
Interest expense .....	6.6	6.2	19.8	18.3
Amortization of DAC and VOBA .....	27.2	43.4	82.6	69.6
Amortization of intangible assets .....	21.9	21.7	65.5	65.2
Total benefits and expenses .....	637.8	573.6	1,924.5	1,848.5
Income (loss) from operations before income taxes .....	(66.2)	(70.1)	(366.1)	(62.1)
Total benefit for income taxes .....	(21.8)	(92.8)	(101.5)	(96.1)
Net income (loss) .....	\$ (44.4)	\$ 22.7	\$ (264.6)	\$ 34.0

See accompanying notes.

**SYMETRA FINANCIAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
(In millions)  
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income (loss) .....	\$ (44.4)	\$ 22.7	\$ (264.6)	\$ 34.0
Other comprehensive income (loss), net of taxes and reclassification adjustments:				
Changes in unrealized gains (losses) on available-for-sale securities (net of taxes of: <b>\$84.3</b> , \$(20.8), <b>\$427.3</b> , and \$(245.2)) .....	<b>316.9</b>	(78.2)	<b>1,607.3</b>	(922.6)
Other-than-temporary impairments on fixed maturities not related to credit losses (net of taxes of: <b>\$(0.1)</b> , \$0.0, <b>\$(0.2)</b> , and \$0.0) .....	<b>(0.3)</b>	(0.1)	<b>(0.6)</b>	(0.1)
Impact of net unrealized (gains) losses on DAC and VOBA (net of taxes of: <b>\$(19.5)</b> , \$2.2, <b>\$(88.7)</b> , and \$42.0) .....	<b>(73.0)</b>	8.1	<b>(333.5)</b>	158.1
Impact of cash flow hedges (net of taxes of: <b>\$8.1</b> , \$0.0, <b>\$16.6</b> , and \$(1.4)) .....	<b>30.5</b>	0.2	<b>62.1</b>	(5.1)
Other comprehensive income (loss) .....	<b>274.1</b>	(70.0)	<b>1,335.3</b>	(769.7)
Total comprehensive income (loss) .....	<b>\$ 229.7</b>	<b>\$ (47.3)</b>	<b>\$ 1,070.7</b>	<b>\$ (735.7)</b>

See accompanying notes.

**SYMETRA FINANCIAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY**  
(In millions)  
(Unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholder's Equity
January 1, 2018 .....	\$ —	\$ 3,516.7	\$ 144.8	\$ 554.9	\$ 4,216.4
Net income (loss) .....	—	—	34.0	—	34.0
Other comprehensive income (loss) .....	—	—	—	(769.7)	(769.7)
Dividends declared .....	—	—	(70.0)	—	(70.0)
Adoption of new accounting standard .....	—	—	114.3	(114.3)	—
Balances as of September 30, 2018 .....	<u>\$ —</u>	<u>\$ 3,516.7</u>	<u>\$ 223.1</u>	<u>\$ (329.1)</u>	<u>\$ 3,410.7</u>
	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholder's Equity
January 1, 2019 .....	\$ —	\$ 3,516.7	\$ 127.3	\$ (321.3)	\$ 3,322.7
Net income (loss) .....	—	—	(264.6)	—	(264.6)
Other comprehensive income (loss) .....	—	—	—	1,335.3	1,335.3
Adoption of new accounting standard .....	—	—	0.6	(0.6)	—
Balances as of September 30, 2019 .....	<u>\$ —</u>	<u>\$ 3,516.7</u>	<u>\$ (136.7)</u>	<u>\$ 1,013.4</u>	<u>\$ 4,393.4</u>

See accompanying notes.

**SYMETRA FINANCIAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In millions)  
(Unaudited)

	For the Nine Months Ended September 30,	
	2019	2018
<b>Cash flows from operating activities</b>		
Net income (loss) .....	\$ (264.6)	\$ 34.0
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Net realized (gains) losses .....	476.3	154.0
Accretion and amortization of invested assets, net .....	139.5	178.2
Amortization of intangible assets .....	65.5	65.2
Deferred income tax provision (benefit) .....	(121.3)	3.8
Interest credited on deposit contracts .....	582.9	675.5
Mortality and expense charges and administrative fees .....	(223.4)	(203.2)
Payment at inception of reinsurance transaction .....	—	(360.0)
Other changes in:		
DAC and VOBA .....	(115.7)	(121.2)
Other policyholder reserves .....	317.1	153.7
Policy and contract claims .....	66.7	27.8
Funds withheld liability .....	(213.0)	(73.0)
Other assets and liabilities .....	204.0	33.5
Other, net .....	(28.0)	(15.3)
Total adjustments .....	1,150.6	519.0
Net cash provided by (used in) operating activities .....	886.0	553.0
<b>Cash flows from investing activities</b>		
Purchases of:		
Fixed maturities – available-for-sale .....	(5,608.0)	(5,548.3)
Fixed maturities – trading .....	(568.4)	(796.6)
Marketable equity securities .....	(33.4)	(292.8)
Short-term investments .....	(416.4)	(17.5)
Derivatives and other investments .....	(184.3)	(156.1)
Sales of:		
Fixed maturities – available-for-sale .....	2,386.3	2,941.8
Fixed maturities – trading .....	174.5	—
Marketable equity securities .....	15.6	931.9
Maturities, calls, and paydowns .....	2,345.1	1,960.0
Issuances of mortgage loans .....	(833.5)	(615.5)
Repayment of mortgage loans .....	398.6	414.7
Cash received for settlements of derivatives and other investments, net .....	188.7	142.0
Cash received (pledged or returned) as collateral, net .....	287.8	(19.0)
Other, net .....	(45.6)	(7.6)
Net cash provided by (used in) investing activities .....	(1,893.0)	(1,063.0)
<b>Cash flows from financing activities</b>		
Policyholder account balances:		
Deposits .....	2,753.1	3,030.2
Withdrawals .....	(2,260.0)	(2,221.6)
Issuances of funding agreements .....	1,090.9	—
Repayments of funding agreements .....	(173.9)	—
Cash dividends paid on common stock .....	—	(70.0)
Proceeds (issuance costs) from borrowings and credit facilities .....	(1.2)	450.0
Repayment of notes payable .....	—	(450.0)
Net cash provided by (used in) financing activities .....	1,408.9	738.6
Net increase (decrease) in cash, cash equivalents, and restricted cash .....	401.9	228.6
Cash, cash equivalents, and restricted cash at beginning of period .....	307.3	369.9
Cash, cash equivalents, and restricted cash at end of period .....	\$ 709.2	\$ 598.5
<b>Supplemental disclosures of cash flow information</b>		
Non-cash transactions during the period:		
Investment exchanges .....	\$ 1,025.7	\$ 368.6
Commercial mortgage loan refinances .....	48.5	57.2
Lease assets established upon adoption of accounting guidance .....	61.0	—
Lease liabilities established upon adoption of accounting guidance .....	70.0	—
<b>Cash, cash equivalents, and restricted cash reconciliation</b>		
Cash and cash equivalents .....	\$ 627.3	\$ 461.7
Restricted cash, included in receivables and other assets .....	81.9	136.8
Total cash, cash equivalents, and restricted cash .....	\$ 709.2	\$ 598.5

See accompanying notes.

**SYMETRA FINANCIAL CORPORATION**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(All dollar amounts in millions, unless otherwise stated)**  
**(Unaudited)**

## **1. Description of Business**

Symetra Financial Corporation (the Company) is a Delaware corporation that, through its subsidiaries, offers products and services to customers in the retirement, employment-based benefits, and life insurance markets. These products and services are marketed through financial institutions, broker-dealers, benefits consultants, and independent agents and advisors in all 50 states and the District of Columbia.

The Company's principal products include fixed deferred annuities, fixed indexed annuities (FIA), single premium immediate annuities (SPIA), medical stop-loss insurance, group life and disability income (DI) insurance, group fixed-payment insurance, universal life insurance, including indexed universal life insurance (IUL), and institutional life insurance, including bank-owned life insurance (BOLI) and variable corporate owned life insurance (COLI).

In February 2016, the Company became a wholly owned subsidiary of Sumitomo Life Insurance Company, an event which is referred to as the Merger. The Merger was accounted for under the acquisition method of accounting (purchase accounting, or PGAAP).

### **Reinsurance Transaction**

In September 2018, the Company entered into a 100% modified coinsurance reinsurance agreement with Resolution Re Ltd. (the Reinsurance Transaction) for \$6.8 billion of the Company's in-force income annuities (the Closed Block), which included all of the Company's structured settlement annuities. The transaction reduced the Company's exposure to long-term interest rate risk associated with the long-tail nature of the reinsured business.

The Company discontinued selling structured settlements in 2012. Retail SPIA policies issued after September 30, 2017 were not included in this agreement, and the Company continues to sell these products as part of its retirement product offerings.

Under terms of the agreement, the Company continues to service the reinsured business and hold the associated invested assets and policyholder liabilities on the Company's consolidated balance sheets. Resolution Re Ltd. is responsible for asset management, subject to investment management guidelines. Refer to Note 3 for further discussion.

## **2. Summary of Significant Accounting Policies**

The Company's interim condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires the Company to make estimates and assumptions that may affect the amounts reported in the interim condensed consolidated financial statements and accompanying notes. These interim condensed consolidated financial statements are unaudited and, in management's opinion, include all adjustments, consisting of normal recurring adjustments and accruals, necessary for a fair presentation. All significant intercompany transactions and balances have been eliminated. Certain reclassifications have been made to prior year financial information to conform to the current period presentation. Management has assessed subsequent events through November 15, 2019, the date the interim condensed consolidated financial statements were issued.

The Company's interim condensed consolidated financial statements should be read in conjunction with the Company's December 31, 2018 audited consolidated financial statements. Financial results for the nine months ended September 30, 2019 are not necessarily indicative of the results that may be expected for the twelve months ending December 31, 2019. The Company's effective tax rate differs from the U.S. federal income tax rate, primarily due to benefits from the Company's tax credit investments, which are described in more detail within Note 4.



