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## Section 1: 10-Q (10-Q)

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

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**Form 10-Q**

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(Mark One)

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-37779

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## FGL HOLDINGS

(Exact name of registrant as specified in its charter)

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Cayman Islands

(State or other jurisdiction of  
incorporation or organization)

4th Floor

Boundary Hall, Cricket Square

Grand Cayman, Cayman Islands KY1-1102

(Address of principal executive offices, including zip  
code)

98-1354810

(I.R.S. Employer  
Identification No.)

(800) 445-6758

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  or No

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



|                           |                                     |   |                          |
|---------------------------|-------------------------------------|---|--------------------------|
| Large Accelerated Filer   | <input checked="" type="checkbox"/> | Accelerated Filer                             | <input type="checkbox"/> |
| Non-accelerated Filer     | <input type="checkbox"/>            | (Do not check if a smaller reporting company) |                          |
| Smaller reporting Company | <input type="checkbox"/>            | Emerging growth company                       | <input type="checkbox"/> |

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

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

As of November 5, 2018, there were 221,561,070 ordinary shares, \$.0001 par value, issued and outstanding.

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**PART I: FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**FGL HOLDINGS**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
*(In millions, except share data)*

|   | September 30,<br>2018 | December 31,<br>2017 |
|---|-----------------------|----------------------|
|   | (Unaudited)           |                      |
| <b>ASSETS</b>   |                       |                      |
| Investments:  |                       |                      |
| Fixed maturity securities, available-for-sale, at fair value (amortized cost: September 30, 2018 - \$22,143; December 31, 2017 - \$20,847)                                      | \$ 21,421             | \$ 20,963            |
| Equity securities, at fair value (cost: September 30, 2018 - \$1,490; December 31, 2017 - \$1,392)  | 1,440                 | 1,388                |
| Derivative investments  | 432                   | 492                  |
| Short term investments  | 15                    | 25                   |
| Commercial mortgage loans   | 497                   | 548                  |
| Other invested assets   | 606                   | 188                  |
| <b>Total investments</b>  | <b>24,411</b>         | <b>23,604</b>        |
| Cash and cash equivalents   | 944                   | 1,215                |
| Accrued investment income   | 230                   | 211                  |
| Funds withheld for reinsurance receivables, at fair value   | 708                   | 756                  |
| Reinsurance recoverable   | 2,460                 | 2,494                |
| Intangibles, net  | 1,205                 | 853                  |
| Deferred tax assets, net  | 285                   | 182                  |
| Goodwill  | 467                   | 467                  |
| Other assets  | 250                   | 141                  |
| <b>Total assets</b>   | <b>\$ 30,960</b>      | <b>\$ 29,923</b>     |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                       |                      |
| Contractholder funds  | \$ 23,164             | \$ 21,827            |
| Future policy benefits, including \$684 and \$728 at fair value at September 30, 2018 and December 31, 2017, respectively   | 4,631                 | 4,751                |
| Liability for policy and contract claims  | 60                    | 78                   |
| Debt  | 540                   | 307                  |
| Revolving credit facility   | —                     | 105                  |
| Other liabilities   | 1,091                 | 892                  |
| <b>Total liabilities</b>  | <b>29,486</b>         | <b>27,960</b>        |
| <b>Commitments and contingencies ("Note 12")</b>  |                       |                      |
| Shareholders' equity:   |                       |                      |
| Preferred stock (\$.0001 par value, 100,000,000 shares authorized, 391,694 and 375,000 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively) | —                     | —                    |
| Common stock (\$.0001 par value, 800,000,000 shares authorized, 214,370,000 issued and outstanding at September 30, 2018 and December 31, 2017, respectively)                   | —                     | —                    |
| Additional paid-in capital  | 2,056                 | 2,037                |
| Retained earnings (Accumulated deficit)   | (13)                  | (149)                |
| Accumulated other comprehensive income (loss)   | (569)                 | 75                   |
| <b>Total shareholders' equity</b>   | <b>1,474</b>          | <b>1,963</b>         |
| <b>Total liabilities and shareholders' equity</b>   | <b>\$ 30,960</b>      | <b>\$ 29,923</b>     |

See accompanying notes to unaudited condensed consolidated financial statements.

**FGL HOLDINGS**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
*(In millions, except share data)*

|  | Three months ended |                            | Nine months ended  |                            |
|--|--------------------|----------------------------|--------------------|----------------------------|
|  | September 30, 2018 | September 30, 2017         | September 30, 2018 | September 30, 2017         |
|  | (Unaudited)        | Predecessor<br>(Unaudited) | (Unaudited)        | Predecessor<br>(Unaudited) |
| <b>Revenues:</b>   |                    |                            |                    |                            |
| Premiums   | \$ 12              | \$ 16                      | \$ 45              | \$ 31                      |
| Net investment income  | 267                | 261                        | 812                | 765                        |
| Net investment gains (losses)  | 119                | 117                        | (74)               | 265                        |
| Insurance and investment product fees and other                                      | 46                 | 41                         | 139                | 129                        |
| <b>Total revenues</b>  | <b>444</b>         | <b>435</b>                 | <b>922</b>         | <b>1,190</b>               |
| <b>Benefits and expenses:</b>  |                    |                            |                    |                            |
| Benefits and other changes in policy reserves  | 297                | 320                        | 475                | 823                        |
| Acquisition and operating expenses, net of deferrals                                 | 40                 | 36                         | 126                | 109                        |
| Amortization of intangibles  | 28                 | (14)                       | 72                 | 70                         |
| <b>Total benefits and expenses</b>   | <b>365</b>         | <b>342</b>                 | <b>673</b>         | <b>1,002</b>               |
| <b>Operating income</b>  | <b>79</b>          | <b>93</b>                  | <b>249</b>         | <b>188</b>                 |
| Interest expense   | (8)                | (6)                        | (21)               | (18)                       |
| <b>Income (loss) before income taxes</b>   | <b>71</b>          | <b>87</b>                  | <b>228</b>         | <b>170</b>                 |
| Income tax expense   | (15)               | (26)                       | (67)               | (55)                       |
| <b>Net income (loss)</b>   | <b>\$ 56</b>       | <b>\$ 61</b>               | <b>\$ 161</b>      | <b>\$ 115</b>              |
| Less preferred stock dividend  | 7                  | —                          | 21                 | —                          |
| <b>Net income (loss) available to common shareholders</b>                            | <b>\$ 49</b>       | <b>\$ 61</b>               | <b>\$ 140</b>      | <b>\$ 115</b>              |
| <b>Net income (loss) per common share:</b>   |                    |                            |                    |                            |
| Basic  | \$ 0.23            | \$ 1.06                    | \$ 0.65            | \$ 1.98                    |
| Diluted  | \$ 0.23            | \$ 1.06                    | \$ 0.65            | \$ 1.98                    |
| <b>Weighted average common shares used in computing net income per common share:</b> |                    |                            |                    |                            |
| Basic  | 214,370,000        | 58,335,216                 | 214,370,000        | 58,332,666                 |
| Diluted  | 214,418,693        | 58,478,612                 | 214,390,931        | 58,437,832                 |
| <b>Cash dividend per common share</b>  | <b>\$ —</b>        | <b>\$ 0.065</b>            | <b>\$ —</b>        | <b>\$ 0.195</b>            |
| <b>Supplemental disclosures</b>  |                    |                            |                    |                            |
| Total other-than-temporary impairments   | \$ —               | \$ —                       | \$ (2)             | \$ (21)                    |
| Portion of other-than-temporary impairments included in other comprehensive income   | —                  | —                          | —                  | —                          |
| Net other-than-temporary impairments   | —                  | —                          | (2)                | (21)                       |
| Gains (losses) on derivatives and embedded derivatives                               | 159                | 111                        | 58                 | 284                        |
| Other investment gains (losses)  | (40)               | 6                          | (130)              | 2                          |
| <b>Total net investment gains (losses)</b>   | <b>\$ 119</b>      | <b>\$ 117</b>              | <b>\$ (74)</b>     | <b>\$ 265</b>              |

See accompanying notes to unaudited condensed consolidated financial statements.

