# Symetra Financial Corporation

## Condensed Consolidated Financial Statements

**September 30, 2018**

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

## Table of Contents

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

| | As of September 30, 2018 | As of December 31, 2017 |
|---|---|---|
| | (Unaudited) | |
| **ASSETS** | | |
| Investments: | | |
| Available-for-sale securities: | | |
| Fixed maturities, at fair value (amortized cost: **$30,328.2** and $29,786.5, respectively) | **$ 29,871.1** | $ 30,473.4 |
| Trading securities, at fair value | **790.3** | — |
| Marketable equity securities, at fair value | **145.9** | 755.7 |
| Mortgage loans, net | **6,407.7** | 6,241.2 |
| Investments in limited partnerships (includes **$52.4** and $52.5 at fair value, respectively) | **190.7** | 225.5 |
| Derivatives, at fair value | **332.7** | 339.0 |
| Policy loans and other invested assets | **66.9** | 61.3 |
| Total investments | **37,805.3** | 38,096.1 |
| Cash and cash equivalents | **587.0** | 362.0 |
| Accrued investment income | **355.8** | 336.6 |
| Reinsurance recoverables | **6,297.3** | 318.2 |
| DAC and VOBA | **979.6** | 696.2 |
| Receivables and other assets | **399.3** | 240.3 |
| Other intangible assets, net | **1,209.9** | 1,275.1 |
| Goodwill | **563.0** | 563.0 |
| Separate account assets | **1,026.9** | 978.1 |
| Total assets | **$ 49,224.1** | $ 42,865.6 |
| **LIABILITIES AND STOCKHOLDER'S EQUITY** | | |
| Funds held under deposit contracts | **$ 36,763.7** | $ 35,306.8 |
| Future policy benefits | **510.7** | 498.8 |
| Policy and contract claims | **224.3** | 196.6 |
| Other policyholders' funds | **154.0** | 118.0 |
| Funds withheld liability | **5,645.7** | — |
| Notes payable | **705.9** | 706.6 |
| Deferred income tax liabilities, net | **21.5** | 222.3 |
| Other liabilities | **760.7** | 622.0 |
| Separate account liabilities | **1,026.9** | 978.1 |
| Total liabilities | **45,813.4** | 38,649.2 |
| Commitments and contingencies *(Note 12)* | | |
| Common stock, $0.01 par value; **1,000** shares authorized; **100** issued and outstanding | **—** | — |
| Additional paid-in capital | **3,516.7** | 3,516.7 |
| Retained earnings | **223.1** | 144.8 |
| Accumulated other comprehensive income (loss), net of taxes | **(329.1)** | 554.9 |
| Total stockholder's equity | **3,410.7** | 4,216.4 |
| Total liabilities and stockholder's equity | **$ 49,224.1** | $ 42,865.6 |

See accompanying notes.

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues: | | | | |
| Premiums | **$ 254.5** | $ 227.5 | **$ 761.3** | $ 669.2 |
| Net investment income | **260.4** | 320.6 | **935.9** | 964.7 |
| Policy fees, contract charges, and other | **82.5** | 72.5 | **243.2** | 212.9 |
| Net realized gains (losses): | | | | |
| Total other-than-temporary impairment losses on securities | **(0.7)** | (2.8) | **(3.7)** | (4.8) |
| Less: portion recognized in other comprehensive income | **0.1** | — | **0.1** | — |
| Net impairment gains (losses) on securities recognized in earnings | **(0.6)** | (2.8) | **(3.6)** | (4.8) |
| Other net realized gains (losses) | **(93.3)** | 23.5 | **(150.4)** | 22.1 |
| Net realized gains (losses) | **(93.9)** | 20.7 | **(154.0)** | 17.3 |
| Total revenues | **503.5** | 641.3 | **1,786.4** | 1,864.1 |
| Benefits and expenses: | | | | |
| Policyholder benefits and claims | **197.4** | 199.4 | **636.8** | 577.3 |
| Interest credited | **171.5** | 242.7 | **675.5** | 720.4 |
| Other underwriting and operating expenses | **133.4** | 111.4 | **383.1** | 342.1 |
| Interest expense | **6.2** | 7.5 | **18.3** | 22.4 |
| Amortization of DAC and VOBA | **43.4** | 13.2 | **69.6** | 53.9 |
| Amortization of intangible assets | **21.7** | 21.7 | **65.2** | 65.2 |
| Total benefits and expenses | **573.6** | 595.9 | **1,848.5** | 1,781.3 |
| Income (loss) from operations before income taxes | **(70.1)** | 45.4 | **(62.1)** | 82.8 |
| Total provision (benefit) for income taxes | **(92.8)** | (3.7) | **(96.1)** | (9.9) |
| Net income | **$ 22.7** | $ 49.1 | **$ 34.0** | $ 92.7 |

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, | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Net income | **$ 22.7** | $ 49.1 | **$ 34.0** | $ 92.7 |
| Other comprehensive income (loss), net of taxes and reclassification adjustments: | | | | |
| Changes in unrealized gains (losses) on available-for-sale securities (net of taxes of **$(20.8),** $38.5, **$(245.2),** and $208.5) | **(78.2)** | 71.5 | **(922.6)** | 387.2 |
| Other-than-temporary impairments on fixed maturities not related to credit losses (net of taxes of **$0.0,** $0.0, **$0.0,** and $0.0) | **(0.1)** | — | **(0.1)** | — |
| Impact of net unrealized (gains) losses on DAC and VOBA (net of taxes of: **$2.2,** $(5.6), **$42.0,** and $(34.0)) | **8.1** | (10.4) | **158.1** | (63.2) |
| Impact of cash flow hedges (net of taxes of **$0.0,** $(6.9), **$(1.4),** and $(14.3)) | **0.2** | (12.8) | **(5.1)** | (26.5) |
| Other comprehensive income (loss) | **(70.0)** | 48.3 | **(769.7)** | 297.5 |
| Total comprehensive income (loss) | **$ (47.3)** | $ 97.4 | **$ (735.7)** | $ 390.2 |

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, 2017 | $ — | $ 3,677.7 | $ 17.0 | $ 143.5 | $ 3,838.2 |
| Net income | — | — | 92.7 | — | 92.7 |
| Other comprehensive income | — | — | — | 297.5 | 297.5 |
| Dividends declared | — | (161.0) | (19.0) | — | (180.0) |
| Balances as of September 30, 2017 | $ — | $ 3,516.7 | $ 90.7 | $ 441.0 | $ 4,048.4 |

| | 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 | **—** | **—** | **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 | **$ —** | **$ 3,516.7** | **$ 223.1** | **$ (329.1)** | **$ 3,410.7** |

See accompanying notes.

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

| | For the Nine Months Ended September 30, 2018 | For the Nine Months Ended September 30, 2017 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income | $ 34.0 | $ 92.7 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Net realized (gains) losses | 154.0 | (17.3) |
| Accretion and amortization of invested assets, net | 182.6 | 214.6 |
| Amortization of intangible assets | 65.2 | 65.2 |
| Other amortization, accretion and depreciation | (4.4) | (23.9) |
| Deferred income tax provision (benefit) | 3.8 | (39.8) |
| Interest credited on deposit contracts | 675.5 | 720.4 |
| Mortality and expense charges and administrative fees | (203.2) | (175.1) |
| Payment at inception of reinsurance transaction | (360.0) | — |
| Other changes in: | | |
| DAC and VOBA | (121.2) | (132.6) |
| Future policy benefits | 26.9 | 24.1 |
| Other policyholder reserves | 153.7 | 63.5 |
| Policy and contract claims | 27.8 | 98.9 |
| Funds withheld liability | (73.0) | — |
| Other assets and liabilities | 6.6 | (48.4) |
| Other, net | (15.3) | (8.9) |
| Total adjustments | 519.0 | 740.7 |
| Net cash provided by (used in) operating activities | 553.0 | 833.4 |
| **Cash flows from investing activities** | | |
| Purchases of: | | |
| Fixed maturities – available-for-sale | (5,548.3) | (4,957.2) |
| Fixed maturities – trading | (796.6) | — |
| Marketable equity securities | (297.0) | (148.9) |
| Derivatives and other investments | (156.1) | (123.9) |
| Issuances of mortgage loans | (615.5) | (662.7) |
| Sales of fixed maturities | 2,941.8 | 1,769.9 |
| Sales of marketable equity securities | 931.9 | 213.2 |
| Maturities, calls, paydowns, and other repayments | 1,960.0 | 1,804.1 |
| Cash received for sales/settlements of derivatives and other investments | 131.9 | 144.1 |
| Repayments of mortgage loans | 414.7 | 314.7 |
| Cash received (pledged or returned) as collateral, net | (19.0) | 23.4 |
| Other, net | (10.8) | (3.1) |
| Net cash provided by (used in) investing activities | (1,063.0) | (1,626.4) |
| **Cash flows from financing activities** | | |
| Policyholder account balances: | | |
| Deposits | 3,030.2 | 2,950.3 |
| Withdrawals | (2,221.6) | (1,923.4) |
| Cash dividends paid on common stock | (70.0) | (180.0) |
| Proceeds from borrowings | 450.0 | — |
| Repayment of notes payable | (450.0) | — |
| Net cash provided by (used in) financing activities | 738.6 | 846.9 |
| Net increase (decrease) in cash, cash equivalents, and restricted cash | 228.6 | 53.9 |
| Cash, cash equivalents, and restricted cash at beginning of period | 369.9 | 399.9 |
| Cash, cash equivalents, and restricted cash at end of period | $ 598.5 | $ 453.8 |
| **Supplemental disclosures of cash flow information** | | |
| Non-cash transactions during the period: | | |
| Fixed maturities exchanges | 368.6 | 481.0 |
| **Cash, cash equivalents, and restricted cash reconciliation** | | |
| Cash and cash equivalents | $ 587.0 | $ 446.6 |
| Restricted cash, included in receivables and other assets | 11.5 | 7.2 |
| Total cash, cash equivalents, and restricted cash | $ 598.5 | $ 453.8 |

See accompanying notes.