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**Accounting Pronouncements Newly Adopted**

**ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*.** This standard amends the recognition and measurement of hedging instruments to better represent an entity's risk management activities. Under the standard, the requirement to separately measure and report hedge ineffectiveness is eliminated. In addition, the standard provides relief from certain initial documentation requirements and replaces the requirement for quarterly quantitative ineffectiveness testing with a qualitative approach. The update is effective beginning January 1, 2020, with early adoption permissible.

The Company early adopted the standard on January 1, 2019 using a modified retrospective approach. Upon adoption, the Company updated its internal processes and controls to ensure compliance with the revised standard. The adoption did not have a significant impact on the Company's consolidated financial statements.

**ASU No. 2016-02, No. 2018-10, No. 2018-11, No. 2019-01, *Leases (Topic 842)*.** These standards amend the recognition requirements for all leases with a term greater than 12 months and provide new guidelines for the identification of a lease within a contract. Under these standards, companies must measure and recognize a liability to make lease payments and a right-of-use asset representing the right to use the underlying asset for the lease term. In addition, the standards require expanded quantitative and qualitative disclosures. The standards provide a simplified transition method, which allows entities to recognize the cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption, rather than in the earliest period presented. These updates are effective beginning January 1, 2020, with early adoption permissible.

The Company early adopted the standard on January 1, 2019 using a modified retrospective approach and applied the requirements to all existing leases using the simplified transition option. Upon adoption, the Company established a right-of-use asset of \$61.0 and corresponding lease liability within other assets and other liabilities on the Company's consolidated balance sheets. The adoption did not have an impact on the Company's consolidated statements of income (loss).

The Company has operating leases for its office space. The Company's operating leases expire at various dates through 2025, subject to certain renewal options. As of September 30, 2019, the weighted average remaining lease term was approximately 6 years, and the weighted average discount rate was 2.6%. The Company also elected the practical expedient of accounting for lease and non-lease components as a single lease component. Short term leases, which are defined as those with a term less than 12 months, are not recognized on the Company's consolidated balance sheets.

**ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework*.** This standard amends the disclosure requirements for fair value measurements. Under the standard, there are new disclosure requirements for Level 3 fair value measurements as well as the modification and elimination of certain current disclosure requirements. The update is effective beginning January 1, 2020, with early adoption permissible. Companies are permitted to early adopt any removed or modified disclosures and delay adoption of the additional disclosures until their effective date.

The Company early adopted the portions of the standard on January 1, 2019 that modified and removed certain disclosure requirements. In particular, information related to the changes in unrealized gains and losses for recurring Level 3 fair value measurements were removed.

**Accounting Pronouncements Not Yet Adopted**

**ASU No. 2016-13, No. 2019-04, No. 2019-05, No. 2018-19, No. 2019-10, *Financial Instruments – Credit Losses (Topic 326)*.** These standards amend the credit loss measurement guidance for certain financial assets to reflect current expected credit losses (CECL). Under the CECL model, an entity will estimate lifetime expected credit losses considering available relevant information about historical events, current conditions and reasonable and supportable forecasts. Additionally, the guidance expands the required credit loss disclosures. These standards amend the impairment model for available-for-sale fixed maturities, and any credit losses will be recognized through an allowance, rather than through an adjustment to the amortized cost basis. Finally, the standards provide entities with an option to irrevocably elect the fair value option for certain eligible instruments. The update is effective beginning January 1, 2023, with early adoption permissible.

The Company is in the process of implementing models used to estimate credit losses under CECL, with a focus on mortgage loans and reinsurance recoverables, as well as implementing changes to the model to evaluate fixed maturity securities for credit impairment. The Company's implementation process includes model development, evaluation of technical accounting topics, updates to allowance documentation, reporting processes and related internal controls, and overall operational readiness for adoption of the standard. The Company anticipates these standards will accelerate the

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**(All dollar amounts in millions, unless otherwise stated)**  
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timing of loss recognition for certain of its assets, particularly mortgage loans. Upon adoption, the Company will apply these standards using a modified retrospective approach. The Company intends to early adopt the standard on January 1, 2020.

**ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350)*.** This standard removes the requirement to calculate the implied fair value of goodwill (Step 2 of the goodwill impairment test) to measure a goodwill impairment charge. A goodwill impairment charge will now be measured as the amount by which a reporting unit's carrying value exceeds its fair value determined in Step 1 of the goodwill impairment test. This impairment test will be applied to goodwill assigned to all reporting units, even those with zero or negative carrying amounts. The update is effective beginning January 1, 2022, with early adoption permissible.

The Company is monitoring the potential impact of the standard on its annual goodwill impairment assessment. Upon adoption, the Company will apply the standard prospectively.

**ASU No. 2018-12, No. 2019-09, *Financial Services – Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*.** This standard substantially changes the accounting treatment of long-duration insurance contracts. Entities will be required to regularly review and update assumptions used to measure the liability for future policy benefits, which were previously locked at contract inception and held constant over the contract term. Assumptions used to measure discounted cash flows will be reviewed at least annually, and the discount rate assumption will be updated at each reporting date based on a standardized, market-observable discount rate.

Entities will also be required to use a fair value model to measure product features with market risk benefits, with the insurance accrual model no longer an option. The standard simplifies the DAC amortization method for all long-duration contracts by replacing the previous earnings-based methods with a constant level approach. The update will also require additional financial statement disclosures, including a rollforward of the liability and information about significant assumptions used. The update is effective beginning January 1, 2024, with early adoption permissible.

The Company is evaluating the impact of the standard on its annuity and life insurance contracts, as well as reviewing its policies, processes, and applicable systems to determine the impact this standard will have on its operations and consolidated financial statements.

### **3. Reinsurance Transaction**

In September 2018, the Company entered into the Reinsurance Transaction, which was effective as of July 1, 2018 and accounted for under the deposit accounting method.

The Company established a \$6.1 billion deposit asset, included in reinsurance recoverables on its consolidated balance sheet, for an amount equal to the Closed Block's \$5.7 billion net statutory reserves due from the reinsurer and the initial amount paid to the reinsurer at the transaction date. The equivalent GAAP reserves for the reinsured policies were \$6.8 billion at the transaction date. The fair value adjustment recorded under PGAAP at the time of the Merger is the primary driver of the difference between the GAAP and statutory reserves. The difference between the deposit asset and the GAAP reserves is adjusted over the remaining life of the reinsured policies using the effective interest method and recognized as a reduction to interest credited in the Company's consolidated statements of income (loss). The related GAAP reserves were \$6.3 billion and \$6.6 billion as of September 30, 2019 and December 31, 2018, respectively.

Assets supporting the net statutory reserves of the Closed Block are reported as investments on the consolidated balance sheets and are legally owned by the Company. A corresponding funds withheld liability was established on the Company's consolidated balance sheets, which is adjusted based upon the investment and benefit amounts passed to the reinsurer during the period. These adjustments are recorded as ceded activity in net investment income, interest credited, and net realized gains (losses) on the Company's consolidated statements of income (loss).

The funds withheld liability is composed of the host contract and an embedded derivative. The embedded derivative represents the right to receive or obligation to pay the total return on the withheld assets, which must be bifurcated from the host contract and carried at fair value on the Company's consolidated balance sheets.

At inception, the fair value of the embedded derivative was zero. The fair value of the embedded derivative fluctuates with changes in the unrealized gains (losses) on the withheld assets. Changes in the fair value of the embedded derivative are recognized in net realized gains (losses) on the Company's consolidated statements of income (loss). Changes in the fair value of the majority of the withheld assets are not reflected in net income (loss).

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**(All dollar amounts in millions, unless otherwise stated)**  
**(Unaudited)**

The following table provides a reconciliation of the beginning and ending balance for the deposit asset and funds withheld liability:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Deposit asset, beginning of period .....	\$ 5,782.1	\$ 6,072.6	\$ 5,920.4	\$ 6,072.6
Incurred interest adjustment .....	(72.5)	(75.1)	(210.8)	(75.1)
Deposit asset, end of period .....	<u>\$ 5,709.6</u>	<u>\$ 5,997.5</u>	<u>\$ 5,709.6</u>	<u>\$ 5,997.5</u>
Funds withheld liability, beginning of period .....	\$ 5,895.7	\$ 5,700.0	\$ 5,589.9	\$ 5,700.0
Ceded investment amounts .....	85.2	180.8	316.4	180.8
Ceded benefit amounts .....	(149.0)	(159.4)	(446.4)	(159.4)
Quarterly settlement due from (to) reinsurer .....	1.7	(12.7)	(12.3)	(12.7)
Changes in fair value of embedded derivative .....	150.0	(63.0)	536.0	(63.0)
Funds withheld liability, end of period .....	<u>\$ 5,983.6</u>	<u>\$ 5,645.7</u>	<u>\$ 5,983.6</u>	<u>\$ 5,645.7</u>

See Note 12 for the Closed Block's impact on the consolidated statements of income (loss).

The following table summarizes the invested assets supporting the Closed Block:

	As of September 30, 2019	As of December 31, 2018
Fixed maturities:		
Available-for-sale, at fair value (amortized cost: <b>\$2,873.0</b> and \$3,657.6, respectively) .....	\$ 3,171.6	\$ 3,665.5
Trading, at fair value (1) .....	1,682.8	1,095.8
Mortgage loans, net .....	1,162.2	1,244.3
Investment in limited partnerships, at fair value .....	215.6	—
Marketable equity securities, at fair value .....	1.6	7.4
Total Closed Block invested assets .....	<u>\$ 6,233.8</u>	<u>\$ 6,013.0</u>

- (1) As a result of the Reinsurance Transaction, the Company designated new purchases of fixed maturities supporting the Closed Block as trading securities, which are carried at fair value on the Company's consolidated balance sheets. As of September 30, 2019 and December 31, 2018, the majority of the trading fixed maturities were corporate securities, with a fair value of **\$1,295.6** and \$918.9, respectively.

The Closed Block also had restricted cash of \$74.0 and \$50.5 as of September 30, 2019 and December 31, 2018, respectively, which is included in receivables and other assets in the Company's consolidated balance sheets.