**FGL HOLDINGS**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
*(In millions)*

|   | Three months ended |                            | Nine months ended  |                            |
|---|--------------------|----------------------------|--------------------|----------------------------|
|   | September 30, 2018 | September 30, 2017         | September 30, 2018 | September 30, 2017         |
|   | (Unaudited)        | Predecessor<br>(Unaudited) | (Unaudited)        | Predecessor<br>(Unaudited) |
| Net income  | \$ 56              | \$ 61                      | \$ 161             | \$ 115                     |
| Other comprehensive income (loss):  |                    |                            |                    |                            |
| Unrealized investment gains/losses:   |                    |                            |                    |                            |
| Change in unrealized investment gains/losses before reclassification adjustment | (11)               | 173                        | (922)              | 845                        |
| Net reclassification adjustment for gains/losses included in net income         | 23                 | (4)                        | 84                 | 20                         |
| Changes in unrealized investment gains/losses after reclassification adjustment | 12                 | 169                        | (838)              | 865                        |
| Adjustments to intangible assets and unearned revenue                           | 37                 | (51)                       | 89                 | (265)                      |
| Changes in deferred income tax asset/liability                                  | (15)               | (42)                       | 101                | (210)                      |
| Net change in unrealized gains/losses on investments                            | 34                 | 76                         | (648)              | 390                        |
| Non-credit related other-than-temporary impairment:                             |                    |                            |                    |                            |
| Changes in non-credit related other than-temporary impairment                   | —                  | —                          | —                  | —                          |
| Net non-credit related other-than-temporary impairment                          | —                  | —                          | —                  | —                          |
| Net changes to derive comprehensive income (loss) for the period                | 34                 | 76                         | (648)              | 390                        |
| Comprehensive income (loss), net of tax   | \$ 90              | \$ 137                     | \$ (487)           | \$ 505                     |

See accompanying notes to unaudited condensed consolidated financial statements.

**FGL HOLDINGS**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**(Unaudited) (In millions)**

|   | Preferred Stock | Common Stock | Additional Paid-in Capital | Retained Earnings (Accumulated Deficit) | Accumulated Other Comprehensive Income (Loss) | Total Shareholders' Equity |
|---|-----------------|--------------|----------------------------|---|---|----------------------------|
| Balance, December 31, 2017                            | —               | —            | 2,037                      | (149)                                   | 75  | 1,963                      |
| Dividends   | —               | —            | 16                         | (21)                                    | —   | (5)                        |
| Net income  | —               | —            | —                          | 161                                     | —   | 161                        |
| Unrealized investment gains (losses), net             | —               | —            | —                          | —                                       | (648)   | (648)                      |
| Cumulative effect of changes in accounting principles | —               | —            | —                          | (4)                                     | 4   | —                          |
| Stock-based compensation                              | —               | —            | 3                          | —                                       | —   | 3                          |
| Balance, September 30, 2018                           | \$ —            | \$ —         | \$ 2,056                   | \$ (13)                                 | \$ (569)                                      | \$ 1,474                   |

See accompanying notes to unaudited condensed consolidated financial statements.



**FGL HOLDINGS**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(In millions)*

|   | Nine months ended     |                            |
|---|-----------------------|----------------------------|
|   | September 30,<br>2018 | September 30,<br>2017      |
|   | (Unaudited)           | Predecessor<br>(Unaudited) |
| <b>Cash flows from operating activities:</b>                                      |                       |                            |
| Net income  | \$ 161                | \$ 115                     |
| Adjustments to reconcile net income to net cash provided by operating activities: |                       |                            |
| Stock based compensation  | 3                     | 5                          |
| Amortization  | 40                    | (36)                       |
| Deferred income taxes   | (4)                   | (80)                       |
| Interest credited/index credits to contractholder account balances                | 452                   | 714                        |
| Net recognized losses (gains) on investments and derivatives                      | 74                    | (254)                      |
| Charges assessed to contractholders for mortality and administration              | (103)                 | (99)                       |
| Deferred policy acquisition costs, net of related amortization                    | (237)                 | (167)                      |
| Gain on extinguishment of debt  | (2)                   | —                          |
| Changes in operating assets and liabilities:                                      |                       |                            |
| Reinsurance recoverable   | 11                    | (10)                       |
| Future policy benefits  | (120)                 | (41)                       |
| Funds withheld from reinsurers  | 11                    | (79)                       |
| Collateral (returned) posted  | (62)                  | 118                        |
| Other assets and other liabilities  | 40                    | (21)                       |
| <b>Net cash provided by (used in) operating activities</b>                        | <b>264</b>            | <b>165</b>                 |
| <b>Cash flows from investing activities:</b>                                      |                       |                            |
| Proceeds from available-for-sale investments sold, matured or repaid              | 5,865                 | 2,022                      |
| Proceeds from derivatives instruments and other invested assets                   | 430                   | 387                        |
| Proceeds from commercial mortgage loans   | 50                    | 35                         |
| Cost of available-for-sale investments  | (7,345)               | (2,768)                    |
| Costs of derivatives instruments and other invested assets                        | (632)                 | (297)                      |
| Capital expenditures  | (7)                   | (2)                        |
| Contingent purchase price payment   | (57)                  | —                          |
| <b>Net cash provided by (used in) investing activities</b>                        | <b>(1,696)</b>        | <b>(623)</b>               |
| <b>Cash flows from financing activities:</b>                                      |                       |                            |
| Debt issuance costs   | (7)                   | —                          |
| Proceeds from issuance of new debt  | 547                   | —                          |
| Retirement and paydown on debt and revolving credit facility                      | (440)                 | —                          |
| Draw on revolving credit facility   | 30                    | 5                          |
| Dividends paid  | —                     | (11)                       |
| Contractholder account deposits   | 3,020                 | 2,192                      |
| Contractholder account withdrawals  | (1,989)               | (1,475)                    |
| <b>Net cash provided by (used in) financing activities</b>                        | <b>1,161</b>          | <b>711</b>                 |
| <b>Change in cash &amp; cash equivalents</b>                                      | <b>(271)</b>          | <b>253</b>                 |
| Cash & cash equivalents, beginning of period                                      | 1,215                 | 632                        |
| <b>Cash &amp; cash equivalents, end of period</b>                                 | <b>\$ 944</b>         | <b>\$ 885</b>              |
| <b>Supplemental disclosures of cash flow information:</b>                         |                       |                            |
| Interest paid   | \$ 14                 | \$ 13                      |
| Income taxes (refunded) paid  | \$ 30                 | \$ 114                     |
| Deferred sales inducements  | \$ 98                 | \$ 20                      |

See accompanying notes to unaudited condensed consolidated financial statements.

**FGL HOLDINGS**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited) (In millions)**

**(1) Basis of Presentation**

FGL Holdings (the “Company”, formerly known as CF Corporation (NASDAQ: CFCO) (“CF Corp”) and its related entities (“CF Entities”)), a Cayman Islands exempted company, was originally incorporated in the Cayman Islands on February 26, 2016 as a Special Purpose Acquisition Company (“SPAC”). CF Corp formed for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization, or other similar business combination with one or more target businesses. Prior to November 30, 2017, CF Corp. was a shell company with no operations. On November 30, 2017, CF Corp. consummated the acquisition of Fidelity & Guaranty Life (“FGL”), a Delaware corporation, and its subsidiaries, pursuant to the Agreement and Plan of Merger, dated as of May 24, 2017 (the “FGL Merger Agreement”). The transactions contemplated by the FGL Merger Agreement are referred to herein as the “Business Combination.”