## 1. Description of Business

Symetra Financial Corporation (the Company) is a Delaware corporation that, through its subsidiaries, offers products and services that serve 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 and fixed indexed deferred annuities, single premium immediate annuities (SPIA), medical stop-loss insurance, group life and disability income (DI) insurance, group fixed-payment insurance, individual life insurance, and institutional life insurance including bank-owned life insurance (BOLI) and variable corporate owned life insurance (COLI).

### Reinsurance Transaction

In September 2018, the Company, entered into a 100% modified coinsurance agreement with Resolution Re Ltd. (the Reinsurance Transaction) to reinsure $6.8 billion of its in-force block of income annuities (the Closed Block). The transaction reduced the Company's exposure to long-term interest rate risk associated with the long-tailed nature of the reinsured business, primarily structured settlements. Under terms of the agreement, the Company will continue to service the reinsured business and hold the associated invested assets and policyholder liabilities on its balance sheets. However, Resolution Re Ltd. will be responsible for asset management, subject to investment management guidelines, and Resolution Re Ltd. has assumed all income and costs associated with the reinsured business. The Company discontinued selling structured settlements in 2012. Income annuity contracts issued after September 30, 2017 were not included in this agreement. The Company will continue to sell retail SPIAs as part of its retirement product offerings. Refer to Note 3 for further discussion.

### Sumitomo Life Merger

In 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).

## 2. Summary of Significant Accounting Policies

The 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. The Company revised and restated its segment information to reflect its new reportable segments following the execution of the Reinsurance Transaction in the third quarter of 2018. Refer to Note 13 for further discussion. Management has assessed subsequent events through November 30, 2018, the date the financial statements were issued.

The interim condensed consolidated financial statements should be read in conjunction with the December 31, 2017 audited consolidated financial statements. Financial results for the nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the twelve months ending December 31, 2018.

### *Income Taxes*

The Company's full-year effective tax rate differs from the U.S. federal income tax rate, primarily due to benefits from the Company's tax credit investments. For interim periods, the variance of year-to-date results from forecasted amounts also drives a difference in the effective tax rate. In 2018, the change in federal income tax rate from 2017 resulted in a $7.3 benefit from a return-to-provision adjustment.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "2017 Tax Act") was signed into law. The effects of the 2017 Tax Act have been reasonably estimated and were recorded as a provisional amount for the year ended December 31, 2017. As analysis of the 2017 Tax Act is completed, and any additional guidance is issued and interpreted, there may be adjustments to this provisional amount, which will be recorded in the provision for income taxes in the period made.

***Accounting Pronouncements Newly Adopted***

**ASU No. 2016-01, *Financial Instruments (Topic 825): Recognition and Measurement of Financial Assets and Financial Liabilities.*** This accounting standards update (ASU) amends recognition and disclosure requirements primarily for equity investments carried at fair value. Under the standard, changes in fair value are recorded in income. In addition, the requirement to disclose the fair value of financial instruments held at amortized cost has been eliminated for nonpublic companies. The update is effective beginning January 1, 2019, with early adoption permissible.

The Company early adopted the standard on January 1, 2018 using a modified retrospective approach. The Company previously held equity investments classified as available-for-sale securities that were impacted by the standard. Upon adoption, $114.3 of net unrealized gains, net of taxes of $30.4, related to these securities were reclassified from AOCI to retained earnings. Subsequent to adoption, changes in fair value of these securities are recorded through net realized gains (losses) in the consolidated statements of income. As a result, the Company expects increased volatility in net income and removed disclosures no longer required.

***Accounting Pronouncements Not Yet Adopted***

The Company's primary subsidiary, SLIC, is a public business entity (PBE) and is required to adopt new accounting standards in accordance with PBE effective dates, which are generally earlier than non-PBE effective dates. In most cases, this necessitates the Company to early adopt new accounting standards.

**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 adoption is not expected to have a significant impact on the Company's consolidated financial statements. The Company will update its internal processes and controls to ensure compliance with the revised standard. Upon adoption, the Company will apply the standard using a modified retrospective approach. The Company plans to early adopt on January 1, 2019.

**ASU No. 2016-02, No. 2018-10, No. 2018-11, *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 also 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 estimates it will establish a right-of-use asset of approximately $60.0 on its consolidated balance sheets. The majority of the Company's leases are currently accounted for as operating leases. The Company does not anticipate any income statement impact. Upon adoption, the Company will apply the standard using a modified retrospective approach and apply the requirements to all existing leases using the simplified transition option. The Company plans to early adopt on January 1, 2019.

**ASU No. 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities.*** This standard amends the guidance for amortization of premiums on purchased callable debt securities. Under the standard, premiums on these securities will be amortized to the earliest call date, rather than final maturity of the security. The guidance applies only to bonds for which the call date and price is fixed. Further, the amortization period for debt securities carried at a discount will not be impacted. The update is effective beginning January 1, 2020, with early adoption permissible.

The adoption is not expected to have a significant impact on the Company's consolidated financial statements. Upon adoption, the Company will apply the standard using a modified retrospective approach. The Company plans to early adopt on January 1, 2019.

**ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326).*** This standard amends the credit loss measurement guidance for available-for-sale securities. Credit losses will be recognized in a credit allowance account rather than as reductions in the amortized cost of the securities. Further, entities will no longer be allowed to consider length of time a security has been underwater as a factor when evaluating credit losses. This standard also amends existing guidance on the impairment of certain financial instruments by adding an impairment model that reflects expected credit losses. This requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The update is effective beginning January 1, 2021, with early adoption permissible.

The Company is in the early stages of evaluating the potential impact of the standard on its financial statements, with a focus on fixed maturity securities, mortgage loans, and reinsurance recoverables. Upon adoption, the Company will apply the standard using a modified retrospective approach. The Company plans to early adopt 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. The Company plans to early adopt on January 1, 2020.

**ASU No. 2018-12,** ***Financial Services – Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts.*** This standard substantially changes the accounting treatment of long-duration contracts. Entities will now 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 their market risk benefits, with the insurance accrual model no longer an option. The standard also simplifies the DAC amortization method for all long-duration contracts by replacing the previous earnings-based methods with a more level amortization basis. 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, 2022, with early adoption permissible.

The Company is in the early stages of assessing the impact of the standard on its annuity and life insurance contracts. The Company plans to early adopt on January 1, 2021.

***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 elimination of certain current disclosure requirements. The update is effective beginning January 1, 2020, with early adoption permissible.

The Company is in the early stages of assessing the impact on its quarterly and annual disclosures. The Company plans to adopt on January 1, 2020.

### 3. Reinsurance Transaction

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

The Company established a $6.1 billion deposit asset which is 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 an amount paid to the reinsurer at the Transaction date. The equivalent GAAP reserves for the reinsured policies was $6.8 billion. The fair value adjustment recorded at PGAAP 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 in interest credited in the consolidated statements of income.

Assets supporting the net statutory reserves of the Closed Block were withheld and are legally owned by the Company. These are reported as a funds withheld liability on the consolidated balance sheets. Adjustments to the funds withheld liability are based upon the investment and benefit amounts passed to the reinsurer during the period, which are labeled as ceded in the financial statements.

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

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. The fair value of the embedded derivative fluctuates with changes in the unrealized gain (loss) on the withheld assets. At inception, the fair value of the embedded derivative is zero. Changes to the fair value of the embedded derivative are recognized in net realized gains (losses) on the Company's consolidated statements of income.

In the event of the reinsurer's insolvency, the Company would reclaim the 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 risk of loss. The Company remains liable to its policyholders to the extent that the reinsurer does not meet its contractual obligations.