The Company remains liable to its policyholders to the extent that the reinsurer does not meet its contractual obligations. In the event of the reinsurer's insolvency, the Company would reclaim the withheld assets supporting the reserve liabilities. The Company has the ability to offset amounts due to the reinsurer with amounts owed from the reinsurer, as well as access to amounts held in trust, which reduces the Company's risk of loss.

Balances related to Closed Block are reflected throughout the condensed notes to the consolidated financial statements.

#### 4. Investments

The Company's investment portfolio consists of fixed maturity securities and commercial mortgage loans, as well as a smaller allocation of investments in limited partnerships, derivatives, marketable equity securities, and other investments.

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**Available-for-sale Securities**

The following tables summarize the Company's available-for-sale (AFS) fixed maturities:

	As of September 30, 2019			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agencies .....	\$ 541.9	\$ 10.3	\$ (0.3)	\$ 551.9
State and political subdivisions .....	679.6	23.6	(0.4)	702.8
Corporate securities .....	23,990.1	1,415.5	(58.6)	25,347.0
Residential mortgage-backed securities .....	2,254.2	48.9	(3.8)	2,299.3
Commercial mortgage-backed securities .....	1,001.9	37.0	(2.4)	1,036.5
Collateralized loan obligations .....	2,197.6	1.3	(9.8)	2,189.1
Other debt obligations .....	1,349.9	46.9	(2.5)	1,394.3
Total .....	<u>\$ 32,015.2</u>	<u>\$ 1,583.5</u>	<u>\$ (77.8)</u>	<u>\$ 33,520.9</u>

  

	As of December 31, 2018			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agencies .....	\$ 435.9	\$ 3.0	\$ (6.1)	\$ 432.8
State and political subdivisions .....	737.0	2.4	(10.5)	728.9
Corporate securities .....	24,255.3	206.1	(590.1)	23,871.3
Residential mortgage-backed securities .....	2,453.0	6.5	(61.2)	2,398.3
Commercial mortgage-backed securities .....	867.2	4.0	(12.8)	858.4
Collateralized loan obligations .....	933.6	0.2	(21.2)	912.6
Other debt obligations .....	1,118.3	14.3	(10.8)	1,121.8
Total .....	<u>\$ 30,800.3</u>	<u>\$ 236.5</u>	<u>\$ (712.7)</u>	<u>\$ 30,324.1</u>

The Company maintains a diversified portfolio of corporate fixed maturity securities across industries. The following table presents the composition of the Company's corporate securities portfolio by sector:

	As of September 30, 2019		As of December 31, 2018	
	Fair Value	% of Total	Fair Value	% of Total
Industrial .....	\$ 3,725.3	14.7%	\$ 3,640.7	15.3%
Energy .....	3,334.9	13.2	3,040.9	12.7
Consumer staples .....	3,051.9	12.0	2,960.4	12.4
Financials .....	3,043.2	12.0	2,850.6	11.9
Utilities .....	2,976.3	11.7	2,708.6	11.3
Health care .....	2,953.8	11.7	2,775.5	11.6
Consumer discretionary .....	2,433.8	9.6	2,188.7	9.2
Communication services .....	2,006.4	7.9	1,871.3	7.8
Other .....	1,821.4	7.2	1,834.6	7.8
Total .....	<u>\$ 25,347.0</u>	<u>100.0%</u>	<u>\$ 23,871.3</u>	<u>100.0%</u>

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The following tables summarize gross unrealized losses and fair values of the Company's available-for-sale investments. The tables are aggregated by investment category and present separately those securities that have been in a continuous unrealized loss position for less than twelve months and for twelve months or more.

As of September 30, 2019						
	Less Than 12 Months			12 Months or More		
	Fair Value	Gross Unrealized Losses	# of Securities	Fair Value	Gross Unrealized Losses	# of Securities
U.S. government and agencies .....	\$ 74.6	\$ (0.3)	10	\$ 2.1	\$ —	2
State and political subdivisions .....	13.2	(0.3)	5	43.6	(0.1)	9
Corporate securities .....	1,048.6	(49.2)	141	358.1	(9.4)	65
Residential mortgage-backed securities .....	283.5	(1.6)	72	227.3	(2.2)	115
Commercial mortgage-backed securities .....	48.3	(0.8)	11	43.2	(1.6)	10
Collateralized loan obligations .....	869.1	(3.0)	57	395.8	(6.8)	21
Other debt obligations .....	60.4	(1.9)	9	68.2	(0.6)	18
Total .....	<u>\$ 2,397.7</u>	<u>\$ (57.1)</u>	<u>305</u>	<u>\$ 1,138.3</u>	<u>\$ (20.7)</u>	<u>240</u>

As of December 31, 2018						
	Less Than 12 Months			12 Months or More		
	Fair Value	Gross Unrealized Losses	# of Securities	Fair Value	Gross Unrealized Losses	# of Securities
U.S. government and agencies .....	\$ 11.2	\$ (0.3)	3	\$ 199.9	\$ (5.8)	31
State and political subdivisions .....	55.3	(0.7)	10	512.2	(9.8)	80
Corporate securities .....	11,030.9	(319.5)	971	6,774.3	(270.8)	440
Residential mortgage-backed securities .....	258.0	(3.4)	67	1,881.3	(57.8)	469
Commercial mortgage-backed securities .....	110.1	(3.6)	16	461.2	(9.2)	45
Collateralized loan obligations .....	811.2	(19.8)	45	41.1	(1.4)	3
Other debt obligations .....	188.9	(2.9)	15	288.4	(7.7)	39
Total .....	<u>\$ 12,465.6</u>	<u>\$ (350.2)</u>	<u>1,127</u>	<u>\$ 10,158.4</u>	<u>\$ (362.5)</u>	<u>1,107</u>

Based on National Association of Insurance Commissioners (NAIC) ratings as of September 30, 2019 and December 31, 2018, the Company held below-investment-grade fixed maturities with fair values of \$851.2 and \$868.0, respectively, and amortized costs of \$822.2 and \$888.0, respectively. These holdings amounted to 2.5% and 2.9% of the Company's available-for-sale fixed maturities as of September 30, 2019 and December 31, 2018, respectively.

The following table summarizes the amortized costs and fair values of available-for-sale fixed maturities as of September 30, 2019, by contractual years to maturity. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties.

	Amortized Cost	Fair Value
One year or less .....	\$ 1,100.1	\$ 1,103.0
Over one year through five years .....	9,248.4	9,497.7
Over five years through ten years .....	10,110.4	10,689.5
Over ten years .....	4,832.7	5,397.5
Total fixed maturities with contractual maturity dates .....	<u>25,291.6</u>	<u>26,687.7</u>
Residential mortgage-backed securities .....	2,254.2	2,299.3
Commercial mortgage-backed securities .....	1,001.9	1,036.5
Collateralized loan obligations .....	2,197.6	2,189.1
Other asset-backed securities .....	1,269.9	1,308.3
Total fixed maturities .....	<u>\$ 32,015.2</u>	<u>\$ 33,520.9</u>

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**Net Investment Income**

The following table summarizes the Company's net investment income:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Fixed maturities – AFS .....	\$ 294.8	\$ 276.6	\$ 871.4	\$ 825.3
Fixed maturities – Trading .....	17.5	1.2	48.0	1.2
Marketable equity securities .....	2.3	3.5	6.3	12.1
Mortgage loans .....	77.4	73.1	223.7	205.7
Other .....	3.3	4.0	11.3	10.7
Total investment income .....	395.3	358.4	1,160.7	1,055.0
Investment expenses .....	(10.8)	(11.7)	(31.4)	(32.8)
Ceded net investment income (1) .....	(74.1)	(86.3)	(233.2)	(86.3)
Net investment income .....	\$ 310.4	\$ 260.4	\$ 896.1	\$ 935.9

(1) Ceded net investment income represents statutory-basis investment income in the Closed Block.

**Realized Gains (Losses)**

The following table summarizes the Company's net realized gains (losses):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Fixed maturities – AFS:				
Gross gains on sales .....	\$ 12.6	\$ 15.1	\$ 58.5	\$ 20.2
Gross losses on sales .....	(4.0)	(24.8)	(27.4)	(36.1)
Net impairment losses .....	(1.4)	(0.6)	(3.8)	(3.6)
Marketable equity securities (1) .....	(8.8)	5.1	3.3	(20.8)
Fixed maturities – Trading (2) .....	55.3	(6.4)	201.7	(6.4)
Investments in limited partnerships .....	(14.5)	(10.6)	(34.0)	(34.7)
Net gains (losses) – Indexed products (3) .....	(23.0)	1.5	(96.2)	16.2
Annual unlocking impact .....	13.2	(39.2)	13.2	(39.2)
DAC and VOBA adjustment .....	5.8	(3.0)	25.9	(10.2)
Embedded derivative – Closed Block .....	(150.0)	63.0	(536.0)	63.0
Ceded realized (gains) losses (4) .....	(11.1)	(94.5)	(83.1)	(94.5)
Other (5) .....	1.9	0.5	1.6	(7.9)
Net realized gains (losses) .....	\$ (124.0)	\$ (93.9)	\$ (476.3)	\$ (154.0)

- (1) Includes net gains (losses) on changes in the fair value of equity securities held totaling \$(7.1) and \$6.0 for the three and nine months ended September 30, 2019, respectively, and \$(3.5) and \$0.1 for the three and nine months ended September 30, 2018, respectively. Realized gains (losses) on equity securities are net of changes in fair value of total return swaps held in 2018.
- (2) Includes net gains (losses) on changes in the fair value of fixed maturities – trading held totaling \$54.0 and \$197.4 for the three and nine months ended September 30, 2019, respectively, and \$(6.4) for the three and nine months ended September 30, 2018.
- (3) Includes changes in fair value of the FIA, indexed-linked annuities, and IUL embedded derivatives (VED) and related options.
- (4) Includes ceded realized statutory-basis (gains) losses on sales of assets supporting the Closed Block.
- (5) Includes net gains (losses) related to calls and redemptions, certain derivatives not designated for hedge accounting, commercial mortgage loans, and other instruments. For more information on net gain (losses) on derivatives not designated as hedges, refer to Note 6.