Dollar amounts in the accompanying sections are presented in millions, unless otherwise noted.

Pursuant to the FGL Merger Agreement, except for shares specified in the FGL Merger Agreement, each issued and outstanding share of common stock of FGL was automatically canceled and converted into the right to receive \$31.10 in cash, without interest and less any required withholding taxes (the “Merger Consideration”). Accordingly, CF Corp acquired FGL for a total of approximately \$2 billion in cash, plus the assumption of \$405 of existing debt.

In addition to the Business Combination, on November 30, 2017, CF Entities bought all of the issued and outstanding shares of Front Street Re Cayman Ltd. (“FSRC”) and F&G Reinsurance, Ltd. (formerly known as Front Street Re Ltd., and, together with FSRC herein referred to as the “FSR Companies”) from Front Street Re (Delaware) Ltd. (“FSRD”), a direct wholly owned subsidiary of HRG Group, Inc. (“HRG”; NYSE: HRG), pursuant to the Share Purchase Agreement, for cash consideration of \$65, subject to certain adjustments.

As a result of the Business Combination, for accounting purposes, FGL Holdings is the acquirer and FGL is the acquired party and accounting predecessor. Our financial statement presentation includes the financial statements of FGL and its subsidiaries as “Predecessor” for the periods prior to the completion of the Business Combination and FGL Holdings, including the consolidation of FGL and its subsidiaries and the FSR Companies, as “Successor” for periods from and after the Closing Date. FGL Holdings was determined to be the Successor company as it is the surviving company organized and existing under the laws of the United States of America, any State of the United States, the District of Columbia or any territory thereof (and in the case of the Company, Bermuda or the Cayman Islands). Prior to the acquisition, FGL Holdings reported under a fiscal year end of December 31, and the Predecessor companies reported under a fiscal year end of September 30. Subsequent to the acquisition, the Successor reports under a fiscal year end of December 31.

On December 1, 2017, upon completion of the acquisitions, FGL Holdings began trading ordinary shares and warrants on the New York Stock Exchange (“NYSE”) under the symbols “FG” and “FG WS,” respectively. For additional info related to the Business Combination please refer to “Item 1. Business” within FGL Holdings' Annual Report on Form 10-K, for the period ended December 31, 2017 (“2017 Form 10-K”).

The accompanying unaudited condensed consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and with the instructions for the Securities and Exchange Commission (“SEC”) Quarterly Report on Form 10-Q, including Article 10 of Regulation S-X, for interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. Therefore, the information contained in the Notes to Consolidated Financial Statements included in the Company's 2017 Form 10-K, should be read in connection with the reading of these interim unaudited condensed consolidated financial statements.

The Company markets products through its wholly-owned insurance subsidiaries, Fidelity & Guaranty Life Insurance Company (“FGL Insurance”) and Fidelity & Guaranty Life Insurance Company of New York (“FGL NY Insurance”), which together are licensed in all fifty states and the District of Columbia.

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In the opinion of management, these statements include all normal recurring adjustments necessary for a fair presentation of the Company's results. Operating results for the three and nine months ended September 30, 2018, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2018. Amounts reclassified out of other comprehensive income are reflected in net investment gains in the unaudited Condensed Consolidated Statements of Operations.

## (2) Significant Accounting Policies and Practices

### *Principles of Consolidation*

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and all other entities in which the Company has a controlling financial interest and any variable interest entities ("VIEs") in which we are the primary beneficiary. All intercompany accounts and transactions have been eliminated in consolidation.

We are involved in certain entities that are considered VIEs as defined under GAAP. Our involvement with VIEs is primarily to invest in assets that allow us to gain exposure to a broadly diversified portfolio of asset classes. A VIE is an entity that does not have sufficient equity to finance its own activities without additional financial support or where investors lack certain characteristics of a controlling financial interest. We assess our relationships to determine if we have the ability to direct the activities, or otherwise exert control, to evaluate if we are the primary beneficiary of the VIE. If we determine we are the primary beneficiary of a VIE, we consolidate the assets and liabilities of the VIE in our unaudited condensed consolidated financial statements. The Company has determined that we are not the primary beneficiary of a VIE as of September 30, 2018. See "Note 4. Investments" to the Company's unaudited condensed consolidated financial statements for additional information on the Company's investments in unconsolidated VIEs.

### *Adoption of New Accounting Pronouncements*

#### *Revenue from Contracts with Customers*

In May 2014, the Financial Accounting Standards Board (FASB) issued new guidance on revenue recognition (ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*), effective for fiscal years beginning after December 15, 2016 and interim periods within those years. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606) - Deferral of the Effective Date*, which defers the effective date of ASU 2014-09 by one year. The FASB also issued the following ASUs which clarify the guidance in ASU 2014-09:

- ASU 2016-08 - Revenue from Contracts with Customers (Topic 606) - Principal versus Agent Considerations (Reporting Revenue Gross versus Net) issued in March 2016
- ASU 2016-10 - Revenue from Contracts with Customers (Topic 606) - Identifying Performance Obligations and Licensing issued in April 2016
- ASU 2016-11 - Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815) - Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting issued in May 2016
- ASU 2016-12 - Revenue from Contracts with Customers (Topic 606) - Narrow-Scope Improvements and Practical Expedients issued in May 2016

The guidance in ASU 2014-09 and the related ASUs supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance unless the contracts are within the scope of other standards (for example, financial instruments, insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance establishes a five-step process to achieve this core principle.

The Company adopted these standards effective January 1, 2018. The adoption of these standards has had an insignificant impact on its unaudited condensed consolidated financial statements as the Company's primary sources of revenue, insurance contracts and financial instruments, are excluded from the scope of these standards.

#### *Statement of Cash Flows Classification of Certain Cash Receipts and Cash Payments*

In August 2016, the FASB issued new guidance (ASU 2016-15, *Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments*), effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. Notable amendments in this update will change the classification of certain cash receipts and cash payments in the Statement of Cash Flows in the following ways:

- cash payments for debt prepayment or debt extinguishment costs will be classified as cash outflows for financing activities

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- the settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing should be classified as follows: the portion of the cash payment attributable to the accreted interest related to the debt discount as cash outflows for operating activities, and the portion of the cash payment attributable to the principal as cash outflows for financing activities
- a reporting entity must make an accounting policy election to classify distributions received from equity method investees using either:
  - the cumulative earnings approach, which considers distributions received as returns on the investment and are classified as cash inflows from operating activities (with an exception when cumulative distributions received less distributions received in prior periods that were classified as returns of investment exceeds cumulative equity in earnings, in which case the current period distribution up to this excess amount will be considered a return of investment and classified as cash inflows from investing activities); or
  - the nature of the distribution approach, which classifies distributions received based on the nature of the activity or activities of the investee that generated the distribution (would be considered either a return on investment and classified as cash inflows from operating activities or a return of investment and classified as cash inflows from investing activities)
- in the absence of specific GAAP guidance, an entity should classify cash receipts and payments that have aspects of more than one class of cash flows by determining and appropriately classifying each separately identifiable source or use within the cash receipts and cash payments on the basis of the underlying cash flows. If cash receipts and payments have aspects of more than one class of cash flows and cannot be separated by source or use, the activity that is likely to be the predominant source or use of cash flows for the item will determine the classification.

The amendments in this ASU were adopted by the Company effective January 1, 2018, as required. The Company has elected to use the nature of distribution approach to classify distributions received from equity method investees. The amendments in the update should be applied using a retrospective transition method to each period presented (except where impracticable to apply retrospectively; those specific amendments would be applied prospectively as of the earliest date practicable). The adoption of this standard had an insignificant impact on the Company's Condensed Consolidated Statements of Cash Flows.