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, 2018 |
|---|---|
| Deposit asset at beginning of period | $ 6,072.6 |
| Incurred interest adjustment | (75.1) |
| Deposit asset at end of period | $ 5,997.5 |
| | |
| Funds withheld liability at beginning of period | $ 5,700.0 |
| Ceded investment amounts | 180.8 |
| Ceded benefit amounts | (159.4) |
| Quarterly settlement due to reinsurer | (12.7) |
| Changes in fair value of embedded derivative | (63.0) |
| Funds withheld liability at end of period | $ 5,645.7 |

### 4. Other Intangible Assets

Intangible assets with finite lives are amortized on a straight-line basis over the estimated useful life of the assets. Amortizing intangible assets consist of value of distribution acquired (VODA), value of customer relationships acquired (VOCRA), trade names, and technology.

Identified intangible assets recognized by the Company included the following:

| | As of September 30, 2018 | | As of December 31, 2017 | |
|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| VODA | $ 782.0 | $ (60.5) | $ 782.0 | $ (43.5) |
| VOCRA | 386.7 | (103.1) | 386.7 | (74.1) |
| Trade names | 190.0 | (29.8) | 190.0 | (21.4) |
| Technology | 72.0 | (38.4) | 72.0 | (27.6) |
| Total intangible assets subject to amortization | 1,430.7 | (231.8) | 1,430.7 | (166.6) |
| Insurance licenses | 11.0 | — | 11.0 | — |
| Total intangible assets | $ 1,441.7 | $ (231.8) | $ 1,441.7 | $ (166.6) |

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

The following table sets forth the estimated future aggregate amortization expense for the next 5 years:

| Year | Amount |
|---|---|
| 2018 (remaining) | $ 21.8 |
| 2019 | 87.0 |
| 2020 | 87.0 |
| 2021 | 73.4 |
| 2022 | 72.1 |

## 5. Investments

The Company's investment portfolio consists in large part of fixed maturities and commercial mortgage loans, as well as a smaller allocation of investments in limited partnerships, derivatives, marketable equity securities, and other investments. Equity investments have historically included exchange traded funds and common stock in support of income annuity policies. The majority of the Company's equity investments were sold in connection with the Reinsurance Transaction.

*Closed Block Invested Assets*

As of September 30, 2018, invested assets supporting the Closed Block had a carrying value of $6.1 billion. This included commercial mortgage loans with a carrying value of $1.3 billion, and fixed maturity securities with a fair value of $4.8 billion, and a book value of $4.7 billion. Invested assets supporting the Closed Block are legally owned by the Company and included in the consolidated balance sheets.

Subsequent to the Agreement Date, 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. Trading securities had a fair value of $790.3 as of September 30, 2018. The trading securities consist of U.S. Government and agencies securities and corporate securities, with fair values of $375.8 and $414.5, respectively. Changes in the fair value of trading securities are recorded as realized gains (losses), and interest income earned on trading securities is reported in net investment income on the Company's consolidated statements of income.

*Available-for-sale Securities*

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

| | As of September 30, 2018 | | | |
|---|---|---|---|---|
| | Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| U.S. government and agencies | **$ 329.8** | **$ —** | **$ (9.7)** | **$ 320.1** |
| State and political subdivisions | **749.5** | **0.6** | **(21.0)** | **729.1** |
| Corporate securities | **24,020.8** | **240.8** | **(521.4)** | **23,740.2** |
| Residential mortgage-backed securities | **2,498.1** | **4.0** | **(119.9)** | **2,382.2** |
| Commercial mortgage-backed securities | **770.8** | **0.1** | **(16.3)** | **754.6** |
| Collateralized loan obligations | **992.6** | **1.0** | **(4.8)** | **988.8** |
| Other debt obligations | **966.6** | **4.8** | **(15.3)** | **956.1** |
| Total | **$ 30,328.2** | **$ 251.3** | **$ (708.4)** | **$ 29,871.1** |

(All dollar amounts in millions, unless otherwise stated)

| | As of December 31, 2017 | | | |
|---|---|---|---|---|
| | Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| U.S. government and agencies | $ 446.2 | $ 0.2 | $ (4.9) | $ 441.5 |
| State and political subdivisions | 794.3 | 5.0 | (6.9) | 792.4 |
| Corporate securities | 23,356.2 | 774.0 | (60.5) | 24,069.7 |
| Residential mortgage-backed securities | 2,535.2 | 6.6 | (50.1) | 2,491.7 |
| Commercial mortgage-backed securities | 795.0 | 3.8 | (3.1) | 795.7 |
| Collateralized loan obligations | 1,128.1 | 18.5 | — | 1,146.6 |
| Other debt obligations | 731.5 | 9.8 | (5.5) | 735.8 |
| Total | $ 29,786.5 | $ 817.9 | $ (131.0) | $ 30,473.4 |

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, 2018 | | As of December 31, 2017 | |
|---|---|---|---|---|
| | Fair Value | % of Total | Fair Value | % of Total |
| Industrial | **$ 4,101.0** | **17.3%** | $ 4,484.1 | 18.6% |
| Consumer discretionary | **3,571.4** | **15.0** | 3,388.3 | 14.1 |
| Financial | **2,943.3** | **12.4** | 2,826.1 | 11.7 |
| Utilities | **2,927.8** | **12.3** | 3,102.9 | 12.9 |
| Health care | **2,691.9** | **11.3** | 2,660.0 | 11.1 |
| Consumer staples | **2,554.9** | **10.8** | 2,721.6 | 11.3 |
| Energy | **2,468.9** | **10.4** | 2,135.8 | 8.9 |
| Other | **2,481.0** | **10.5** | 2,750.9 | 11.4 |
| Total | **$ 23,740.2** | **100.0%** | $ 24,069.7 | 100.0% |

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, 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 | **$ 68.2** | **$ (1.4)** | **27** | **$ 187.7** | **$ (8.3)** | **30** |
| State and political subdivisions | **377.1** | **(10.8)** | **61** | **313.0** | **(10.2)** | **59** |
| Corporate securities | **15,350.8** | **(396.7)** | **1,133** | **2,552.7** | **(124.7)** | **195** |
| Residential mortgage-backed securities | **477.3** | **(15.1)** | **159** | **1,820.9** | **(104.8)** | **443** |
| Commercial mortgage-backed securities | **628.6** | **(11.9)** | **56** | **111.2** | **(4.4)** | **20** |
| Collateralized loan obligations | **562.0** | **(4.8)** | **31** | **—** | **—** | **—** |
| Other debt obligations | **384.8** | **(8.5)** | **49** | **178.3** | **(6.8)** | **22** |
| Total | **$ 17,848.8** | **$ (449.2)** | **1,516** | **$ 5,163.8** | **$ (259.2)** | **769** |

(All dollar amounts in millions, unless otherwise stated)

| | As of December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $ 120.9 | $ (0.3) | 6 | $ 206.2 | $ (4.6) | 31 |
| State and political subdivisions | 311.8 | (2.8) | 48 | 169.7 | (4.1) | 36 |
| Corporate securities | 4,984.7 | (34.3) | 401 | 1,257.7 | (26.2) | 97 |
| Residential mortgage-backed securities | 705.2 | (7.9) | 176 | 1,517.2 | (42.2) | 356 |
| Commercial mortgage-backed securities | 296.5 | (1.4) | 25 | 60.5 | (1.7) | 19 |
| Collateralized loan obligations | 10.0 | — | 1 | — | — | — |
| Other debt obligations | 217.9 | (2.5) | 32 | 109.3 | (3.0) | 14 |
| Total | $ 6,647.0 | $ (49.2) | 689 | $ 3,320.6 | $ (81.8) | 553 |

Based on National Association of Insurance Commissioners (NAIC) ratings as of September 30, 2018 and December 31, 2017, the Company held below-investment-grade fixed maturities with fair values of $943.9 and $1,119.4, respectively, and amortized costs of $917.0 and $1,036.3, respectively. These holdings amounted to 3.2% and 3.7% of the Company's available-for-sale fixed maturities as of September 30, 2018 and December 31, 2017, respectively.