**Other-Than-Temporary Impairments (OTTI)**

The Company's review of available-for-sale fixed maturities for OTTI includes both quantitative and qualitative criteria. Quantitative criteria include the length of time and amount that each security is in an unrealized loss position (i.e., is underwater) and whether expected future cash flows indicate that a credit loss exists.

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While all securities are monitored for impairment, the Company's experience indicates that, under normal market conditions, securities for which the cost or amortized cost exceeds fair value by less than 20% do not typically represent a significant risk of impairment and, often, fair values recover over time as the factors that caused the declines improve. If the estimated fair value has declined and remained below cost or amortized cost by 20% or more for at least six months, the Company further analyzes the decrease in fair value to determine whether it is an other-than-temporary decline. To make this determination for each security, the Company considers, among other factors:

- Extent and duration of the decline in fair value below amortized cost;
- Financial condition and near-term prospects of the issuer of the security, including any specific events that may affect its operations, earnings potential or compliance with terms and covenants of the security;
- Changes in the financial condition of the security's underlying collateral;
- Any downgrades of the security by a rating agency;
- Nonpayment of scheduled interest; and
- Other indications that a credit loss has occurred.

***Fixed Maturities – AFS***

For fixed maturities, the Company concludes that an OTTI has occurred if a security is underwater and there is an intent to sell the security, or it is more likely than not that the Company will be required to sell the security prior to recovery of its amortized cost, considering any regulatory developments, prepayment or call notifications and the Company's liquidity needs. If there is an intent or requirement to sell the security, the entire unrealized loss is recognized as an OTTI in net realized gains (losses).

An OTTI has also occurred if the present value of expected cash flows is less than the amortized cost of the security (i.e., a credit loss exists). In such cases, the Company isolates the portion of the total unrealized loss related to the credit loss, which is recognized in realized gains (losses) on the Company's consolidated statements of income (loss), and the remainder is recorded as a non-credit OTTI through other comprehensive income (loss) (OCI).

To determine the amount of a credit loss, the Company calculates the recovery value by discounting its estimate of future cash flows from the security. The discount rate is the original effective yield for corporate securities, which reflects book value adjustments made at PGAAP, or current effective yield for mortgage-backed and other structured securities. The amount of the credit loss equals the difference between the carrying value and recovery value of the security.

***Determination of Credit-Related OTTI on Corporate Securities***

To determine the recovery value for a corporate security, the Company performs an analysis including, but not limited to, the following:

- Expected cash flows of the issuer;
- Fundamentals of the industry in which the issuer operates;
- Fundamentals of the issuer to determine what the Company would recover if the issuer were to file for bankruptcy or restructure its debt outside of bankruptcy;
- Expectations regarding defaults and recovery rates;
- Changes to the rating of the security by a rating agency;
- Third-party guarantees; and
- Additional available market information.

***Determination of Credit-Related OTTI on Structured Securities***

To determine the recovery value for a structured security, including residential mortgage-, commercial mortgage- and other asset-backed securities, the Company performs an analysis including, but not limited to, the following:

- Expected cash flows from the security;
- Creditworthiness;
- Delinquency, debt-service coverage, and loan-to-value ratios on the underlying collateral;

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- Underlying collateral values, vintage year and level of subordination;
- Geographic concentrations; and
- Susceptibility to prepayment due to changes in the interest rate environment.

The following table presents the severity and duration of the gross unrealized losses on the Company's underwater available-for-sale fixed maturities, after the recognition of OTTI:

	As of September 30, 2019			As of December 31, 2018		
	Fair Value	Gross Unrealized Losses	# of Securities	Fair Value	Gross Unrealized Losses	# of Securities
Fixed maturities – AFS:						
Underwater by 20% or more:						
Less than 6 consecutive months .....	\$ 3.0	\$ (1.4)	5	\$ 81.9	\$ (23.7)	26
6 consecutive months or more .....	1.8	(1.9)	8	1.3	(1.8)	6
Total underwater by 20% or more .....	4.8	(3.3)	13	83.2	(25.5)	32
All other underwater fixed maturities .....	3,531.2	(74.5)	532	22,540.8	(687.2)	2,243
Total underwater fixed maturities .....	<u>\$ 3,536.0</u>	<u>\$ (77.8)</u>	<u>545</u>	<u>\$ 22,624.0</u>	<u>\$ (712.7)</u>	<u>2,275</u>

Changes in the amount of credit-related OTTI recognized in net income (loss) when the portion related to other factors was recognized in OCI were as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Balance, beginning of period .....	\$ 3.6	\$ 3.9	\$ 4.4	\$ 3.8
Increases recognized in the current period:				
For which an OTTI was not previously recognized .....	0.4	0.2	0.6	0.8
Decreases attributable to:				
Securities sold or paid down during the period .....	(0.2)	(0.3)	(1.2)	(0.8)
Balance, end of period .....	<u>\$ 3.8</u>	<u>\$ 3.8</u>	<u>\$ 3.8</u>	<u>\$ 3.8</u>

The Company reviewed its available-for-sale securities with unrealized losses as of September 30, 2019 in accordance with its impairment policy and determined, after the recognition of OTTI, that the declines in fair value were temporary. The Company did not intend to sell its underwater securities, and it was not more likely than not that the Company will be required to sell the securities before recovery of cost or amortized cost, which may be maturity. This conclusion is supported by the Company's spread analyses, cash flow modeling and expected continuation of contractually required principal and interest payments.

#### **Federal Home Loan Bank Funding Agreements**

The Company has issued funding agreements to the Federal Home Loan Bank of Des Moines (FHLB DM) to support an institutional spread program, where the Company earns spread-income primarily from the difference between investment income earned and interest credited on the funding agreements. As of September 30, 2019 and December 31, 2018, the Company had outstanding funding agreements of \$1,022.7 and \$105.7, respectively, with various maturity dates through 2029. The Company is required to provide collateral in excess of the funding agreement amounts outstanding. Eligible collateral primarily consists of mortgage loans, commercial and residential mortgage backed securities, and government or agency securities.

#### **Investments in Limited Partnerships**

The Company invests in various limited partnerships, including alternative investments (primarily private equity and hedge funds), and tax credit investments. Tax credit investments are limited partnerships that are established to fund affordable housing and other qualifying purposes, where the primary return on investment is in the form of income tax credits. As of September 30, 2019 and December 31, 2018, the Company's limited partnerships had carrying values of the following:



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	As of September 30, 2019	As of December 31, 2018
Alternative investments .....	\$ 263.3	\$ 48.2
Affordable housing investments .....	93.1	122.3
Other tax credit investments .....	6.9	7.8
Total limited partnerships .....	<u>\$ 363.3</u>	<u>\$ 178.3</u>

The following table sets forth the impact of affordable housing project investments on net income (loss). These amounts do not include the impacts of the Company's holdings in other types of tax credit investments.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Pass through activity .....	\$ (2.9)	\$ (5.6)	\$ (10.9)	\$ (18.8)
Write downs .....	(5.5)	(6.4)	(18.3)	(16.7)
Tax benefits .....	1.7	2.5	6.1	7.5
Tax credits, net .....	8.4	9.8	24.8	30.0
Impact to net income (loss) .....	<u>\$ 1.7</u>	<u>\$ 0.3</u>	<u>\$ 1.7</u>	<u>\$ 2.0</u>

## 5. Mortgage Loans

The Company originates and manages a portfolio of mortgage loans, which are secured by first-mortgage liens on income-producing commercial real estate, primarily in the retail, industrial and office building sectors.

The Company's mortgage loan portfolio is diversified by geographic region, loan size and scheduled maturity. As of September 30, 2019, the two states with the largest concentrations of the Company's commercial mortgage loans were California and Texas representing 26.0% and 11.0%, respectively, of total outstanding principal. Of the loans in California, 39.6% related to properties located in the Los Angeles area.

As of the Merger Date, all outstanding mortgage loans were measured at fair value, which resulted in the establishment of a net premium for the portfolio. This net premium is amortized into net investment income on the consolidated statements of income (loss) for each loan based on its expected maturity, using the effective interest rate method. As of September 30, 2019 and December 31, 2018, the unamortized premium balance was \$103.1 and \$130.6, respectively.

### Allowance for Loan Losses

The allowance for losses on mortgage loans provides for the risk of credit loss inherent in the lending process. The allowance consists of a portfolio reserve for probable losses incurred but not specifically identified and, as needed, specific reserves for impaired loans. The allowance for losses on mortgage loans is evaluated at each reporting period and adjustments are recorded when appropriate. Loans are specifically evaluated for impairment if the Company considers it probable that amounts due according to the terms of the loan agreement will not be collected, or the loan is modified in a troubled debt restructuring. The Company establishes specific reserves for these loans when the fair value is less than the carrying value.

To assist in its evaluation of the allowance for loan losses, the Company utilizes the following credit quality indicators to categorize its loans as lower, medium or higher risk:

- *Lower Risk Loans* – Loans with an LTV ratio of less than 65%, and a DSCR of greater than 1.50.
- *Medium Risk Loans* – Loans with an LTV ratio of less than 65% and a DSCR below 1.50, or loans with an LTV ratio between 65% and 80% and a DSCR of greater than 1.50.
- *Higher Risk Loans* – Loans with an LTV ratio greater than 80%, or loans that have an LTV ratio between 65% and 80% and a DSCR of less than 1.50.

As a result of the Merger, loans held as of February 1, 2016 (referred to as PGAAP loans) were adjusted to fair value, which incorporated expectations for credit losses at that time, and the allowance was set to zero. The Company separately monitors these loans for deterioration in credit quality or other indicators that a loss has incurred. Any allowance related to these PGAAP loans reflects losses incurred subsequent to the Merger.