### *Income Taxes - Intra-Entity Transfers of Assets Other Than Inventory*

In October 2016, the FASB issued new guidance (ASU 2016-16, *Income Taxes (Topic 740), Intra-Entity Transfers of Assets Other Than Inventory*), effective for fiscal years beginning after December 15, 2017 including interim periods within those fiscal years. Under this update:

- an entity should recognize current and deferred income taxes for an intra-entity transfer of an asset other than inventory at the time of the transfer
- the entity will no longer delay recognition of the income tax consequences of these types of intra-entity asset transfers until the asset has been sold to an outside party, as is practiced under current guidance

The amendments in this ASU were adopted by the Company effective January 1, 2018, as required. The Company does not have any intra-entity asset transfers, therefore this new accounting guidance has not had an impact on the Company's unaudited condensed consolidated financial statements.

### *Presentation of Changes in Restricted Cash on the Cash Flow Statement*

In November 2016, the FASB issued amended guidance regarding the presentation of changes in restricted cash on the cash flow statement (ASU 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash*), effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. The ASU requires amounts generally described as changes in restricted cash and restricted cash equivalents to be included with cash and cash equivalents on the statement of cash flows. The amendments in this ASU were adopted effective January 1, 2018, as required. The adoption of this guidance had no impact on the Company's Condensed Consolidated Statements of Cash Flows.

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### *Scope of Modification Accounting for Stock Compensation*

In May 2017, the FASB issued new guidance on the scope of modification accounting for stock compensation (ASU 2017-09, *Compensation-Stock Compensation (Topic 718), Scope of Modification Accounting*), effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. ASU 2017-09 may be early adopted. The ASU provides guidance on which changes to the terms or conditions of a share-based payment award would require an entity to apply modification accounting in *Topic 718, Stock Compensation*. Under the new guidance, an entity would account for the effects of a modification, immediately before the original award is modified, unless the fair value of the modified award is the same as the fair value of the original award, the vesting conditions of the modified award are the same as the vesting conditions of the original award, and the classification of the modified award (equity instrument or liability instrument) is the same as the classification of the original award. The amendments in this update should be applied prospectively to an award modified on or after the adoption date. The Company adopted the amendments in this ASU effective January 1, 2018 as required. The adoption of this guidance did not have an impact on the Company's unaudited condensed consolidated financial statements.

### *Amendments to Recognition and Measurement of Financial Assets and Financial Liabilities*

In March 2018, February 2018 and January 2016, the FASB issued amended guidance on the measurement of financial assets and financial liabilities (ASU 2018-04, *Investments-Debt Securities (Topic 320) and Regulated Operations (Topic 980) - Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 117 and SEC Release No. 33-9273*; ASU 2018-03, *Technical Corrections and Improvements to Financial Instruments-Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities*; and ASU 2016-01, *Financial Instruments- Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities*, respectively), effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Notable amendments in these updates:

- require all equity securities (other than equity investments accounted for under the equity method of accounting or requiring the consolidation of the investee) to be measured at fair value with changes in fair value recognized through net income. Equity securities that do not have readily determinable fair values may be measured at cost minus impairment
- require qualitative assessment for impairment of equity investments without readily determinable fair values at each reporting period and, if the qualitative assessment indicates that impairment exists, to measure the investment at fair value
- eliminate the requirement to disclose the methods and significant assumptions used to estimate fair value (which is currently required to be disclosed, for financial instruments measured at amortized cost on the balance sheet)
- require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments

The amendments in these ASUs should be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption, and the amendments related to equity securities without readily determinable fair values should be applied prospectively to equity investments that exist as of the date of adoption. The Company adopted ASUs 2016-01, 2018-03, and 2018-04 effective January 1, 2018, with a cumulative-effect adjustment to decrease retained earnings and increase AOCI by \$4.

### *Future Accounting Pronouncements*

#### *Long-Duration Contracts*

In August 2018, the FASB issued new guidance (ASU 2018-12, *Financial Services-Insurance (Topic 944), Targeted Improvements to the Accounting for Long-Duration Contracts*), effective for fiscal years beginning after December 15, 2020 including interim periods within those fiscal years. Under this update:

- assumptions used to measure cash flows for traditional and limited-payment contracts must be reviewed at least annually with the effect of changes in those assumptions being recognized in the statement of operations

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- the discount rate applied to measure the liability for future policy benefits and limited-payment contracts must be updated at each reporting date with the effect of changes in the rate being recognized in other comprehensive income
- market risk benefits associated with deposit contracts must be measured at fair value, with the effect of the change in the fair value attributable to a change in the instrument-specific credit risk being recognized in other comprehensive income
- deferred acquisition costs are required to be amortized in proportion to premiums, gross profits, or gross margins and those balances must be amortized on a constant level basis over the expected term of the related contracts
- deferred acquisition costs must be written off for unexpected contract terminations
- disaggregated rollforwards of beginning to ending balances of the liability for future policy benefits, policyholder account balances, market risk benefits, separate account liabilities and deferred acquisition costs, as well as information about significant inputs, judgments, assumptions, and methods used in measurement are required to be disclosed

The amendments in this ASU may be early adopted as of the beginning of an annual reporting period for which financial statements have not yet been issued, including interim financial statements. The Company is currently evaluating the impact of this new accounting guidance on its consolidated financial statements.

### *Fair Value Measurement*

In August 2018, the FASB issued new guidance (ASU 2018-13, *Fair Value Measurement (Topic 820), Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*), effective for fiscal years beginning after December 15, 2019 including interim periods within those fiscal years. Under this update:

- for investments in certain entities that calculate net asset value, investors are required to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse if the investee has communicated timing to the entity or announced timing publicly
- entities should use the measurement uncertainty disclosure to communicate information about the uncertainty in measurement as of the reporting date
- entities must disclose changes in unrealized gains and losses included in other comprehensive income for recurring Level 3 fair value measurements, as well as the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, or other quantitative information in lieu of weighted average if the entity determines such information would be more reasonable and rational
- entities are no longer required to disclose the amounts and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels, and the valuation processes for Level 3 fair value measurements.

The amendments in this ASU may be early adopted. The Company is currently evaluating the impact of this new accounting guidance on its consolidated financial statements.

### *Internal Use Software*

In August 2018, the FASB issued new guidance (ASU 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40), Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*), effective for fiscal years beginning after December 15, 2019 including interim periods within those fiscal years. Under this update:

- entities are required to capitalize certain implementation costs incurred during the application development stage that relate to a hosting arrangement that is a service contract
- entities are required to amortize the capitalized implementation costs over the term of the hosting arrangement.



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The amendments in this ASU may be early adopted. The Company is currently evaluating the impact of this new accounting guidance on its unaudited condensed consolidated financial statements.

### *Credit Losses*

In June 2016, the FASB issued new guidance on measurement of credit losses on financial instruments (ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*). The new guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. This ASU replaces the current incurred loss impairment methodology with one that reflects expected credit losses. The measurement of expected credit losses should be based on historical loss information, current conditions, and reasonable and supportable forecasts. The new guidance requires that an other-than-temporary impairment (“OTTI”) on a debt security will be recognized as an allowance going forward, such that improvements in expected future cash flows after an impairment will no longer be reflected as a prospective yield adjustment through net investment income, but rather a reversal of the previous impairment and recognized through realized investment gains and losses. The guidance also requires enhanced disclosures. The Company has identified the material asset classes impacted by the new guidance and is in the process of assessing the accounting, reporting and/or process changes that will be required to comply with the new guidance. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

### ***Reclassifications and Retrospective Adjustments***

The Company identified immaterial errors, as described below, during the periods ended September 30, 2018 and June 30, 2018. Management has reviewed the impact of these errors on prior periods in accordance with SEC Staff Accounting Bulletin No. 99, “Materiality,” (SAB 99) and determined none of these were material to the prior periods impacted.