The following table summarizes the amortized costs and fair values of fixed maturities as of September 30, 2018, 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 | **$ 1,380.3** | **$ 1,378.1** |
| Over one year through five years | **8,380.0** | **8,288.5** |
| Over five years through ten years | **10,284.4** | **10,082.9** |
| Over ten years | **5,148.6** | **5,131.8** |
| Total fixed maturities with contractual maturity dates | **25,193.3** | **24,881.3** |
| Residential mortgage-backed securities | **2,498.1** | **2,382.2** |
| Commercial mortgage-backed securities | **770.8** | **754.6** |
| Collateralized loan obligations | **992.6** | **988.8** |
| Other asset-backed securities | **873.4** | **864.2** |
| Total fixed maturities | **$ 30,328.2** | **$ 29,871.1** |

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Fixed maturities – AFS | **$ 276.6** | $ 262.4 | **$ 825.3** | $ 795.6 |
| Fixed maturities – Trading | **1.2** | — | **1.2** | — |
| Marketable equity securities | **3.5** | 5.0 | **12.1** | 13.1 |
| Mortgage loans | **73.1** | 61.2 | **205.7** | 178.6 |
| Other | **3.8** | 2.8 | **11.4** | 7.5 |
| Total investment income | **358.2** | 331.4 | **1,055.7** | 994.8 |
| Investment expenses | **(11.5)** | (10.8) | **(33.5)** | (30.1) |
| Ceded investment income (1) | **(86.3)** | — | **(86.3)** | — |
| Net investment income | **$ 260.4** | $ 320.6 | **$ 935.9** | $ 964.7 |

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

(All dollar amounts in millions, unless otherwise stated)

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, | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Fixed maturities – AFS: | | | | |
| Gross gains on sales | **$ 15.1** | $ 8.2 | **$ 20.2** | $ 20.3 |
| Gross losses on sales | **(24.8)** | (1.6) | **(36.1)** | (6.7) |
| Net impairment losses | **(0.6)** | (2.8) | **(3.6)** | (4.8) |
| Marketable equity securities (1) | **5.1** | 1.8 | **(20.8)** | 26.2 |
| Fixed maturities – Trading (2) | **(6.4)** | — | **(6.4)** | — |
| Investments in limited partnerships (3): | | | | |
| Alternative investments | **0.8** | (0.6) | **0.3** | 0.7 |
| Tax credit investments | **(11.4)** | (10.8) | **(35.0)** | (27.6) |
| Net gains (losses) – FIA (4) | **(2.0)** | 5.8 | **12.1** | 6.1 |
| Annual unlocking impact | **(39.2)** | 20.1 | **(39.2)** | 20.1 |
| DAC and VOBA adjustment | **(3.0)** | (1.7) | **(10.2)** | (2.8) |
| Embedded derivative – Closed Block (5) | **63.0** | — | **63.0** | — |
| Ceded realized (gains) losses (6) | **(94.5)** | — | **(94.5)** | — |
| Other (7) | **$ 4.0** | $ 2.3 | **$ (3.8)** | $ (14.2) |
| Net realized gains (losses) | **$ (93.9)** | $ 20.7 | **$ (154.0)** | $ 17.3 |

(1) Includes net losses on changes in the fair value of equity securities held totaling **$3.5** for the three months ended September 30, 2018, and net gains totaling **$0.1** for the nine months ended September 30, 2018. Realized gains (losses) on equity securities are net of changes in fair value of total return swaps. For more information on total return swaps, refer to Note 7.
(2) Includes net losses on changes in the fair value of fixed maturities – trading securities held totaling **$6.4** for the three and nine months ended September 30, 2018.
(3) Includes losses related to tax credit investments and changes in the fair value of alternative investments.
(4) Includes changes of fair value of the FIA embedded derivative (VED) and related options, excluding options related to the Company's block of FIA business sold during the late 1990s.
(5) Includes the change in fair value of the Closed Block embedded derivative.
(6) Includes ceded realized statutory (gains) losses on sales of assets supporting the Closed Block.
(7) 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 7.

## 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.

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.

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 consolidated statements of income (loss), and the remainder is recorded as a non-credit OTTI through other comprehensive income.

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

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

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, 2018 | | | As of December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | Fair Value | Gross Unrealized Losses | # of Securities | Fair Value | Gross Unrealized Losses | # of Securities |
| Fixed maturities: | | | | | | |
| Underwater by 20% or more: | | | | | | |
| Less than 6 consecutive months | **$ 1.1** | **$ (0.6)** | **6** | $ 5.2 | $ (1.7) | 7 |
| 6 consecutive months or more | **1.5** | **(1.1)** | **5** | 0.9 | (0.8) | 5 |
| Total underwater by 20% or more | **2.6** | **(1.7)** | **11** | 6.1 | (2.5) | 12 |
| All other underwater fixed maturities | **23,010.0** | **(706.7)** | **2,179** | 9,961.5 | (128.5) | 1,205 |
| Total underwater fixed maturities | **$ 23,012.6** | **$ (708.4)** | **2,190** | $ 9,967.6 | $ (131.0) | 1,217 |

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Balance, beginning of period | **$ 3.9** | $ 3.8 | **$ 3.8** | $ 4.4 |
| Increases recognized in the current period: | | | | |
| For which an OTTI was not previously recognized | **0.2** | — | **0.8** | — |
| Decreases attributable to: | | | | |
| Securities sold or paid down during the period | **(0.3)** | (0.1) | **(0.8)** | (0.7) |
| Balance, end of period | **$ 3.8** | $ 3.7 | **$ 3.8** | $ 3.7 |

The Company reviewed its available-for-sale securities with unrealized losses as of September 30, 2018 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.

### Investments in Limited Partnerships — Low-Income Housing Project Investments

The Company invests in limited partnerships that are established to fund low-income housing and other qualifying purposes, where the primary return on investment is in the form of income tax credits. These are collectively referred to as "tax credit investments." The majority of the Company's tax credit investments relate to low-income housing project investments. As of September 30, 2018 and December 31, 2017, the Company's tax credit investments had carrying values of $138.3 and $173.0, respectively, of which $132.0 and $165.8, respectively, related to low-income housing project investments.

The following table sets forth the impact of low-income housing project investments on net income. 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, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Pass through activity | **$ (5.6)** | $ (8.0) | **$ (18.8)** | $ (21.4) |
| Write downs | **(6.4)** | (2.0) | **(16.7)** | (4.0) |
| Tax benefits | **2.5** | 3.5 | **7.5** | 8.9 |
| Tax credits, net | **9.8** | 8.0 | **30.0** | 23.9 |
| Impact to net income | **$ 0.3** | $ 1.5 | **$ 2.0** | $ 7.4 |

## 6. 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, 2018, the three states with the largest concentrations of the Company's commercial mortgage loans were California, Texas and Washington representing 26.2%, 11.5%, and 6.9%, respectively, of total outstanding principal. Of the loans in California, 41.8% related to properties located in the Los Angeles area.

As a result of the Merger, 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 for each loan based on its expected maturity, using the effective interest rate method. As of September 30, 2018 and December 31, 2017, the unamortized premium balance was $142.1 and $177.1, 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 that have an LTV ratio of less than 65% but 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 which 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.

(All dollar amounts in millions, unless otherwise stated)

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

| | As of September 30, 2018 | | As of December 31, 2017 | |
|---|---|---|---|---|
| | Balance | % | Balance | % |
| Lower risk | $ 1,824.4 | 67.4% | $ 1,486.1 | 69.8% |
| Medium risk | 623.2 | 23.0 | 486.3 | 22.8 |
| Higher risk | 261.1 | 9.6 | 157.6 | 7.4 |
| Subtotal, excluding certain PGAAP loans | 2,708.7 | 100.0 | 2,130.0 | 100.0 |
| Lower risk | 2,698.6 | 73.0 | 2,899.2 | 70.7 |
| Medium risk | 771.7 | 20.9 | 896.8 | 21.8 |
| Higher risk | 225.2 | 6.1 | 308.4 | 7.5 |
| Subtotal, certain PGAAP loans (1) | 3,695.5 | 100.0% | 4,104.4 | 100.0% |
| Loans specifically evaluated for impairment (2) | 0.7 | | 4.8 | |
| Other (3) | 2.8 | | 2.0 | |
| Total | $ 6,407.7 | | $ 6,241.2 | |

(1) Represents loans set to fair value on February 1, 2016 for which there are no indications of subsequent credit deterioration.
(2) As of both September 30, 2018 and December 31, 2017, no reserves were held for loans specifically evaluated for impairment.
(3) Includes allowance for loan losses and deferred fees and costs.

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 low 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, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Allowance at beginning of period | $ 1.5 | $ 0.7 | $ 1.0 | $ 0.7 |
| Provision for loans not specifically identified | — | 0.3 | 0.5 | 0.3 |
| Allowance at end of period | $ 1.5 | $ 1.0 | $ 1.5 | $ 1.0 |

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, 2018, one loan with an outstanding balance of $0.7 was considered non-performing. There were no such loans as of December 31, 2017.