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The following table sets forth the Company's mortgage loans by risk category:

	As of September 30, 2019		As of December 31, 2018	
	Balance	%	Balance	%
Lower risk .....	\$ 2,513.2	68.3%	\$ 1,965.2	66.9%
Medium risk .....	858.8	23.3	727.6	24.8
Higher risk .....	309.0	8.4	244.7	8.3
Subtotal, excluding certain PGAAP loans .....	3,681.0	100.0	2,937.5	100.0
Lower risk .....	2,375.0	74.0	2,586.9	73.0
Medium risk .....	690.9	21.5	745.9	21.0
Higher risk .....	143.6	4.5	211.2	6.0
Subtotal, certain PGAAP loans (1) .....	3,209.5	100.0%	3,544.0	100.0%
Other (2) .....	5.0		3.6	
Total .....	<u>\$ 6,895.5</u>		<u>\$ 6,485.1</u>	

(1) Represents loans set to fair value on February 1, 2016 for which there are no indications of subsequent credit deterioration.

(2) Includes deferred fees and costs, net of allowance for loan losses.

In developing the portfolio reserve for incurred, but not specifically identified losses, the Company evaluates loans by risk category. The Company considers past loan experience, commercial real estate market conditions, third-party data for expected losses on loans with similar LTV ratios and DSCRs, personal guarantees, and other relevant factors when determining whether an allowance is needed for loans categorized as medium or higher risk. No allowance is recorded for lower risk loans based on their characteristics and the Company's historical experience. In developing the provision for specifically identified loans, a market valuation on the collateral is performed to determine if a reserve is necessary.

The following table summarizes the activity in the Company's allowance for mortgage loan losses, which includes portfolio and specific reserves:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Allowance, beginning of period .....	\$ 1.7	\$ 1.5	\$ 1.5	\$ 1.0
Increase (decrease) in provision for specific loans .....	(0.2)	—	—	—
Increase (decrease) in provision for loans not specifically identified .....	0.1	—	0.1	0.5
Allowance, end of period .....	<u>\$ 1.6</u>	<u>\$ 1.5</u>	<u>\$ 1.6</u>	<u>\$ 1.5</u>

Non-performing loans, defined generally as those in default, close to being in default or more than 90 days past due, are placed on non-accrual status. As of September 30, 2019 and December 31, 2018, there were no loans considered non-performing.

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**6. Derivative Instruments**

The following table sets forth the fair value of the Company's derivative instruments, including embedded derivatives. In the Company's consolidated balance sheets, derivative contracts in a liability position are included in other liabilities, and embedded derivatives are included in the balances of the related underlying liabilities.

	As of September 30, 2019			As of December 31, 2018		
	Notional Amount	Fair Value		Notional Amount	Fair Value	
		Assets	Liabilities		Assets	Liabilities
<b>Derivatives designated as hedges:</b>						
Cash flow hedges:						
Interest rate swaps .....	\$ 924.2	\$ 0.8	\$ 0.7	\$ 916.6	\$ 1.5	\$ —
Foreign currency swaps .....	811.8	140.6	1.1	801.3	115.4	3.1
Total derivatives designated as hedges .....	<u>\$ 1,736.0</u>	<u>\$ 141.4</u>	<u>\$ 1.8</u>	<u>\$ 1,717.9</u>	<u>\$ 116.9</u>	<u>\$ 3.1</u>
<b>Derivatives not designated as hedges:</b>						
Index options .....	\$ 9,001.6	\$ 330.1	\$ 8.8	\$ 8,231.5	\$ 61.8	\$ 0.6
Embedded derivatives – Indexed products .....	—	—	1,240.7	—	—	871.5
Embedded derivative – Closed Block .....	—	—	469.0	—	67.0	—
Other derivatives .....	691.7	11.2	5.8	25.2	0.2	0.7
Total derivatives not designated as hedges .....	<u>9,693.3</u>	<u>341.3</u>	<u>1,724.3</u>	<u>8,256.7</u>	<u>129.0</u>	<u>872.8</u>
Total derivatives .....	<u>\$ 11,429.3</u>	<u>\$ 482.7</u>	<u>\$ 1,726.1</u>	<u>\$ 9,974.6</u>	<u>\$ 245.9</u>	<u>\$ 875.9</u>

**Collateral Arrangements and Offsetting of Financial Instruments**

The Company's derivative contracts are typically governed by an International Swaps and Derivatives Association (ISDA) Master Agreement. For each Master Agreement, the Company and the counterparty have also entered into a credit support annex (CSA) to reduce the risk of counterparty default in derivative transactions by requiring the posting of cash collateral or other financial assets. The CSA requires either party to post collateral when net exposures from all derivative contracts between the parties exceed pre-determined contractual thresholds, which vary by counterparty. The amount of net exposure is the difference between the derivative contract's fair value and the fair value of the collateral held for such agreements with each counterparty. Collateral amounts required to be posted or received are determined daily based on the net exposure with each counterparty under a master netting agreement.

The Company does not offset recognized collateral amounts pledged or received against the fair value amounts recognized for derivative contracts. For certain centrally-cleared instruments, the Company is required to post initial margin, which is determined at contract inception, as well as variation margin, which is based on the fair value of the derivative contracts and generally determined on a daily basis. As of September 30, 2019 and December 31, 2018, the Company posted initial margin of \$24.1 and \$21.3, respectively, related to its centrally-cleared derivatives. These amounts are not reflected in collateral presented in the tables below.

Certain exchanges legally characterize variation margin payments as settlements as opposed to collateral for centrally cleared derivatives. As a result, the variation margin for these securities reduces the fair value of the derivative recorded in the Company's consolidated balance sheets.

In the Company's consolidated balance sheets, the Company recognizes cash collateral received in cash and cash equivalents, and the obligation to return cash collateral in other liabilities. Non-cash collateral received is not recognized in the Company's consolidated balance sheets. In the event of default, the counterparty relinquishes claim to the assets pledged as collateral, and the Company recognizes the collateral as its own asset recorded at fair value, or, in the case of cash collateral, derecognizes its obligation to return collateral.

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The following tables present the potential effect of netting arrangements by counterparty on the Company's consolidated balance sheets:

		As of September 30, 2019			
		Gross Amounts Not Offset in the Consolidated Balance Sheets			
		Fair Value Presented in the Balance Sheets	Financial Instruments (1)	Cash Collateral Received	Net Amount
Counterparty:					
Assets:					
A .....	\$	98.6	\$ (2.0)	\$ (96.6)	\$ —
B .....		72.3	(1.8)	(70.5)	—
C .....		23.8	—	(21.7)	2.1
D .....		11.4	(0.4)	(10.8)	0.2
F .....		32.9	(0.2)	(31.9)	0.8
G .....		42.2	(5.4)	(36.8)	—
H .....		32.7	(3.4)	(28.7)	0.6
I .....		41.0	—	(41.0)	—
J .....		46.7	(0.6)	(44.4)	1.7
M .....		68.1	(1.7)	(64.7)	1.7
Other .....		13.0	(0.9)	(12.1)	—
Total derivative assets .....	\$	482.7	\$ (16.4)	\$ (459.2)	\$ 7.1

- (1) Represents amount of offsetting derivative liabilities that are subject to an enforceable master netting agreement or similar agreement that are not net against the gross derivative assets for presentation on the Company's consolidated balance sheets.

		As of December 31, 2018			
		Fair Value Presented in the Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		Net Amount
			Financial Instruments (1)	Cash Collateral Received	
Counterparty:					
Assets:					
A .....	\$	18.1	\$ (2.6)	\$ (15.5)	\$ —
B .....		60.1	(0.6)	(59.5)	—
C .....		18.7	—	(18.7)	—
E .....		11.8	—	(11.8)	—
G .....		15.9	—	(15.6)	0.3
H .....		11.0	(0.5)	(10.5)	—
I .....		16.3	—	(16.0)	0.3
Other .....		27.0	(0.7)	(24.1)	2.2
Total derivative assets (2) .....	\$	178.9	\$ (4.4)	\$ (171.7)	\$ 2.8

- (1) Represents amount of offsetting derivative liabilities that are subject to an enforceable master netting agreement or similar agreement that are not net against the gross derivative assets for presentation on the Company's consolidated balance sheets.
- (2) Excludes embedded derivatives that have no counterparty.

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**Derivatives Designated as Hedges**

The following table presents the amount of gain (loss) recognized in OCI on derivatives qualifying and designated as cash flow hedges:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Interest rate swaps .....	\$ 7.9	\$ (6.0)	\$ 37.9	\$ (30.6)
Foreign currency swaps .....	30.9	6.3	46.8	20.5
Total .....	<u>\$ 38.8</u>	<u>\$ 0.3</u>	<u>\$ 84.7</u>	<u>\$ (10.1)</u>

See Note 10 for amounts reclassified out of accumulated other comprehensive income (loss) (AOCI) into net realized gains (losses) and net investment income on the Company's consolidated statements of income (loss). The Company expects to reclassify net gains of \$9.4 from AOCI into net income (loss) in the next 12 months due to maturities and settlements of derivatives. Actual amounts may vary from this estimate as a result of market conditions.

As of September 30, 2019, the maximum term over which the Company is hedging its exposure to the variability in future cash flows is approximately 21 years.

**Derivatives Not Designated as Hedges**

The following table shows the effect of derivatives not designated as hedges in the Company's consolidated statements of income (loss), which is recorded in net realized gains (losses):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Index options .....	\$ 32.8	\$ 53.6	\$ 207.7	\$ 52.8
Total return swaps .....	—	(27.9)	—	(47.4)
Embedded derivatives – Indexed products .....	(36.9)	(105.4)	(292.7)	(90.8)
Embedded derivative – Closed Block .....	(150.0)	63.0	(536.0)	63.0
Other derivatives .....	4.0	(1.9)	15.1	(1.9)
Total .....	<u>\$ (150.1)</u>	<u>\$ (18.6)</u>	<u>\$ (605.9)</u>	<u>\$ (24.3)</u>

**7. Fair Value of Financial Instruments**

The Company determines the fair value of its financial instruments based on the fair value hierarchy, which favors the use of observable inputs over the use of unobservable inputs. The Company has categorized its financial instruments into the three-level hierarchy, which gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The level assigned to a fair value measurement is based on the lowest-level input that is significant to the measurement. The fair value measurements for the Company's financial instruments are categorized as follows:

- *Level 1* – Unadjusted quoted prices in active markets for identical instruments.
- *Level 2* – Quoted prices for similar instruments in active markets and model-derived valuations whose inputs are observable. This category includes financial instruments that are valued using industry-standard pricing methodologies or models. All significant inputs are observable or derived from observable information in the marketplace.
- *Level 3* – Fair value estimates whose significant inputs are unobservable. This includes financial instruments for which fair value is estimated based on industry-standard pricing methodologies and internally developed models utilizing significant inputs not based on or corroborated by readily available market information. In limited circumstances, this may also utilize estimates based on non-binding broker quotes.