Effective December 1, 2017, the Company measured the identifiable assets acquired and liabilities assumed from the Business Combination at acquisition-date fair value in accordance with ASC 805. This required significant model changes for the re-bifurcation of the host contract and embedded derivative components of the fixed income annuity (“FIA”) liability. During the quarter ended September 30, 2018, the Company identified an immaterial error resulting from the model code used in the calculation of the FIA embedded derivative liability. In issuing the September 30, 2018 Form 10-Q, the Company recorded an immaterial correction to the Condensed Consolidated Balance Sheet as of December 31, 2017 by decreasing the contractholder funds liability by \$17 as well as a resulting decrease to the intangibles and deferred tax assets of \$3 and \$3, respectively. In addition, the Company recorded immaterial corrections to the Condensed Consolidated Statement of Operations for each of the three months ended March 31, 2018 and June 30, 2018, and the one month ended December 31, 2017 by decreasing the benefits and other changes in policy reserves by \$21, \$32, and \$17, respectively, as well as increasing the amortization of intangibles by \$4, \$7 and \$3, and income tax expense by \$4, \$5, and \$3 respectively. These immaterial corrections had no impact on the Company’s net income for the three and nine months ended September 30, 2018.

During the quarter ended September 30, 2018, the Company identified an immaterial error related to the December 1, 2017 fair value of the deferred income tax valuation allowance acquired from the Business Combination. In issuing the September 30, 2018 Form 10-Q, the Company recorded an immaterial correction to the Condensed Consolidated Balance Sheet as of December 31, 2017 by decreasing the deferred income tax valuation allowance by \$9 and increasing goodwill by a corresponding amount.

During the quarter ended June 30, 2018, the Company identified an immaterial error related to the classification of certain securities as debt or equity under ASC 320, “Investments - Debt and Equity Securities.” In issuing the June 30, 2018 Form 10-Q, the Company recorded an immaterial correction to the Condensed Consolidated Balance Sheet as of December 31, 2017 by decreasing fixed maturity securities, available for sale by \$627 and increasing equity securities, at fair value by a corresponding amount. Effective January 1, 2018, the Company adopted guidance under ASU 2016-01 which among other things, requires that the change in fair value of equity securities be reported in income rather than as a direct adjustment to AOCI. As a result, the Company also recorded an immaterial \$9 out of period adjustment in the Condensed Consolidated Statement of Operations for the three months ended June 30, 2018 to recognize the Q1 change in fair value associated with the proper classification of equity securities with a corresponding increase in AOCI, as reported in the June 30, 2018 Form 10-Q.

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Certain prior year amounts have been reclassified or combined to conform to the current year presentation. These reclassifications and combinations had no effect on previously reported results of operations.

### **(3) Significant Risks and Uncertainties**

#### ***Federal Regulation***

In April 2016, the Department of Labor (“DOL”) issued the “fiduciary” rule which could have had a material impact on the Company, its products, distribution, and business model. The rule provided that persons who render investment advice for a fee or other compensation with respect to an employer plan or individual retirement account (“IRA”) are fiduciaries of that plan or IRA and would have expanded the definition of fiduciary under ERISA to apply to commissioned insurance agents who sell the Company’s IRA products. On June 21, 2018, the United States Court of Appeals for the Fifth Circuit formally vacated the DOL fiduciary rule in total when it issued its mandate following the court’s decision on March 15, 2018, in *U.S. Chamber of Commerce v. U.S. Department of Labor*, 885 F.3d 360 (5th Cir. 2018). Management will continue to monitor for potential action by state officials or the SEC to implement rules similar to the vacated DOL rule.

#### ***Use of Estimates and Assumptions***

The preparation of the Company’s unaudited condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions used.

#### ***Concentrations of Financial Instruments***

As of September 30, 2018 and December 31, 2017, the Company’s most significant investment in one industry, excluding United States (“U.S.”) Government securities, was its investment securities in the banking industry with a fair value of \$2,642 or 11% and \$2,851 or 12%, respectively, of the invested assets portfolio and an amortized cost of \$2,760 and \$2,850, respectively. As of September 30, 2018, the Company’s holdings in this industry include investments in 112 different issuers with the top ten investments accounting for 33% of the total holdings in this industry. As of September 30, 2018 and December 31, 2017, the Company had no investments in issuers that exceeded 10% of shareholders’ equity. The Company’s largest concentration in any single issuer as of September 30, 2018 and December 31, 2017 was AT&T Inc. and Wells Fargo & Company, respectively, with a total fair value of \$119 or 1% and \$155 or 1% of the invested assets portfolio, respectively.

#### ***Concentrations of Financial and Capital Markets Risk***

The Company is exposed to financial and capital markets risk, including changes in interest rates and credit spreads which can have an adverse effect on the Company’s results of operations, financial condition and liquidity. The Company expects to continue to face challenges and uncertainties that could adversely affect its results of operations and financial condition. The Company attempts to mitigate the risk, including changes in interest rates by investing in less rate-sensitive investments, including senior tranches of collateralized loan obligations, non-agency residential mortgage-backed securities, and various types of asset backed securities.

The Company’s exposure to such financial and capital markets risk relates primarily to the market price and cash flow variability associated with changes in interest rates. A rise in interest rates, in the absence of other countervailing changes, will increase the net unrealized loss position of the Company’s investment portfolio and, if long-term interest rates rise dramatically within a six to twelve month time period, certain of the Company’s products may be exposed to disintermediation risk. Disintermediation risk refers to the risk that policyholders surrender their contracts in a rising interest rate environment, requiring the Company to liquidate assets in an unrealized loss position. Management believes this risk is mitigated to some extent by surrender charge protection provided by the Company’s products.

#### ***Concentration of Reinsurance Risk***

The Company has a significant concentration of reinsurance with Wilton Reassurance Company (“Wilton Re”), a third-party reinsurer, that could have a material impact on the Company’s financial position in the event that Wilton Re fails to perform their obligations under the various reinsurance treaties. Wilton Re is a wholly-owned subsidiary of Canada Pension Plan Investment Board (“CPPIB”). CPPIB has an AAA issuer credit rating from Standard & Poor’s Ratings Services (“S&P”) as of September 30, 2018. As of September 30, 2018, the net amount recoverable from Wilton Re was \$1,546. The Company monitors the financial condition of Wilton Re and other individual reinsurers to attempt to reduce the risk of default by such reinsurers. The Company also monitors

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concentration risk arising from similar economic characteristics of reinsurers. Wilton Re is current on all amounts due as of September 30, 2018.

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**(4) Investments**

The Company's fixed maturity securities investments have been designated as available-for-sale and are carried at fair value with unrealized gains and losses included in AOCI, net of associated adjustments for deferred acquisition costs ("DAC"), value of business acquired ("VOBA"), deferred sales inducements ("DSI"), unearned revenue ("UREV"), and deferred income taxes. The Company's equity securities investments are carried at fair value with unrealized gains and losses included in net income. The Company's consolidated investments at September 30, 2018 and December 31, 2017 are summarized as follows:

|  | <b>September 30, 2018</b> |                               |                                |                   |                       |
|--|---------------------------|-------------------------------|--------------------------------|-------------------|-----------------------|
|  | <b>Amortized Cost</b>     | <b>Gross Unrealized Gains</b> | <b>Gross Unrealized Losses</b> | <b>Fair Value</b> | <b>Carrying Value</b> |
| <b>Available-for sale securities</b>       |                           |                               |                                |                   |                       |
| Asset-backed securities                    | \$ 3,705                  | \$ 5                          | \$ (28)                        | \$ 3,682          | \$ 3,682              |
| Commercial mortgage-backed securities      | 1,808                     | 11                            | (25)                           | 1,794             | 1,794                 |
| Corporates                                 | 12,227                    | 15                            | (608)                          | 11,634            | 11,634                |
| Hybrids                                    | 986                       | 1                             | (36)                           | 951               | 951                   |
| Municipals                                 | 1,434                     | —                             | (53)                           | 1,381             | 1,381                 |
| Residential mortgage-backed securities     | 1,676                     | 13                            | (9)                            | 1,680             | 1,680                 |
| U.S. Government                            | 141                       | —                             | (2)                            | 139               | 139                   |
| Foreign Governments                        | 166                       | —                             | (6)                            | 160               | 160                   |
| <b>Total available-for-sale securities</b> | <b>22,143</b>             | <b>45</b>                     | <b>(767)</b>                   | <b>21,421</b>     | <b>21,421</b>         |
| Equity securities                          | 1,490                     | 2                             | (52)                           | 1,440             | 1,440                 |
| Derivative investments                     | 319                       | 135                           | (22)                           | 432               | 432                   |
| Short term investments                     | 15                        | —                             | —                              | 15                | 15                    |
| Commercial mortgage loans                  | 497                       | —                             | —                              | 488               | 497                   |
| Other invested assets                      | 606                       | —                             | —                              | 602               | 606                   |
| <b>Total investments</b>                   | <b>\$ 25,070</b>          | <b>\$ 182</b>                 | <b>\$ (841)</b>                | <b>\$ 24,398</b>  | <b>\$ 24,411</b>      |
| <br>                                       |                           |                               |                                |                   |                       |
|  | <b>December 31, 2017</b>  |                               |                                |                   |                       |
|  | <b>Amortized Cost</b>     | <b>Gross Unrealized Gains</b> | <b>Gross Unrealized Losses</b> | <b>Fair Value</b> | <b>Carrying Value</b> |
| <b>Available-for sale securities</b>       |                           |                               |                                |                   |                       |
| Asset-backed securities                    | \$ 3,061                  | \$ 7                          | \$ (3)                         | \$ 3,065          | \$ 3,065              |
| Commercial mortgage-backed securities      | 956                       | 1                             | (1)                            | 956               | 956                   |
| Corporates                                 | 12,467                    | 122                           | (19)                           | 12,570            | 12,570                |
| Hybrids                                    | 1,066                     | 4                             | (3)                            | 1,067             | 1,067                 |
| Municipals                                 | 1,736                     | 12                            | (1)                            | 1,747             | 1,747                 |
| Residential mortgage-backed securities     | 1,279                     | 1                             | (3)                            | 1,277             | 1,277                 |
| U.S. Government                            | 84                        | —                             | —                              | 84                | 84                    |
| Foreign Governments                        | 198                       | —                             | (1)                            | 197               | 197                   |
| <b>Total available-for-sale securities</b> | <b>20,847</b>             | <b>147</b>                    | <b>(31)</b>                    | <b>20,963</b>     | <b>20,963</b>         |
| Equity securities                          | 1,392                     | 3                             | (7)                            | 1,388             | 1,388                 |
| Derivative investments                     | 459                       | 36                            | (3)                            | 492               | 492                   |
| Short term investments                     | 25                        | —                             | —                              | 25                | 25                    |
| Commercial mortgage loans                  | 548                       | —                             | —                              | 549               | 548                   |
| Other invested assets                      | 188                       | —                             | —                              | 186               | 188                   |
| <b>Total investments</b>                   | <b>\$ 23,459</b>          | <b>\$ 186</b>                 | <b>\$ (41)</b>                 | <b>\$ 23,603</b>  | <b>\$ 23,604</b>      |

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The unrealized gains and losses were reset to zero effective November 30, 2017 as a result of the Business Combination and application of acquisition accounting which requires assets and liabilities acquired to be measured at fair value as of the date of the acquisition. Included in AOCI were cumulative gross unrealized gains of \$0 and gross unrealized losses of \$0 related to the non-credit portion of OTTI on non-agency residential mortgage backed securities ("RMBS") for both September 30, 2018 and December 31, 2017.

Securities held on deposit with various state regulatory authorities had a fair value of \$20,705 and \$20,301 at September 30, 2018 and December 31, 2017, respectively. Under Iowa regulations, insurance companies are required to hold securities on deposit in an amount no less than the legal reserve.

At September 30, 2018 and December 31, 2017, the Company held no material investments that were non-income producing for a period greater than twelve months.

In accordance with the Company's FHLB agreements, the investments supporting the funding agreement liabilities are pledged as collateral to secure the FHLB funding agreement liabilities and are not available to the Company for general purposes. The collateral investments had a fair value of \$889 and \$715 at September 30, 2018 and December 31, 2017, respectively.

The amortized cost and fair value of fixed maturity available-for-sale securities by contractual maturities, as applicable, are shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or pre-pay obligations.

|   | September 30, 2018 |                  |
|---|--------------------|------------------|
|   | Amortized Cost     | Fair Value       |
| <b>Corporates, Non-structured Hybrids, Municipal and Government securities:</b> |                    |                  |
| Due in one year or less   | \$ 242             | \$ 241           |
| Due after one year through five years   | 1,055              | 1,039            |
| Due after five years through ten years  | 2,462              | 2,384            |
| Due after ten years   | 11,195             | 10,601           |
| <b>Subtotal</b>   | <b>14,954</b>      | <b>14,265</b>    |
| <b>Other securities which provide for periodic payments:</b>                    |                    |                  |
| Asset-backed securities   | 3,705              | 3,682            |
| Commercial mortgage-backed securities   | 1,808              | 1,794            |
| Residential mortgage-backed securities  | 1,676              | 1,680            |
| <b>Subtotal</b>   | <b>7,189</b>       | <b>7,156</b>     |
| <b>Total fixed maturity available-for-sale securities</b>                       | <b>\$ 22,143</b>   | <b>\$ 21,421</b> |

The Company's available-for-sale securities with unrealized losses are reviewed for potential OTTI. For factors considered in evaluating whether a decline in value is other-than-temporary, please refer to "Note 2. Significant Accounting Policies and Practices" to the Company's 2017 Form 10-K.

The Company analyzes its ability to recover the amortized cost by comparing the net present value of cash flows expected to be collected with the amortized cost of the security. For mortgage-backed and asset-backed securities, cash flow estimates consider the payment terms of the underlying assets backing a particular security, including interest rate and prepayment assumptions, based on data from widely accepted third-party data sources or internal estimates. In addition to interest rate and prepayment assumptions, cash flow estimates also include other assumptions regarding the underlying collateral including default rates and recoveries, which vary based on the asset type and geographic location, as well as the vintage year of the security. For structured securities, the payment priority within the tranche structure is also considered. If the net present value is less than the amortized cost of the investment, an OTTI is recognized. For all other fixed maturity securities, cash flow estimates are driven by assumptions regarding probability of default and estimates regarding timing and amount of recoveries associated with a default.

Based on the results of our process for evaluating available-for-sale securities in unrealized loss positions for OTTI, as discussed above, the Company determined the unrealized losses as of September 30, 2018 increased due to higher interest rates during the year coupled with an increase in the spreads over Treasuries required by investors for corporate and municipal bonds. Based on an assessment of all securities in the portfolio in unrealized

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loss positions, the Company determined that the unrealized losses on the securities presented in the table below were not other-than-temporarily impaired as of September 30, 2018.