## 7. Derivative Instruments

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

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

| | As of September 30, 2018 | | | As of December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | Notional Amount | Fair Value Assets | Fair Value Liabilities | Notional Amount | Fair Value Assets | Fair Value Liabilities |
| **Derivatives designated as hedges:** | | | | | | |
| Cash flow hedges: | | | | | | |
| Interest rate swaps | **$ 917.7** | **$ 0.2** | **$ 0.2** | $ 968.1 | $ 1.5 | $ 1.4 |
| Foreign currency swaps | **811.0** | **90.2** | **6.8** | 686.2 | 75.5 | 5.6 |
| Total derivatives designated as hedges | **$ 1,728.7** | **$ 90.4** | **$ 7.0** | $ 1,654.3 | $ 77.0 | $ 7.0 |
| **Derivatives not designated as hedges:** | | | | | | |
| Index options | **$ 7,722.8** | **$ 241.6** | **$ 0.5** | $ 6,696.1 | $ 261.9 | $ 1.5 |
| Interest rate swaps | **594.5** | **—** | **1.3** | — | — | — |
| Embedded derivatives – FIA | **—** | **—** | **1,005.8** | — | — | 797.5 |
| Embedded derivative – Closed Block | **—** | **63.0** | **—** | — | — | — |
| Other derivatives | **68.1** | **0.7** | **0.1** | 22.2 | 0.2 | — |
| Total derivatives not designated as hedges | **8,385.4** | **305.3** | **1,007.7** | 6,718.3 | 262.1 | 799.0 |
| Total derivatives | **$ 10,114.1** | **$ 395.7** | **$ 1,014.7** | $ 8,372.6 | $ 339.1 | $ 806.0 |

**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, 2018 and December 31, 2017, the Company posted initial margin of $48.7 and $33.5, 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 consolidated balance sheets.

In the 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 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.

(All dollar amounts in millions, unless otherwise stated)

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

| | As of September 30, 2018 | | | |
|---|---|---|---|---|
| | | 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 | $ 29.0 | $ (4.3) | $ (22.9) | $ 1.8 |
| B | 55.5 | (1.5) | (54.0) | — |
| C | 16.0 | — | (16.0) | — |
| E | 12.5 | — | (12.5) | — |
| F | 32.3 | — | (32.3) | — |
| G | 67.2 | (1.3) | (65.2) | 0.7 |
| H | 18.3 | (0.7) | (17.6) | — |
| I | 50.4 | — | (48.2) | 2.2 |
| J | 27.3 | — | (27.3) | — |
| Other | 24.2 | (1.1) | (23.1) | — |
| Total derivative assets | $ 332.7 | $ (8.9) | $ (319.1) | $ 4.7 |

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

| | As of September 30, 2018 | | | |
|---|---|---|---|---|
| | | Gross Amounts not Offset in the Consolidated Balance Sheets | | |
| | Fair Value Presented in the Balance Sheets | Financial Instruments (1) | Cash Collateral Posted | Net Amount |
| **Counterparty:** | | | | |
| *Liabilities:* | | | | |
| A | $ 4.3 | $ (4.3) | $ — | $ — |
| B | 1.5 | (1.5) | — | — |
| H | 0.7 | (0.7) | — | — |
| G | 1.3 | (1.3) | — | — |
| Other | 1.1 | (1.1) | — | — |
| Total derivative liabilities (2) | $ 8.9 | $ (8.9) | $ — | $ — |

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

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

| | As of December 31, 2017 | | | |
|---|---|---|---|---|
| | | 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 | $ 46.1 | $ (4.2) | $ (41.9) | $ — |
| B | 63.6 | (1.4) | (62.2) | — |
| C | 13.2 | — | (13.2) | — |
| E | 21.3 | — | (21.3) | — |
| F | 31.6 | (1.3) | (29.0) | 1.3 |
| G | 30.2 | — | (30.2) | — |
| H | 51.9 | (1.0) | (50.9) | — |
| I | 34.6 | — | (32.9) | 1.7 |
| J | 42.7 | — | (42.7) | — |
| Other | 3.9 | (0.6) | (3.3) | — |
| Total derivative assets | $ 339.1 | $ (8.5) | $ (327.6) | $ 3.0 |

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

| | As of December 31, 2017 | | | |
|---|---|---|---|---|
| | | Gross Amounts not Offset in the Consolidated Balance Sheets | | |
| | Fair Value Presented in the Balance Sheets | Financial Instruments (1) | Cash Collateral Posted | Net Amount |
| **Counterparty:** | | | | |
| *Liabilities:* | | | | |
| A | $ 4.2 | $ (4.2) | $ — | $ — |
| B | 1.4 | (1.4) | — | — |
| F | 1.3 | (1.3) | — | — |
| Other | 1.6 | (1.6) | — | — |
| Total derivative liabilities (2) | $ 8.5 | $ (8.5) | $ — | $ — |

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

(All dollar amounts in millions, unless otherwise stated)

**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, | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Interest rate swaps | **$ (6.0)** | $ (2.3) | **$ (30.6)** | $ 4.0 |
| Foreign currency swaps | **6.3** | (24.8) | **20.5** | (50.8) |
| Total | **$ 0.3** | $ (27.1) | **$ (10.1)** | $ (46.8) |

See Note 11 for amounts reclassified out of AOCI into net income. The Company expects to reclassify net gains of $4.3 from AOCI into net income in the next 12 months. Actual amounts may vary from this estimate as a result of market conditions.

As of September 30, 2018, the maximum term over which the Company is hedging its exposure to the variability in future cash flows is approximately 16 years. For the three and nine months ended September 30, 2018, net realized gains of $0.3, were recognized related to hedge ineffectiveness. For the three and nine months ended September 30, 2017, net realized losses of $5.2 and $1.4 were recognized related to hedge ineffectiveness.

**Derivatives Not Designated as Hedges**

The following table shows the effect of derivatives not designated as hedges in the consolidated statements of income, which is recorded in net realized gains:

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Index options | **$ 53.6** | $ 41.5 | **$ 52.8** | $ 106.8 |
| Interest rate swaps | **(4.7)** | — | **(1.7)** | 1.6 |
| Total return swaps | **(27.9)** | — | **(47.4)** | (4.3) |
| Embedded derivatives – FIA | **(105.4)** | (5.8) | **(90.8)** | (70.9) |
| Embedded derivative – Closed Block | **63.0** | — | **63.0** | — |
| Other derivatives | **2.8** | 1.2 | **(0.2)** | 1.4 |
| Total | **$ (18.6)** | $ 36.9 | **$ (24.3)** | $ 34.6 |

In March 2018, the Company entered into total return swaps to economically hedge market risk with relation to the Company's investments in marketable equity securities. The total return swaps were terminated during the third quarter of 2018.

**8. 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

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

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:

| | As of September 30, 2018 | | | | |
|---|---|---|---|---|---|
| | Carrying Amount | Fair Value | Level 1 | Level 2 | Level 3 |
| **Measured at fair value on a recurring basis:** | | | | | |
| *Financial assets:* | | | | | |
| Fixed maturities, available-for-sale: | | | | | |
| U.S. government and agencies | $ 320.1 | $ 320.1 | $ — | $ 320.1 | $ — |
| State and political subdivisions | 729.1 | 729.1 | — | 729.1 | — |
| Corporate securities | 23,740.2 | 23,740.2 | — | 23,443.5 | 296.7 |
| Residential mortgage-backed securities | 2,382.2 | 2,382.2 | — | 2,382.2 | — |
| Commercial mortgage-backed securities | 754.6 | 754.6 | — | 754.6 | — |
| Collateralized loan obligations | 988.8 | 988.8 | — | 936.1 | 52.7 |
| Other debt obligations | 956.1 | 956.1 | — | 916.7 | 39.4 |
| Total fixed maturities, available-for-sale | 29,871.1 | 29,871.1 | — | 29,482.3 | 388.8 |
| Fixed maturities, trading | 790.3 | 790.3 | — | 790.3 | — |
| Marketable equity securities | 145.9 | 145.9 | 103.4 | 36.3 | 6.2 |
| Derivatives: | | | | | |
| Index options | 241.6 | 241.6 | — | 219.3 | 22.3 |
| Foreign currency swaps | 90.4 | 90.4 | — | 90.4 | — |
| Other | 0.7 | 0.7 | 0.5 | 0.2 | — |
| Total derivatives | 332.7 | 332.7 | 0.5 | 309.9 | 22.3 |
| Total investments carried at fair value | 31,140.0 | 31,140.0 | 103.9 | 30,618.8 | 417.3 |
| Embedded derivative – Closed Block | 63.0 | 63.0 | | | 63.0 |
| Separate account assets | 1,026.9 | 1,026.9 | 1,026.9 | — | — |
| Total assets at fair value (1) | $ 32,229.9 | $ 32,229.9 | $ 1,130.8 | $ 30,618.8 | $ 480.3 |
| *Financial liabilities:* | | | | | |
| Embedded derivatives – FIA | $ 1,005.8 | $ 1,005.8 | $ — | $ — | $ 1,005.8 |

(1) Does not include amounts related to limited partnerships that are measured using the net asset value (NAV) practical expedient. See "Investments in Limited Partnerships" below for more information.