The following tables present the fair value of the Company's financial instruments classified by the valuation hierarchy described above:

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	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
<b>Measured at fair value on a recurring basis:</b>					
<i>Financial assets:</i>					
Fixed maturities – AFS:					
U.S. government and agencies .....	\$ 551.9	\$ 551.9	\$ —	\$ 551.9	\$ —
State and political subdivisions .....	702.8	702.8	—	702.8	—
Corporate securities .....	25,347.0	25,347.0	—	24,906.9	440.1
Residential mortgage-backed securities .....	2,299.3	2,299.3	—	2,299.3	—
Commercial mortgage-backed securities .....	1,036.5	1,036.5	—	1,036.5	—
Collateralized loan obligations .....	2,189.1	2,189.1	—	2,189.1	—
Other debt obligations .....	1,394.3	1,394.3	—	1,336.7	57.6
Total fixed maturities – AFS .....	33,520.9	33,520.9	—	33,023.2	497.7
Fixed maturities, trading .....	1,682.8	1,682.8	—	1,622.8	60.0
Marketable equity securities .....	119.4	119.4	112.4	6.6	0.4
Derivatives:					
Index options .....	330.1	330.1	—	330.1	—
Foreign currency swaps .....	140.6	140.6	—	140.6	—
Other .....	12.0	12.0	—	12.0	—
Total derivatives .....	482.7	482.7	—	482.7	—
Short-term investments (1) .....	22.2	22.2	—	22.2	—
Total investments carried at fair value .....	35,828.0	35,828.0	112.4	35,157.5	558.1
Separate account assets .....	1,064.0	1,064.0	1,064.0	—	—
Total assets at fair value (2) .....	\$ 36,892.0	\$ 36,892.0	\$ 1,176.4	\$ 35,157.5	\$ 558.1
<i>Financial liabilities:</i>					
Embedded derivatives – Indexed products .....	\$ 1,240.7	\$ 1,240.7	\$ —	\$ —	\$ 1,240.7
Embedded derivative – Closed Block .....	469.0	469.0	—	—	469.0

(1) Included in policy loans and other invested assets on the Company's consolidated balance sheets.

(2) Does not include amounts related to alternative investments (primarily hedge funds and private equity) that are measured using the net asset value (NAV) practical expedient. The Company utilizes the fair value option for these investments, regardless of ownership percentage, to standardize the related accounting and reporting. The investments in hedge funds have varying investment strategies, and redemption terms and conditions. The fair value of these investments was \$263.3 as of September 30, 2019.

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	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
<b>Measured at fair value on a recurring basis:</b>					
<i>Financial assets:</i>					
Fixed maturities – AFS:					
U.S. government and agencies .....	\$ 432.8	\$ 432.8	\$ —	\$ 432.8	\$ —
State and political subdivisions .....	728.9	728.9	—	728.9	—
Corporate securities .....	23,871.3	23,871.3	—	23,585.7	285.6
Residential mortgage-backed securities .....	2,398.3	2,398.3	—	2,398.3	—
Commercial mortgage-backed securities .....	858.4	858.4	—	858.4	—
Collateralized loan obligations .....	912.6	912.6	—	912.6	—
Other debt obligations .....	1,121.8	1,121.8	—	1,071.0	50.8
Total fixed maturities – AFS .....	30,324.1	30,324.1	—	29,987.7	336.4
Fixed maturities, trading .....	1,095.8	1,095.8	—	1,095.8	—
Marketable equity securities .....	97.7	97.7	85.2	12.0	0.5
Derivatives:					
Index options .....	61.8	61.8	—	61.8	—
Foreign currency swaps .....	115.4	115.4	—	115.4	—
Other .....	1.7	1.7	0.2	1.5	—
Total derivatives .....	178.9	178.9	0.2	178.7	—
Total investments carried at fair value .....	31,696.5	31,696.5	85.4	31,274.2	336.9
Embedded derivative – Closed Block .....	67.0	67.0	—	—	67.0
Separate account assets .....	904.3	904.3	904.3	—	—
Total assets at fair value (1) .....	\$ 32,667.8	\$ 32,667.8	\$ 989.7	\$ 31,274.2	\$ 403.9
<i>Financial liabilities:</i>					
Embedded derivatives – Indexed products .....	\$ 871.5	\$ 871.5	\$ —	\$ —	\$ 871.5

(1) Does not include amounts related to alternative investments (primarily hedge funds and private equity) that are measured using the net asset value (NAV) practical expedient. The Company utilizes the fair value option for these investments, regardless of ownership percentage, to standardize the related accounting and reporting. The investments in hedge funds have varying investment strategies, and redemption terms and conditions. The fair value of these investments was \$48.2 as of December 31, 2018.

## Financial Instruments Measured at Fair Value on a Recurring Basis

### Fixed Maturities

The vast majority of the Company's fixed maturities, including both available-for-sale and trading, have been classified as Level 2 measurements. To make this assessment, the Company determines whether the market for a security is active and if significant pricing inputs are observable. The Company predominantly utilizes third-party independent pricing services to assist management in determining the fair value of its fixed maturity securities. As of September 30, 2019 and December 31, 2018, pricing services provided prices for 93.8% and 94.5%, respectively, of the Company's fixed maturities.

As of September 30, 2019, the Company had \$2,122.3, or 6.0%, of its available-for-sale fixed maturities invested in private placement securities. These securities were generally valued using a composite of observed comparable public securities as well as reference yield curves. The yield curves are determined based on industry, credit quality, seniority rank in the capital structure, and residual spreads determined by the Company's independent pricing service for each security. The residual spreads are considered unobservable inputs and classified as a Level 3 measurement when they are significant to the valuation result. When only observable inputs are significant to the valuation result, they are classified as Level 2 measurements. The use of only significant observable inputs in determining the fair value of the Company's investments in private placement securities resulted in the classification of \$1,651.0, or 77.8%, as Level 2 measurements as of September 30, 2019. As of December 31, 2018, the Company had \$1,576.9, or 5.0%, of its fixed maturities invested in private placement securities, of which \$1,303.6, or 82.7%, were classified as Level 2 measurements.



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As of September 30, 2019 and December 31, 2018, Level 3 fixed maturities had a fair value of \$497.7 and \$336.4, respectively. Purchases and gross transfers into and out of Level 3 are summarized as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Purchases .....	\$ 88.8	\$ 52.7	\$ 128.6	\$ 84.5
Gross transfer into Level 3 (1) .....	29.7	—	83.6	81.4
Gross transfer out of Level 3 (1) .....	3.1	98.9	—	—

(1) Transfers into and out of Level 3 are generally the result of observable market information on a security no longer being available or utilized by pricing vendors or becoming available or utilized by pricing vendors.

### **Corporate Securities**

The majority of corporate securities classified as Level 2 measurements are priced by independent pricing services utilizing evaluated pricing models. Because many corporate securities do not trade on a daily basis, evaluated pricing models apply available information through processes such as benchmark curves, benchmarking of like securities, sector groupings and matrix pricing to prepare valuations. The significant inputs for security evaluations include benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and other reference data, including market research publications.

### **Residential Mortgage-backed Securities**

The Company's residential mortgage-backed securities (RMBS) classified as Level 2 measurements are priced by pricing services that utilize evaluated pricing models. Because many RMBS do not trade on a daily basis, evaluated pricing models apply available information through processes such as benchmark curves, benchmarking of like securities, sector groupings and matrix pricing to prepare evaluations. The significant observable inputs for security evaluations include benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and other reference data, including market research publications. In addition, the pricing services use models and processes to develop prepayment and interest rate scenarios. The pricing services monitor market indicators, industry and economic events, and their models take into account market convention.

### **Marketable Equity Securities**

When the fair values of the Company's marketable equity securities are based on quoted market prices in active markets for identical assets, they are classified as Level 1 measurements. The fair values of nonredeemable preferred stocks are determined by pricing services utilizing evaluated pricing models and are classified as a Level 2 measurement. These valuations are created based on benchmark curves using industry standard inputs and exchange prices of underlying securities and common stock of the same issuer.

### **Index Options**

Index options consist primarily of Standard & Poor's 500 Index<sup>®</sup> (S&P 500) options. The fair values of these index options were determined using option pricing models. Significant inputs include index implied volatilities, index dividend yields, index prices, a risk-free rate, option term, and option strike price. As these inputs are observable, most index options are classified as a Level 2 measurement.

### **Foreign Currency Swaps**

Foreign currency swaps are valued using an income approach. These swaps are priced using a discounted cash flow model. The significant inputs include the projected cash flows, currency spot rates, swap yield curve, and cross currency basis curve. As these inputs are observable, the foreign currency swaps valuation is classified as a Level 2 measurement.

### **Separate Accounts**

Separate account assets are primarily invested in mutual funds with published NAVs, which are classified as a Level 1 measurement.



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**Embedded Derivatives**

Embedded derivatives primarily relate to the Company's indexed products, which credit interest to the policyholder's account balance based on increases in selected indices, primarily the S&P 500. The fair value of the embedded derivative reflects the excess of the projected benefits based on the indexed fund value over the projected benefits based on the guaranteed fund value. The excess benefits are projected using best estimates for surrenders, mortality and indexed fund interest, and discounted at a risk-free rate plus a spread for nonperformance and policyholder behavior risk.