The fair value and gross unrealized losses of available-for-sale securities, aggregated by investment category and duration of fair value below amortized cost, were as follows:

|  | September 30, 2018  |                         |                     |                         |                  |                         |
|--|---------------------|-------------------------|---------------------|-------------------------|------------------|-------------------------|
|  | Less than 12 months |                         | 12 months or longer |                         | Total            |                         |
|  | Fair Value          | Gross Unrealized Losses | Fair Value          | Gross Unrealized Losses | Fair Value       | Gross Unrealized Losses |
| <b>Available-for-sale securities</b>   |                     |                         |                     |                         |                  |                         |
| Asset-backed securities  | \$ 2,863            | \$ (28)                 | \$ —                | \$ —                    | \$ 2,863         | \$ (28)                 |
| Commercial mortgage-backed securities  | 1,208               | (25)                    | —                   | —                       | 1,208            | (25)                    |
| Corporates   | 10,956              | (608)                   | —                   | —                       | 10,956           | (608)                   |
| Hybrids  | 796                 | (36)                    | —                   | —                       | 796              | (36)                    |
| Municipals   | 1,356               | (53)                    | —                   | —                       | 1,356            | (53)                    |
| Residential mortgage-backed securities   | 898                 | (9)                     | —                   | —                       | 898              | (9)                     |
| U.S. Government  | 139                 | (2)                     | —                   | —                       | 139              | (2)                     |
| Foreign Government   | 143                 | (6)                     | —                   | —                       | 143              | (6)                     |
| <b>Total available-for-sale securities</b>   | <b>\$ 18,359</b>    | <b>\$ (767)</b>         | <b>\$ —</b>         | <b>\$ —</b>             | <b>\$ 18,359</b> | <b>\$ (767)</b>         |
| Total number of available-for-sale securities in an unrealized loss position less than twelve months |                     |                         |                     |                         |                  | 2,049                   |
| Total number of available-for-sale securities in an unrealized loss position twelve months or longer |                     |                         |                     |                         |                  | 0                       |
| Total number of available-for-sale securities in an unrealized loss position                         |                     |                         |                     |                         |                  | 2,049                   |

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|  | December 31, 2017   |                         |                     |                         |                 |                         |
|--|---------------------|-------------------------|---------------------|-------------------------|-----------------|-------------------------|
|  | Less than 12 months |                         | 12 months or longer |                         | Total           |                         |
|  | Fair Value          | Gross Unrealized Losses | Fair Value          | Gross Unrealized Losses | Fair Value      | Gross Unrealized Losses |
| <b>Available-for-sale securities</b>   |                     |                         |                     |                         |                 |                         |
| Asset-backed securities  | \$ 1,944            | \$ (3)                  | \$ —                | \$ —                    | \$ 1,944        | \$ (3)                  |
| Commercial mortgage-backed securities  | 478                 | (1)                     | —                   | —                       | 478             | (1)                     |
| Corporates   | 3,814               | (19)                    | —                   | —                       | 3,814           | (19)                    |
| Hybrids  | 266                 | (3)                     | —                   | —                       | 266             | (3)                     |
| Municipals   | 285                 | (1)                     | —                   | —                       | 285             | (1)                     |
| Residential mortgage-backed securities   | 939                 | (3)                     | —                   | —                       | 939             | (3)                     |
| U.S. Government  | 74                  | —                       | —                   | —                       | 74              | —                       |
| Foreign Government   | 140                 | (1)                     | —                   | —                       | 140             | (1)                     |
| <b>Total available-for-sale securities</b>   | <b>\$ 7,940</b>     | <b>\$ (31)</b>          | <b>\$ —</b>         | <b>\$ —</b>             | <b>\$ 7,940</b> | <b>\$ (31)</b>          |
| Total number of available-for-sale securities in an unrealized loss position less than twelve months |                     |                         |                     |                         |                 | 1,182                   |
| Total number of available-for-sale securities in an unrealized loss position twelve months or longer |                     |                         |                     |                         |                 | 0                       |
| Total number of available-for-sale securities in an unrealized loss position                         |                     |                         |                     |                         |                 | 1,182                   |

At September 30, 2018 and December 31, 2017, securities in an unrealized loss position were primarily concentrated in corporate debt.

At September 30, 2018 and December 31, 2017, securities with a fair value of \$5 and \$10, respectively, had an unrealized loss greater than 20% of amortized cost (excluding U.S. Government and U.S. Government sponsored agency securities), which were insignificant to the carrying value of all investments, respectively.

The following table provides a reconciliation of the beginning and ending balances of the credit loss portion of OTTI on fixed maturity available-for-sale securities held by the Company for the three and nine months ended September 30, 2018 and 2017 (Predecessor), for which a portion of the OTTI was recognized in AOCI:

|  | Three months ended September 30, |             | Nine months ended September 30, |             |
|--|----------------------------------|-------------|---------------------------------|-------------|
|  | 2018                             | 2017        | 2018                            | 2017        |
|  |                                  | Predecessor |                                 | Predecessor |
| <b>Beginning balance</b>                               | \$ —                             | \$ 3        | \$ —                            | \$ 3        |
| Increases attributable to credit losses on securities: |                                  |             |                                 |             |
| OTTI was previously recognized                         | —                                | —           | —                               | —           |
| OTTI was not previously recognized                     | —                                | —           | —                               | —           |
| <b>Ending balance</b>                                  | <b>\$ —</b>                      | <b>\$ 3</b> | <b>\$ —</b>                     | <b>\$ 3</b> |



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The following table breaks out the credit impairment loss type, the associated amortized cost and fair value of the investments at the balance sheet date and non-credit losses in relation to fixed maturity securities and other invested assets held by the Company for the three and nine months ended September 30, 2018 and 2017 (Predecessor):

|  | <b>Three months ended September 30,</b> |                    | <b>Nine months ended September 30,</b> |                    |
|--|---|--------------------|--|--------------------|
|  | <b>2018</b>                             | <b>2017</b>        | <b>2018</b>                            | <b>2017</b>        |
|  |   | <b>Predecessor</b> |  | <b>Predecessor</b> |
| Credit impairment losses in operations   | \$ —                                    | \$ —               | \$ (2)                                 | \$ (21)            |
| Change-of-intent losses in operations  | —                                       | —                  | —                                      | —                  |
| Amortized cost   | —                                       | —                  | —                                      | —                  |
| Fair value   | —                                       | —                  | —                                      | —                  |
| Non-credit losses in other comprehensive income for investments which experienced OTTI | —                                       | —                  | —                                      | —                  |

Details of OTTI that were recognized in "Net income (loss)" and included in net realized gains on securities were as follows:

|   | <b>Three months ended September 30,</b> |                    | <b>Nine months ended September 30,</b> |                    |
|---|---|--------------------|--|--------------------|
|   | <b>2018</b>                             | <b>2017</b>        | <b>2018</b>                            | <b>2017</b>        |
|   |   | <b>Predecessor</b> |  | <b>Predecessor</b> |
| <b>OTTI Recognized in Net Income (Loss)</b> |   |                    |  |                    |
| Asset-backed securities                     | \$ —                                    | \$ —               | \$ —                                   | \$ (1)             |
| Corporates                                  | —                                       | —                  | (2)                                    | (20)               |
| Other invested assets                       | —                                       | —                  | —                                      | —                  |
| <b>Total</b>                                | <b>\$ —</b>                             | <b>\$ —</b>        | <b>\$ (2)</b>                          | <b>\$ (21)</b>     |