(All dollar amounts in millions, unless otherwise stated)

| | As of December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Carrying Amount | Fair Value | Level 1 | Level 2 | Level 3 |
| **Measured at fair value on a recurring basis:** | | | | | |
| *Financial assets:* | | | | | |
| Fixed maturities, available-for-sale: | | | | | |
| U.S. government and agencies | $ 441.5 | $ 441.5 | $ — | $ 441.5 | $ — |
| State and political subdivisions | 792.4 | 792.4 | — | 792.4 | — |
| Corporate securities | 24,069.7 | 24,069.7 | — | 23,868.9 | 200.8 |
| Residential mortgage-backed securities | 2,491.7 | 2,491.7 | — | 2,491.7 | — |
| Commercial mortgage-backed securities | 795.7 | 795.7 | — | 795.6 | 0.1 |
| Collateralized loan obligations | 1,146.6 | 1,146.6 | — | 1,146.6 | — |
| Other debt obligations | 735.8 | 735.8 | — | 694.3 | 41.5 |
| Total fixed maturities, available-for-sale | 30,473.4 | 30,473.4 | — | 30,231.0 | 242.4 |
| Marketable equity securities | 755.7 | 755.7 | 722.6 | 26.8 | 6.3 |
| Derivatives: | | | | | |
| Index options | 261.9 | 261.9 | — | 222.4 | 39.5 |
| Foreign currency swaps | 75.5 | 75.5 | — | 75.5 | — |
| Other | 1.7 | 1.7 | 0.2 | 1.5 | — |
| Total derivatives | 339.1 | 339.1 | 0.2 | 299.4 | 39.5 |
| Total investments carried at fair value | 31,568.2 | 31,568.2 | 722.8 | 30,557.2 | 288.2 |
| Separate account assets | 978.1 | 978.1 | 978.1 | — | — |
| Total assets at fair value (1) | $ 32,546.3 | $ 32,546.3 | $ 1,700.9 | $ 30,557.2 | $ 288.2 |
| *Financial liabilities:* | | | | | |
| Embedded derivatives – FIA | $ 797.5 | $ 797.5 | $ — | $ — | $ 797.5 |

(1) Does not include amounts related to limited partnerships that are measured using the net asset value (NAV) practical expedient. See "Investments in Limited Partnerships" below for more information.

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

### Fixed Maturities

The vast majority of the Company's fixed maturities 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, 2018 and December 31, 2017, pricing services provided prices for 94.1% and 94.4%, respectively, of the Company's fixed maturities.

As of September 30, 2018, the Company had $1,578.3, or 5.3%, 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 $1,299.1, or 82.3%, as Level 2 measurements as of September 30, 2018. As of December 31, 2017, the Company had $1,509.0, or 5.0%, of its fixed maturities invested in private placement securities, of which $1,325.9, or 87.9%, were classified as Level 2 measurements.

***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**

Marketable equity securities have historically included exchange traded funds and common stock in support of long-duration income annuity policies. The majority of the Company's equity investments were sold in connection with the Reinsurance Transaction. 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.

**Investments in Limited Partnerships**

Investments in limited partnerships recorded at fair value relate to the Company's alternative investments, primarily private equity and hedge funds. As of September 30, 2018 and December 31, 2017, the fair value of these investments was $52.4 and $52.5, respectively. The Company utilizes the fair value option for these investments, regardless of ownership percentage, to standardize the related accounting and reporting. The fair value is determined using the practical expedient based on the Company's proportionate interest in the underlying partnership's or fund's net asset values (NAV).

**Index Options**

Index options consist primarily of Standard & Poor's 500 Index® (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.

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

### Embedded Derivatives

Embedded derivatives primarily relate to the Company's FIA product, which credits 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.

The Reinsurance Transaction also contains an embedded derivative related to the withheld assets supporting the Closed Block annuity contracts. The embedded derivative is measured as the change in the market-over-book value of the assets supporting the Closed Block.

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

### Rollforward of Financial Instruments Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)

The following tables present additional information about financial instruments measured at fair value on a recurring basis and for which the Company has utilized significant unobservable inputs (Level 3) to determine fair value for the three and nine months ended September 30, 2018:

| | | | | | | Unrealized Gains (Losses) Included in: | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Balance as of July 1, 2018 | Purchases and Issues(1) | Sales and Settlements(1) | Transfers In and/or (Out) of Level 3(2) | Other(3) | Net Income(4) | Other Comprehensive Income (5) | Realized Gains (Losses)(4) | Balance as of September 30, 2018 |
| **Financial Assets:** | | | | | | | | | |
| Fixed maturities, available-for-sale: | | | | | | | | | |
| Corporate securities | $ 323.0 | $ — | $ — | $ (22.7) | $ (1.5) | $ — | $ (2.1) | $ — | $ 296.7 |
| Commercial mortgage-backed securities | 26.9 | — | — | (26.9) | — | — | — | — | — |
| Collateralized loan obligations | 49.3 | 52.7 | — | (49.3) | — | — | — | — | 52.7 |
| Other debt obligations | 39.8 | — | — | — | 0.2 | — | (0.6) | — | 39.4 |
| Total fixed maturities, available-for-sale | 439.0 | 52.7 | — | (98.9) | (1.3) | — | (2.7) | — | 388.8 |
| Marketable equity securities | 6.2 | — | — | — | — | — | — | — | 6.2 |
| Derivatives: | | | | | | | | | |
| Index options | 23.6 | 9.3 | — | — | (4.1) | (4.6) | — | (1.9) | 22.3 |
| Embedded derivative – Closed Block | — | — | — | — | — | 63.0 | — | — | 63.0 |
| Total Level 3 assets | $ 468.8 | $ 62.0 | $ — | $ (98.9) | $ (5.4) | $ 58.4 | $ (2.7) | $ (1.9) | $ 480.3 |
| **Financial Liabilities:** | | | | | | | | | |
| Embedded derivatives – FIA | $ 857.8 | $ 46.6 | $ (4.0) | $ — | $ — | $ 105.4 | $ — | $ — | $ 1,005.8 |

| | | | | | | Unrealized Gains (Losses) Included in: | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Balance as of January 1, 2018 | Purchases and Issues(1) | Sales and Settlements(1) | Transfers In and/or (Out) of Level 3(2) | Other(3) | Net Income(4) | Other Comprehensive Income (5) | Realized Gains (Losses)(4) | Balance as of September 30, 2018 |
| **Financial Assets:** | | | | | | | | | |
| Fixed maturities, available-for-sale: | | | | | | | | | |
| Corporate securities | $ 200.8 | $ 31.8 | $ — | $ 81.4 | $ (3.6) | $ — | $ (13.7) | $ — | $ 296.7 |
| Commercial mortgage-backed securities | 0.1 | — | — | — | (0.1) | — | — | — | — |
| Collateralized loan obligations | — | 52.7 | — | — | — | — | — | — | 52.7 |
| Other debt obligations | 41.5 | — | — | — | 0.6 | — | (2.7) | — | 39.4 |
| Total fixed maturities, available-for-sale | 242.4 | 84.5 | — | 81.4 | (3.1) | — | (16.4) | — | 388.8 |
| Marketable equity securities | 6.2 | — | — | — | — | — | — | — | 6.2 |
| Derivatives: | | | | | | | | | |
| Index options | 39.5 | 29.9 | — | — | (26.3) | (46.4) | — | 25.6 | 22.3 |
| Embedded derivative – Closed Block | — | — | — | — | — | 63.0 | — | — | 63.0 |
| Total Level 3 assets | $ 288.1 | $ 114.4 | $ — | $ 81.4 | $ (29.4) | $ 16.6 | $ (16.4) | $ 25.6 | $ 480.3 |
| **Financial Liabilities:** | | | | | | | | | |
| Embedded derivatives – FIA | $ 797.5 | $ 127.8 | $ (10.3) | $ — | $ — | $ 90.8 | $ — | $ — | $ 1,005.8 |

(1) Issues and settlements are related to the Company's embedded derivative liabilities.

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

(2) Transfers into Level 3 are generally the result of observable market information on a security no longer being available or utilized by pricing vendors. Transfers into and/or out of Level 3 are reported at the value as of the beginning of the period in which the transfer occurs. Gross transfers into Level 3 were **$0.0** and **$81.4** for the three and nine months ended September 30, 2018, respectively. Gross transfers out of Level 3 were **$98.9** and **$0.0** for the three and nine months ended September 30, 2018, respectively.
(3) Other includes transactions such as pay downs, calls, amortization, and redemptions.
(4) Amounts are included in net realized gains (losses) on the consolidated statements of income (loss). Amounts shown for financial liabilities are (gains) losses in net income. Realized (gains) losses related to the modified coinsurance embedded derivative are passed on to the reinsurer.
(5) Amounts are generally included in changes in unrealized gains (losses) on available-for-sale securities on the consolidated statements of comprehensive income (loss).