Embedded derivatives were increased by issuances of indexed products as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Issuances .....	\$ 22.5	\$ 46.6	\$ 97.6	\$ 127.8

The Reinsurance Transaction also contains an embedded derivative related to the withheld assets supporting the Closed Block annuity contracts. The embedded derivative is primarily measured as the change in the market-over-book value of the assets supporting the Closed Block, which includes fixed maturities and mortgage loans.

Because the fair value measurement of these estimates utilizes significant unobservable inputs, the Company classifies the valuation of embedded derivatives as a Level 3 measurement.

**8. Deferred Policy Acquisition Costs (DAC) and Value of Business Acquired (VOBA)**

The following table provides a reconciliation of the beginning and ending balance for DAC:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Unamortized balance, beginning of period .....	\$ 719.4	\$ 532.7	\$ 609.9	\$ 407.2
Deferral of acquisition costs .....	67.3	56.8	198.3	190.8
Adjustments related to realized (gains) losses (1) .....	0.5	2.5	13.4	(3.5)
Amortization – excluding unlocking .....	(17.9)	(28.8)	(50.1)	(30.4)
Amortization – impact of unlocking (1) .....	(2.6)	(2.5)	(4.8)	(3.4)
Adjustment for Closed Block (2) .....	—	(12.6)	—	(12.6)
Unamortized balance, end of period .....	766.7	548.1	766.7	548.1
Accumulated effect of net unrealized (gains) losses .....	(123.3)	37.0	(123.3)	37.0
Balance, end of period .....	\$ 643.4	\$ 585.1	\$ 643.4	\$ 585.1

(1) Includes the impact of assumption and experience unlocking related to quarterly investment prepayment activity as well as the Company's annual unlocking process, which takes place during the third quarter of each year.

(2) The DAC balance associated with policies reinsured under the Reinsurance Transaction was reclassified to the beginning balance of the deposit asset.

The following table provides a reconciliation of the beginning and ending balance for VOBA:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Unamortized balance, beginning of period .....	\$ 308.8	\$ 332.8	\$ 320.3	\$ 358.1
Adjustments related to realized (gains) losses (1) .....	(0.1)	6.5	9.4	4.9
Amortization – excluding unlocking .....	(9.3)	(9.9)	(28.1)	(31.5)
Amortization – impact of unlocking (1) .....	2.6	(2.2)	0.4	(4.3)
Unamortized balance, end of period .....	302.0	327.2	302.0	327.2
Accumulated effect of net unrealized (gains) losses .....	(149.2)	67.3	(149.2)	67.3
Balance, end of period .....	\$ 152.8	\$ 394.5	\$ 152.8	\$ 394.5

(1) Includes the impact of assumption and experience unlocking related to quarterly investment prepayment activity as well as the Company's annual unlocking process, which takes place during the third quarter of each year.

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**9. Liability for Unpaid Claims and Claim Adjustment Expenses**

The following tables provide reconciliations of the beginning and ending liability balances for unpaid claims and claims adjustment expenses (CAE) disaggregated by medical stop-loss, group life and DI, and other. These reserves include policy and contract claims and certain amounts recorded in future policy benefits on the Company's consolidated balance sheets. Liabilities for claims represent estimates that involve significant judgments. The Company reviews its estimates regularly and makes any necessary adjustments based on experience and expectations.

	For the Nine Months Ended September 30,	
	2019	2018
<b>Medical Stop-Loss</b>		
Balance, beginning of period .....	\$ 149.4	\$ 153.1
Less: reinsurance recoverables .....	6.4	12.4
Net balance, beginning of period .....	143.0	140.7
Incurred related to insured events of:		
The current year .....	457.3	367.4
Prior years .....	30.1	(10.4)
Total incurred .....	487.4	357.0
Paid related to insured events of:		
The current year .....	252.0	212.2
Prior years .....	154.0	120.6
Total paid .....	406.0	332.8
Net balance, end of period .....	224.4	164.9
Add: reinsurance recoverables .....	5.3	7.9
Balance, end of period .....	\$ 229.7	\$ 172.8

For the nine months ended September 30, 2019, the change in prior year incurred claims for medical stop-loss was primarily due to unfavorable claims experience on policies issued in January 2018. For the nine months ended September 30, 2018, the change in prior year incurred claims was primarily due to favorable claims experience on policies issued in January 2017.

	For the Nine Months Ended September 30,	
	2019	2018
<b>Group Life and DI</b>		
Balance, beginning of period .....	\$ 230.0	\$ 184.2
Less: reinsurance recoverables .....	40.3	41.9
Net balance, beginning of period .....	189.7	142.3
Incurred related to insured events of:		
The current year .....	151.5	150.9
Prior years .....	(6.6)	(2.7)
Total incurred .....	144.9	148.2
Paid related to insured events of:		
The current year .....	76.0	73.8
Prior years .....	52.7	38.6
Total paid .....	128.7	112.4
Net balance, end of period .....	205.9	178.1
Add: reinsurance recoverables .....	36.3	41.5
Balance, end of period .....	\$ 242.2	\$ 219.6

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	For the Nine Months Ended September 30,	
	2019	2018
<b>Other</b>		
Balance, beginning of period .....	\$ 37.0	\$ 29.6
Less: reinsurance recoverables .....	4.5	4.7
Net balance, beginning of period .....	32.5	24.9
Incurred related to insured events of:		
The current year .....	82.2	84.4
Prior years .....	0.9	3.0
Total incurred .....	83.1	87.4
Paid related to insured events of:		
The current year .....	66.6	61.5
Prior years .....	26.7	20.6
Total paid .....	93.3	82.1
Net balance, end of period .....	22.3	30.2
Add: reinsurance recoverables .....	2.4	3.2
Balance, end of period .....	\$ 24.7	\$ 33.4

The Company's short duration contracts primarily include medical stop-loss and group life and DI. The following table presents total of incurred but not reported (IBNR) liabilities, including expected development on reported claims:

Year of Insured Event	As of September 30, 2019	
	Medical Stop-Loss	Group Life and DI
<b>IBNR Reserves:</b>		
2017 and prior .....	\$ —	\$ 4.8
2018 .....	15.2	6.7
2019 .....	174.8	48.3
Total .....	\$ 190.0	\$ 59.8

## 10. Stockholder's Equity

The following tables summarize the components of AOCI and the adjustments to OCI for amounts reclassified from AOCI into net income (loss) for the three and nine months ended September 30, 2019:

	Net Unrealized Gains (Losses) on Available-for- sale Securities	OTTI on Fixed Maturities not related to Credit Losses (2)	Adjustment for DAC and VOBA	Net Gains (Losses) on Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss)
Balance as of July 1, 2019 .....	\$ 872.1	\$ (0.5)	\$ (174.5)	\$ 42.2	\$ 739.3
Other comprehensive income (loss) before reclassifications, net of taxes (1) .....	322.6	(0.3)	(72.2)	30.6	280.7
Reclassifications recorded in:					
Net investment income:					
Interest rate swaps .....	—	—	—	1.6	1.6
Foreign currency swaps .....	—	—	—	(1.8)	(1.8)
Net realized (gains) losses .....	(7.2)	—	(1.1)	0.1	(8.2)
Total provision (benefit) for income taxes .....	1.5	—	0.3	—	1.8
Total reclassifications from AOCI, net of taxes ..	(5.7)	—	(0.8)	(0.1)	(6.6)
Other comprehensive income (loss) after reclassifications .....	316.9	(0.3)	(73.0)	30.5	274.1
Balance as of September 30, 2019 .....	\$ 1,189.0	\$ (0.8)	\$ (247.5)	\$ 72.7	\$ 1,013.4

(1) Other comprehensive income (loss) before reclassifications is net of taxes of \$85.8, \$(0.1), \$(19.2), \$8.1, and \$74.6, respectively, for the three months ended September 30, 2019.

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- (2) Reclassification adjustments of OTTI on fixed maturities not related to credit losses are included in changes in unrealized gains and losses on available-for-sale securities within the Company's consolidated statements of comprehensive income (loss).

	Net Unrealized Gains (Losses) on Available-for- sale Securities	OTTI on Fixed Maturities not related to Credit Losses (2)	Adjustment for DAC and VOBA	Net Gains (Losses) on Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss)
Balance as of January 1, 2019 .....	\$ (417.3)	\$ (1.2)	\$ 86.0	\$ 11.2	\$ (321.3)
Other comprehensive income (loss) before reclassifications, net of taxes (1) .....	1,627.8	(0.6)	(315.0)	66.9	1,379.1
Reclassifications recorded in:					
Net investment income:					
Interest rate swaps .....	—	—	—	6.1	6.1
Foreign currency swaps .....	—	—	—	(7.7)	(7.7)
Net realized (gains) losses .....	(27.2)	1.2	(23.4)	(4.4)	(53.8)
Total provision (benefit) for income taxes .....	5.7	(0.2)	4.9	1.2	11.6
Total reclassifications from AOCI, net of taxes..	(21.5)	1.0	(18.5)	(4.8)	(43.8)
Other comprehensive income (loss) after reclassifications .....	1,606.3	0.4	(333.5)	62.1	1,335.3
Adoption of new accounting standard (3) .....	—	—	—	(0.6)	(0.6)
Balance as of September 30, 2019 .....	\$ 1,189.0	\$ (0.8)	\$ (247.5)	\$ 72.7	\$ 1,013.4

- (1) Other comprehensive income (loss) before reclassifications is net of taxes of \$432.8, \$(0.2), \$(83.8), \$17.8, and \$366.6, respectively, for the nine months ended September 30, 2019.
- (2) Reclassification adjustments of OTTI on fixed maturities not related to credit losses are included in changes in unrealized gains and losses on available-for-sale securities within the Company's consolidated statements of comprehensive income (loss).
- (3) Accounting Standards Update No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. Refer to Note 2 for further discussion.

The following tables summarize the components of AOCI and the adjustments to OCI for amounts reclassified from AOCI into net income (loss) for the three and nine months ended September 30, 2018:

	Net Unrealized Gains (Losses) on Available-for- sale Securities	OTTI on Fixed Maturities not related to Credit Losses (2)	Adjustment for DAC and VOBA	Net Gains (Losses) on Cash Flow Hedges	Accumulated Other Comprehensive Income
Balance as of July 1, 2018 .....	\$ (312.2)	\$ (0.3)	\$ 86.4	\$ (33.0)	\$ (259.1)
Other comprehensive income (loss) before reclassifications, net of taxes (1) .....	(86.3)	(0.1)	14.9	0.4	(71.1)
Reclassifications recorded in:					
Net investment income:					
Interest rate swaps .....	—	—	—	1.6	1.6
Foreign currency swaps .....	—	—	—	(1.9)	(1.9)
Net realized (gains) losses .....	10.3	—	(8.6)	0.1	1.8
Total provision (benefit) for income taxes .....	(2.2)	—	1.8	—	(0.4)
Total reclassifications from AOCI, net of taxes..	8.1	—	(6.8)	(0.2)	1.1
Other comprehensive income (loss) after reclassifications .....	(78.2)	(0.1)	8.1	0.2	(70.0)
Balance as of September 30, 2018 .....	\$ (390.4)	\$ (0.4)	\$ 94.5	\$ (32.8)	\$ (329.1)

- (1) Other comprehensive income (loss) before reclassifications is net of taxes of \$(22.9), \$0.0, \$3.9, \$0.0, and \$(19.0), respectively, for the three months ended September 30, 2018.
- (2) Reclassification adjustments of OTTI on fixed maturities not related to credit losses are included in changes in unrealized gains and losses on available-for-sale securities within the Company's consolidated statements of comprehensive income (loss).

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	Net Unrealized Gains (Losses) on Available-for- sale Securities	OTTI on Fixed Maturities not related to Credit Losses (2)	Adjustment for DAC and VOBA	Net Gains (Losses) on Cash Flow Hedges	Accumulated Other Comprehensive Income
Balance as of January 1, 2018 .....	\$ 646.5	\$ (0.3)	\$ (63.6)	\$ (27.7)	\$ 554.9
Other comprehensive income (loss) before reclassifications, net of taxes (1) .....	(938.7)	(0.1)	159.2	(7.9)	(787.5)
Reclassifications recorded in:					
Net investment income:					
Interest rate swaps .....	—	—	—	3.3	3.3
Foreign currency swaps .....	—	—	—	(5.0)	(5.0)
Net realized (gains) losses .....	20.4	—	(1.4)	5.3	24.3
Total provision (benefit) for income taxes .....	(4.3)	—	0.3	(0.8)	(4.8)
Total reclassifications from AOCI, net of taxes..	16.1	—	(1.1)	2.8	17.8
Other comprehensive income (loss) after reclassifications .....	(922.6)	(0.1)	158.1	(5.1)	(769.7)
Adoption of new accounting standard (3) .....	(114.3)	—	—	—	(114.3)
Balance as of September 30, 2018 .....	<u>\$ (390.4)</u>	<u>\$ (0.4)</u>	<u>\$ 94.5</u>	<u>\$ (32.8)</u>	<u>\$ (329.1)</u>

- (1) Other comprehensive income (loss) before reclassifications is net of taxes of \$(249.5), \$0.0, \$42.3, \$(2.2), and \$(209.4), respectively, for the nine months ended September 30, 2018.
- (2) Reclassification adjustments of OTTI on fixed maturities not related to credit losses are included in changes in unrealized gains and losses on available-for-sale securities within the Company's consolidated statements of comprehensive income (loss).
- (3) Accounting Standards Update No. 2016-01, Financial Instruments (Topic 825): Recognition and Measurement of Financial Assets and Financial Liabilities.

## 11. Commitments and Contingencies

### Litigation

Because of the nature of its business, the Company is subject to legal actions filed or threatened in the ordinary course of its business operations. The Company establishes liabilities for litigation and regulatory actions when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. For matters where a loss is believed to be reasonably possible, but not probable, no liability is established. For such matters, the Company may provide an estimate of the possible loss or range of loss or a statement that such an estimate cannot be made. The Company reviews relevant information with respect to litigation and regulatory matters on a quarterly basis and updates its established liabilities, disclosures and estimates of reasonably possible losses or range of loss based on such reviews.

Although the Company cannot predict the outcome of any litigation or regulatory action, the Company does not believe that any such matters will have an impact on its financial condition or results of operations that differs materially from the Company's established liabilities. Given the inherent difficulty in predicting the outcome of such matters, however, it is possible that an adverse outcome in certain such matters could be material to the Company's financial condition or results of operations for any particular reporting period.

### Commitments

The Company has committed to provide future capital contributions for investments in limited partnerships related to its alternative investments (hedge and private equity funds). As of September 30, 2019 and December 31, 2018, the amount of these unfunded commitments were \$349.6 and \$0.3, respectively.

As of September 30, 2019 and December 31, 2018, unfunded mortgage loan commitments were \$101.3 and \$65.9, respectively. The Company had no other material commitments or contingencies as of September 30, 2019 and December 31, 2018.

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**12. Segment Information**

The Company offers a broad range of products and services that include retirement, employment-based benefits, and life insurance products. These operations are managed separately as three divisions. In third quarter 2018, and as a result of the Reinsurance Transaction, the Company revised its segments into three business segments based on product groupings and information used by management: Benefits, Retirement, and Individual Life. The Company also has a fourth reportable segment, Other, consisting primarily of unallocated corporate items and surplus investment income.

The results from operations related to the business exited through the Reinsurance Transaction are reported as the "Closed Block" and included in the Company's consolidated financial statements. The income (loss) related to the Closed Block is excluded from the profitability measures used by management, which results in more informative financial trends from the Company's core business and aligns results with how the Company manages its segments. Prior period results have been adjusted to reflect this change.

The primary profitability measure that management uses to manage business segment results is adjusted pre-tax income (loss), which is defined as income from operations excluding results of the Closed Block, intangible asset amortization, and certain net realized gains (losses). Excluded gains (losses) are associated with the following:

- investment impairment, sales, or other disposals,
- changes in the fair value of mark-to-market investments and derivative investments,
- changes in the fair value of embedded derivatives related to the Company's indexed products, and
- DAC, VOBA, and DSI impacts related to these items.

The following table presents selected financial information by segment and reconciles segment pre-tax adjusted operating income (loss) to amounts reported in the Company's consolidated statements of income (loss):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Segment adjusted pre-tax income (loss):				
Benefits .....	\$ 27.0	\$ 24.1	\$ 36.6	\$ 57.8
Retirement .....	38.6	30.5	110.1	87.1
Individual Life .....	8.6	(5.5)	19.8	8.9
Other .....	(8.0)	(8.0)	(29.6)	(29.4)
Total segment adjusted pre-tax income .....	66.2	41.1	136.9	124.4
Add (deduct) the following:				
Excluded realized gains (losses) .....	(11.4)	(28.5)	(52.4)	(32.5)
Amortization of intangible assets .....	(22.0)	(21.7)	(65.5)	(63.5)
Closed Block – mark-to-market gains (losses) .....	(96.0)	56.6	(338.6)	56.6
Closed Block – other results .....	(3.0)	(117.6)	(46.5)	(147.1)
Income (loss) from operations before income taxes .....	\$ (66.2)	\$ (70.1)	\$ (366.1)	\$ (62.1)

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The following table presents total adjusted revenue by segment:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Segment adjusted revenue:				
Benefits .....	\$ 297.0	\$ 256.7	\$ 887.9	\$ 770.0
Retirement .....	234.4	200.3	688.0	579.3
Individual Life .....	160.8	144.3	460.8	424.1
Other .....	1.4	(2.6)	(5.8)	(11.0)
Total segment adjusted revenue .....	693.6	598.7	2,030.9	1,762.4
Add (deduct) the following:				
Excluded realized gains (losses) .....	(11.4)	(28.5)	(52.4)	(32.5)
Closed Block – mark-to-market gains (losses) .....	(96.0)	56.6	(338.6)	56.6
Closed Block – other revenues .....	(14.6)	(123.3)	(81.5)	(0.1)
Total revenue .....	\$ 571.6	\$ 503.5	\$ 1,558.4	\$ 1,786.4

Segment adjusted revenue represents segment revenue excluding certain net realized gains and losses and revenue in the Closed Block, as explained above.

The following table presents total assets by segment:

	As of September 30, 2019	As of December 31, 2018
Segment assets:		
Benefits .....	\$ 1,598.6	\$ 1,501.6
Retirement .....	28,663.7	25,080.7
Individual Life .....	8,934.2	8,005.9
Other .....	2,778.9	2,619.9
Total segment assets .....	41,975.4	37,208.1
Add: Closed Block assets (1) .....	12,083.0	12,055.1
Total assets .....	\$ 54,058.4	\$ 49,263.2

(1) Primarily includes deposit asset and invested assets related to Closed Block.

### 13. Credit Facilities

In June 2019, the Company entered into a \$300.0 senior unsecured revolving credit facility with a syndicate of lending institutions. The facility also provides access to additional financing up to \$100.0, subject to the availability of commitments from the lenders. The facility matures in June 2024 and is available to provide support for working capital, capital expenditures, and other general corporate purposes.

Borrowings under the facility will bear interest at a variable annual rate based on adjusted LIBOR or the alternate base rate plus, in each case, an applicable margin. Under the terms of the facility, the Company's debt-to-capitalization ratio, excluding AOCI, may not exceed 35.0%, and each of the Company's material insurance company subsidiaries must maintain a risk-based capital ratio of at least 225.0%, and conform with customary affirmative covenants. The Company is required to pay facility fees ranging from 0.1% to 0.3%, depending on the Company's ratings with Moody's and S&P, on the daily amount of the commitment. The Company had no outstanding borrowings under the facility and was in compliance with all covenants as of September 30, 2019.

In June 2019, concurrently with entry into the unsecured revolving credit facility referenced above, the Company terminated its prior \$400.0 credit agreement, which was set to mature in August 2019.