The following tables present additional information about financial instruments measured at fair value on a recurring basis and for which the Company has utilized significant unobservable inputs (Level 3) to determine fair value for the three and nine months ended September 30, 2017:

| | | | | | | Unrealized Gains (Losses) Included in: | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Balance as of July 1, 2017 | Purchases and Issues(1) | Sales and Settlements(1) | Transfers In and/or (Out) of Level 3(2) | Other(3) | Net Income(4) | Other Comprehensive Income (5) | Realized Gains (Losses)(4) | Balance as of September 30, 2017 |
| **Financial Assets:** | | | | | | | | | |
| Fixed maturities, available-for-sale: | | | | | | | | | |
| Corporate securities | $ 80.1 | $ 44.8 | $ — | $ — | $ (0.1) | $ — | $ 3.2 | $ 0.1 | $ 128.1 |
| Commercial mortgage-backed securities | 0.7 | — | — | — | (0.6) | — | — | — | 0.1 |
| Other debt obligations | 37.8 | — | — | — | 0.1 | — | 2.4 | — | 40.3 |
| Total fixed maturities, available-for-sale | 118.6 | 44.8 | — | — | (0.6) | — | 5.6 | 0.1 | 168.5 |
| Marketable equity securities | 6.0 | — | — | 0.1 | — | — | 0.2 | — | 6.3 |
| Derivatives: | | | | | | | | | |
| Index options | 14.6 | 5.3 | — | — | (0.6) | 8.0 | — | (2.1) | 25.2 |
| Other | 1.9 | 0.1 | — | — | (0.4) | 0.2 | — | — | 1.8 |
| Total derivatives | 16.5 | 5.4 | — | — | (1.0) | 8.2 | — | (2.1) | 27.0 |
| Total Level 3 assets | $ 141.1 | $ 50.2 | $ — | $ 0.1 | $ (1.6) | $ 8.2 | $ 5.8 | $ (2.0) | $ 201.8 |
| **Financial Liabilities:** | | | | | | | | | |
| Embedded derivatives – FIA | $ 696.1 | $ 29.8 | $ (2.1) | $ — | $ (8.1) | $ 5.8 | $ — | $ — | $ 721.5 |

| | | | | | | Unrealized Gains (Losses) Included in: | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Balance as of January 1, 2017 | Purchases and Issues(1) | Sales and Settlements(1) | Transfers In and/or (Out) of Level 3(2) | Other(3) | Net Income(4) | Other Comprehensive Income (5) | Realized Gains (Losses)(4) | Balance as of September 30, 2017 |
| **Financial Assets:** | | | | | | | | | |
| Fixed maturities, available-for-sale: | | | | | | | | | |
| Corporate securities | $ 57.0 | $ 66.4 | $ — | $ — | $ (1.1) | $ — | $ 5.7 | $ 0.1 | $ 128.1 |
| Commercial mortgage-backed securities | 0.9 | — | — | — | (0.8) | — | — | — | 0.1 |
| Other debt obligations | 7.6 | — | — | 28.7 | 0.5 | — | 3.5 | — | 40.3 |
| Total fixed maturities, available-for-sale | 65.5 | 66.4 | — | 28.7 | (1.4) | — | 9.2 | 0.1 | 168.5 |
| Marketable equity securities | 5.9 | — | — | 0.1 | — | — | 0.3 | — | 6.3 |
| Derivatives: | | | | | | | | | |
| Index options | 7.1 | 15.2 | — | — | (3.4) | 12.8 | — | (6.5) | 25.2 |
| Other | 1.7 | 0.8 | — | — | (0.7) | 0.1 | — | (0.1) | 1.8 |
| Total derivatives | 8.8 | 16.0 | — | — | (4.1) | 12.9 | — | (6.6) | 27.0 |
| Total Level 3 assets | $ 80.2 | $ 82.4 | $ — | $ 28.8 | $ (5.5) | $ 12.9 | $ 9.5 | $ (6.5) | $ 201.8 |
| **Financial Liabilities:** | | | | | | | | | |
| Embedded derivatives – FIA | $ 532.4 | $ 132.4 | $ (6.1) | $ — | $ (8.1) | $ 70.9 | $ — | $ — | $ 721.5 |

(1) Issues and settlements are related to the Company's embedded derivative liabilities.
(2) Transfers into and/or out of Level 3 are reported at the value as of the beginning of the period in which the transfer occurs. Gross transfers into Level 3 were $0.1 and $28.8 for the three and nine months ended September 30, 2017, respectively. Gross transfers out of Level 3 were $0.0 and $0.0 for the three and nine months ended September 30, 2017, respectively.
(3) Other includes transactions such as pay downs, calls, amortization and redemptions.
(4) Amounts are included in net realized gains (losses) on the consolidated statements of income (loss). Amounts shown for financial liabilities are (gains) losses in net income.
(5) Amounts are generally included in changes in unrealized gains (losses) on available-for-sale securities on the consolidated statements of comprehensive income.

(All dollar amounts in millions, unless otherwise stated)

## 9. 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, | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Unamortized balance at beginning of period | **$ 532.7** | $ 322.0 | **$ 407.2** | $ 202.8 |
| Deferral of acquisition costs | **56.8** | 51.9 | **190.8** | 186.3 |
| Adjustments for realized (gains) losses (1) | **2.5** | (2.0) | **(3.5)** | (2.9) |
| Amortization – excluding unlocking | **(28.8)** | (7.9) | **(30.4)** | (21.0) |
| Amortization – impact of unlocking (1) | **(2.5)** | 1.7 | **(3.4)** | 0.5 |
| Adjustment for Closed Block (2) | **(12.6)** | — | **(12.6)** | — |
| Unamortized balance at end of period | **548.1** | 365.7 | **548.1** | 365.7 |
| Accumulated effect of net unrealized (gains) losses | **37.0** | (25.8) | **37.0** | (25.8) |
| Balance at end of period | **$ 585.1** | $ 339.9 | **$ 585.1** | $ 339.9 |

(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. Adjustment for realized (gains) losses also includes impact from annual unlocking.
(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, | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Unamortized balance at beginning of period | **$ 332.8** | $ 386.8 | **$ 358.1** | $ 413.4 |
| Adjustments related to realized (gains) losses (1) | **6.5** | (8.2) | **4.9** | (8.4) |
| Amortization – excluding unlocking | **(9.9)** | (10.8) | **(31.5)** | (33.1) |
| Amortization – impact of unlocking (1) | **(2.2)** | 3.8 | **(4.3)** | (0.3) |
| Unamortized balance at end of period | **327.2** | 371.6 | **327.2** | 371.6 |
| Accumulated effect of net unrealized (gains) losses | **67.3** | (80.2) | **67.3** | (80.2) |
| Balance at end of period | **$ 394.5** | $ 291.4 | **$ 394.5** | $ 291.4 |

(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. Adjustment for realized (gains) losses also includes impact from annual unlocking.

## 10. 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, and group life and DI and other. These reserves include policy and contract claims and certain amounts recorded in future policy benefits on the 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.

(All dollar amounts in millions, unless otherwise stated)

| Medical Stop-Loss | For the Nine Months Ended September 30, 2018 | 2017 |
|---|---|---|
| Balance, beginning of period | **$ 153.1** | $ 114.6 |
| Less: reinsurance recoverables | **12.4** | 7.7 |
| Net balance, beginning of period | **140.7** | 106.9 |
| Incurred related to insured events of: | | |
| The current year | **367.4** | 353.9 |
| Prior years | **(10.4)** | 4.0 |
| Total incurred | **357.0** | 357.9 |
| Paid related to insured events of: | | |
| The current year | **212.2** | 200.2 |
| Prior years | **120.6** | 102.8 |
| Total paid | **332.8** | 303.0 |
| Net balance, end of period | **164.9** | 161.8 |
| Add: reinsurance recoverables | **7.9** | 10.4 |
| Balance, end of period | **$ 172.8** | $ 172.2 |

For the nine months ended September 30, 2018, the change in prior year incurred claims for medical stop-loss was primarily due to favorable claims experience on policies issued in January 2017. For the nine months ended September 30, 2017, the change in prior year incurred claims was primarily due to unfavorable claims experience on policies issued in January 2016.

| Group Life and DI | For the Nine Months Ended September 30, 2018 | 2017 |
|---|---|---|
| Balance, beginning of period | **$ 184.2** | $ 149.9 |
| Less: reinsurance recoverables | **41.9** | 48.4 |
| Net balance, beginning of period | **142.3** | 101.5 |
| Incurred related to insured events of: | | |
| The current year | **150.9** | 112.9 |
| Prior years | **(2.7)** | 1.1 |
| Total incurred | **148.2** | 114.0 |
| Paid related to insured events of: | | |
| The current year | **73.8** | 52.7 |
| Prior years | **38.6** | 28.7 |
| Total paid | **112.4** | 81.4 |
| Net balance, end of period | **178.1** | 134.1 |
| Add: reinsurance recoverables | **41.5** | 44.2 |
| Balance, end of period | **$ 219.6** | $ 178.3 |

(All dollar amounts in millions, unless otherwise stated)

| Other | For the Nine Months Ended September 30, | |
|---|---|---|
| | 2018 | 2017 |
| Balance, beginning of period | $ 29.6 | $ 33.0 |
| Less: reinsurance recoverables | 4.7 | 6.7 |
| Net balance, beginning of period | 24.9 | 26.3 |
| Incurred related to insured events of: | | |
| The current year | 84.4 | 87.8 |
| Prior years | 3.0 | (0.6) |
| Total incurred | 87.4 | 87.2 |
| Paid related to insured events of: | | |
| The current year | 61.5 | 61.7 |
| Prior years | 20.6 | 19.1 |
| Total paid | 82.1 | 80.8 |
| Net balance, end of period | 30.2 | 32.7 |
| Add: reinsurance recoverables | 3.2 | 35.3 |
| Balance, end of period | $ 33.4 | $ 68.0 |

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 plus expected development on reported claims.

| | As of September 30, 2018 | |
|---|---|---|
| Year of Insured Event | Medical Stop-Loss | Group Life and DI |
| **IBNR Reserves:** | | |
| 2017 | $ 8.1 | $ 4.8 |
| 2018 | 129.0 | 50.4 |
| Total | $ 137.1 | $ 55.2 |

## 11. Stockholder's Equity

The following tables summarize the components of AOCI and the adjustments to OCI for amounts reclassified from AOCI into net income 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 (Loss) |
|---|---|---|---|---|---|
| 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) |

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

| | 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, 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 | **$ (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, and net of taxes of **$(249.5)**, **$0.0**, **$42.3**, **$(2.2)**, and **$(209.4)**, respectively, for the nine months ended September 30, 2018. Tax effects in OCI are calculated based on the applicable enacted tax rate at the time gains (losses) are incurred.

(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 consolidated statements of comprehensive income.

(3) Accounting Standards Update No. 2016-01, Financial Instruments (Topic 825): Recognition and Measurement of Financial Assets and Financial Liabilities. 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 for the three and nine months ended September 30, 2017:

| | 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, 2017 | $ 455.7 | $ (0.2) | $ (66.8) | $ 4.0 | $ 392.7 |
| Other comprehensive income (loss) before reclassifications, net of taxes (1) | 75.2 | — | (17.1) | (17.5) | 40.6 |
| Reclassifications recorded in: | | | | | |
| Net investment income: | | | | | |
| Interest rate swaps | — | — | — | 3.6 | 3.6 |
| Foreign currency swaps | — | — | — | 3.2 | 3.2 |
| Net realized (gains) losses | (5.6) | — | 10.3 | 0.5 | 5.2 |
| Total provision (benefit) for income taxes | 1.9 | — | (3.6) | (2.6) | (4.3) |
| Total reclassifications from AOCI, net of taxes | (3.7) | — | 6.7 | 4.7 | 7.7 |
| Other comprehensive income (loss) after reclassifications | 71.5 | — | (10.4) | (12.8) | 48.3 |
| Balance as of September 30, 2017 | $ 527.2 | $ (0.2) | $ (77.2) | $ (8.8) | $ 441.0 |

(All dollar amounts in millions, unless otherwise stated)

| | 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, 2017 | $ 140.0 | $ (0.2) | $ (14.0) | $ 17.7 | $ 143.5 |
| Other comprehensive income (loss) before reclassifications, net of taxes (1) | 412.1 | — | (70.6) | (30.4) | 311.1 |
| Reclassifications recorded in: | | | | | |
| Net investment income: | | | | | |
| Interest rate swaps | — | — | — | 0.4 | 0.4 |
| Foreign currency swaps | — | — | — | (1.4) | (1.4) |
| Net realized (gains) losses | (38.3) | — | 11.4 | 7.0 | (19.9) |
| Total provision (benefit) for income taxes | 13.4 | — | (4.0) | (2.1) | 7.3 |
| Total reclassifications from AOCI, net of taxes | (24.9) | — | 7.4 | 3.9 | (13.6) |
| Other comprehensive income (loss) after reclassifications | 387.2 | — | (63.2) | (26.5) | 297.5 |
| Balance as of September 30, 2017 | $ 527.2 | $ (0.2) | $ (77.2) | $ (8.8) | $ 441.0 |

(1) Other comprehensive income (loss) before reclassifications is net of taxes of $40.4, $0.0, $(9.2), $(9.6), and $21.6, respectively, for the three months ended September 30, 2017, and net of taxes of $221.9, $0.0, $(38.0), $(16.4), and $167.5, respectively, for the nine months ended September 30, 2017. Tax effects in OCI are calculated based on the applicable enacted tax rate at the time gains(losses) are incurred.

(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 consolidated statements of comprehensive income.

## 12. 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.

### Other

In November 2017, the Company entered into a $450.0 loan agreement with its parent company, Sumitomo Life, which was funded in January 2018. The loan bears interest at a fixed annual rate of 2.68%, payable quarterly, and is scheduled to mature in January 2021. The Company used the proceeds of the loan to settle its $150.0 CENts and $300.0 term loans.

In August 2018, the Company, became a member of the Federal Home Loan Bank of Des Moines (FHLB DM). Membership allows access to the FHLB DM's funding services, which provide an alternative liquidity source, including the ability to obtain loans and issue funding agreements that are collateralized by qualifying assets. Maximum borrowing capacity varies based on a percentage of total assets. Eligible collateral includes eligible CMBS, RMBS, government or agency securities and mortgage loans. As of September 30, 2018, the Company's maximum borrowing capacity from the FHLB DM was approximately $11 billion, subject to availability of eligible collateral and internal authorization limits. The Company began taking advances during the fourth quarter of 2018.

(All dollar amounts in millions, unless otherwise stated)

## 13. 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 the 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, which are 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 consolidated financial statements. The income (loss) related to the Closed Block is excluded from the profitability measures used by management, as this results in more accurate trends in the Company's core business and more closely aligns the 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:

- investment sales or disposal,
- investment impairments,
- changes in the fair value of mark-to-market investments and derivative investments (except for certain index options discussed below), and
- changes in the fair value of embedded derivatives related to the Company's FIA product.

In the Retirement segment, net gains (losses) on certain index options purchased to economically hedge exposure from FIA products sold in the late 1990s are included in adjusted pre-tax income.

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Segment adjusted pre-tax income (loss): | | | | |
| Benefits | **$ 24.1** | $ 17.3 | **$ 57.8** | $ 18.9 |
| Retirement | **30.5** | 32.1 | **87.1** | 88.5 |
| Individual Life | **(5.5)** | (2.1) | **8.9** | 13.7 |
| Other | **(8.0)** | (15.1) | **(29.4)** | (36.5) |
| Total segment adjusted pre-tax income | **41.1** | 32.2 | **124.4** | 84.6 |
| Add (deduct) the following: | | | | |
| Excluded realized gains (losses) | **(28.5)** | 32.4 | **(32.5)** | 27.5 |
| Amortization of intangible assets | **(21.7)** | (20.9) | **(63.5)** | (62.7) |
| Closed Block results | **(61.0)** | 1.7 | **(90.5)** | 33.4 |
| Income (loss) from operations before income taxes | **$ (70.1)** | $ 45.4 | **$ (62.1)** | $ 82.8 |

(All dollar amounts in millions, unless otherwise stated)

The following table presents total adjusted revenue by segment:

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Segment adjusted revenue: | | | | |
| Benefits | **$ 256.7** | $ 231.2 | **$ 770.0** | $ 677.1 |
| Retirement | **200.3** | 175.4 | **579.3** | 533.6 |
| Individual Life | **144.3** | 128.6 | **424.1** | 379.3 |
| Other | **(2.6)** | (6.9) | **(11.0)** | (12.0) |
| Total segment adjusted revenue | **598.7** | 528.3 | **1,762.4** | 1,578.0 |
| Add: Excluded realized gains (losses) | **(28.5)** | 32.4 | **(32.5)** | 27.5 |
| Add: Closed Block revenue | **(66.7)** | 80.6 | **56.5** | 258.6 |
| Total Revenue | **$ 503.5** | $ 641.3 | **$ 1,786.4** | $ 1,864.1 |

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

The following table presents total adjusted assets by segment:

| | As of September 30, 2018 | As of December 31, 2017 |
|---|---|---|
| Segment assets: | | |
| Benefits | **$ 1,520.5** | $ 1,500.1 |
| Retirement | **25,407.3** | 23,971.2 |
| Individual Life | **7,914.2** | 7,836.0 |
| Other | **2,085.0** | 2,041.2 |
| Total segment assets | **36,927.0** | 35,348.5 |
| Add: Closed Block assets (1) | **12,297.1** | 7,517.1 |
| Total Assets | **$ 49,224.1** | $ 42,865.6 |

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