**Commercial Mortgage Loans**

Commercial mortgage loans ("CMLs") represented approximately 2% of the Company's total investments as of September 30, 2018 and December 31, 2017. The Company primarily invests in mortgage loans on income producing properties including hotels, industrial properties, retail buildings, multifamily properties and office buildings. The Company diversifies its CML portfolio by geographic region and property type to attempt to reduce concentration risk. The Company continuously evaluates CMLs based on relevant current information to ensure properties are performing at a consistent and acceptable level to secure the related debt. The distribution of CMLs, gross of valuation allowances, by property type and geographic region is reflected in the following tables:

|  | September 30, 2018   |            | December 31, 2017    |            |
|--|----------------------|------------|----------------------|------------|
|  | Gross Carrying Value | % of Total | Gross Carrying Value | % of Total |
| <b>Property Type:</b>  |                      |            |                      |            |
| Hotel  | 22                   | 4%         | 22                   | 4%         |
| Industrial - General   | 45                   | 9%         | 46                   | 9%         |
| Industrial - Warehouse   | 12                   | 2%         | 38                   | 6%         |
| Multifamily  | 69                   | 14%        | 70                   | 13%        |
| Office   | 147                  | 30%        | 158                  | 29%        |
| Retail   | 202                  | 41%        | 214                  | 39%        |
| <b>Total commercial mortgage loans, gross of valuation allowance</b> | \$ 497               | 100%       | \$ 548               | 100%       |
| Allowance for loan loss  | —                    |            | —                    |            |
| <b>Total commercial mortgage loans</b>                               | \$ 497               |            | \$ 548               |            |
| <b>U.S. Region:</b>  |                      |            |                      |            |
| East North Central   | \$ 111               | 22%        | \$ 108               | 20%        |
| East South Central   | 20                   | 4%         | 20                   | 4%         |
| Middle Atlantic  | 79                   | 16%        | 85                   | 15%        |
| Mountain   | 65                   | 13%        | 67                   | 12%        |
| New England  | 10                   | 2%         | 14                   | 3%         |
| Pacific  | 116                  | 23%        | 135                  | 25%        |
| South Atlantic   | 58                   | 12%        | 65                   | 12%        |
| West North Central   | 13                   | 3%         | 13                   | 2%         |
| West South Central   | 25                   | 5%         | 41                   | 7%         |
| <b>Total commercial mortgage loans, gross of valuation allowance</b> | \$ 497               | 100%       | \$ 548               | 100%       |
| Allowance for loan loss  | —                    |            | —                    |            |
| <b>Total commercial mortgage loans</b>                               | \$ 497               |            | \$ 548               |            |

All of the Company's investments in CMLs had a loan-to-value ("LTV") ratio of less than 75% at September 30, 2018 and December 31, 2017, as measured at inception of the loans unless otherwise updated. As of September 30, 2018, all CMLs are current and have not experienced credit or other events which would require the recording of an impairment loss.

LTV and DSC ratios are measures commonly used to assess the risk and quality of mortgage loans. The LTV ratio is expressed as a percentage of the amount of the loan relative to the value of the underlying property. A LTV ratio in excess of 100% indicates the unpaid loan amount exceeds the underlying collateral. The DSC ratio, based upon the most recently received financial statements, is expressed as a percentage of the amount of a property's net income to its debt service payments. A DSC ratio of less than 1.00 indicates that a property's operations do not generate sufficient income to cover debt payments. We normalize our DSC ratios to a 25-year amortization period for purposes of our general loan allowance evaluation.

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The following table presents the recorded investment in CMLs by LTV and DSC ratio categories and estimated fair value by the indicated loan-to-value ratios at September 30, 2018 and December 31, 2017:

|                           | Debt-Service Coverage Ratios |             | Total Amount | % of Total | Estimated Fair Value | % of Total |
|---------------------------|------------------------------|-------------|--------------|------------|----------------------|------------|
|                           | >1.25                        | 1.00 - 1.25 |              |            |                      |            |
| <b>September 30, 2018</b> |                              |             |              |            |                      |            |
| LTV Ratios:               |                              |             |              |            |                      |            |
| Less than 50%             | \$ 256                       | \$ —        | \$ 256       | 52%        | \$ 252               | 52%        |
| 50% to 60%                | 222                          | 7           | 229          | 46%        | 225                  | 46%        |
| 60% to 75%                | 12                           | —           | 12           | 2%         | 11                   | 2%         |
| Commercial mortgage loans | \$ 490                       | \$ 7        | \$ 497       | 100%       | \$ 488               | 100%       |
| <b>December 31, 2017</b>  |                              |             |              |            |                      |            |
| LTV Ratios:               |                              |             |              |            |                      |            |
| Less than 50%             | \$ 293                       | \$ —        | \$ 293       | 54%        | \$ 294               | 54%        |
| 50% to 60%                | 236                          | 7           | 243          | 44%        | 243                  | 44%        |
| 60% to 75%                | 12                           | —           | 12           | 2%         | 12                   | 2%         |
| Commercial mortgage loans | \$ 541                       | \$ 7        | \$ 548       | 100%       | \$ 549               | 100%       |

(a) N/A - Current DSC ratio not available.

The Company establishes a general mortgage loan allowance based upon the underlying risk and quality of the mortgage loan portfolio using DSC ratio and LTV ratio. A higher LTV ratio will result in a higher allowance. A higher DSC ratio will result in a lower allowance. The Company believes that the DSC ratio is an indicator of default risk on loans. The Company believes that the LTV ratio is an indicator of the principal recovery risk for loans that default.

Mortgage loan workouts, refinances or restructures that are classified as troubled debt restructurings ("TDRs") are individually evaluated and measured for impairment. As of September 30, 2018 and December 31, 2017, our CML portfolio had no impairments, modifications or TDR.

**Net Investment Income**

The major sources of "Net investment income" on the accompanying Condensed Consolidated Statements of Operations were as follows:

|   | Three months ended September 30, |               | Nine months ended September 30, |               |
|---|----------------------------------|---------------|---------------------------------|---------------|
|   | 2018                             | 2017          | 2018                            | 2017          |
|   |                                  | Predecessor   |                                 | Predecessor   |
| Fixed maturity securities, available-for-sale | \$ 249                           | \$ 247        | \$ 739                          | \$ 725        |
| Equity securities                             | 15                               | 10            | 51                              | 31            |
| Commercial mortgage loans                     | 5                                | 5             | 17                              | 17            |
| Related party loans                           | 1                                | —             | 1                               | —             |
| Invested cash and short-term investments      | 6                                | 1             | 13                              | 3             |
| Other investments                             | 13                               | 3             | 39                              | 6             |
| Gross investment income                       | 289                              | 266           | 860                             | 782           |
| Investment expense                            | (22)                             | (5)           | (48)                            | (17)          |
| <b>Net investment income</b>                  | <b>\$ 267</b>                    | <b>\$ 261</b> | <b>\$ 812</b>                   | <b>\$ 765</b> |

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**Net Investment Gains (Losses)**

Details underlying “Net investment gains (losses)” reported on the accompanying Condensed Consolidated Statements of Operations were as follows:

|   | Three months ended September 30, |               | Nine months ended September 30, |               |
|---|----------------------------------|---------------|---------------------------------|---------------|
|   | 2018                             | 2017          | 2018                            | 2017          |
|   | Predecessor                      |               | Predecessor                     |               |
| Net realized gains (losses) on fixed maturity available-for-sale securities | \$ (24)                          | \$ 3          | \$ (84)                         | \$ (22)       |
| Realized gains (losses) on equity securities                                | (19)                             | 3             | (48)                            | 3             |
| Realized gains (losses) on other invested assets                            | 3                                | —             | —                               | —             |
| Derivatives and embedded derivatives:                                       |                                  |               |                                 |               |
| Realized gains (losses) on certain derivative instruments                   | 27                               | 70            | 23                              | 218           |
| Unrealized gains (losses) on certain derivative instruments                 | 135                              | 48            | 72                              | 91            |
| Change in fair value of reinsurance related embedded derivatives (a)        | (3)                              | (8)           | (37)                            | (28)          |
| Change in fair value of other derivatives and embedded derivatives          | —                                | 1             | —                               | 3             |
| Realized gains (losses) on derivatives and embedded derivatives             | 159                              | 111           | 58                              | 284           |
| <b>Net investment gains (losses)</b>  | <b>\$ 119</b>                    | <b>\$ 117</b> | <b>\$ (74)</b>                  | <b>\$ 265</b> |

(a) Change in fair value of reinsurance related embedded derivatives in the successor period is due to FSRC unaffiliated third party business and the predecessor periods activity is due to the FGL and FSRC reinsurance treaty. See "Note 14. Related Party Transactions".

The proceeds from the sale of fixed-maturity available for-sale-securities and the gross gains and losses associated with those transactions were as follows:

|              | Three months ended September 30, |        | Nine months ended September 30, |        |
|--------------|----------------------------------|--------|---------------------------------|--------|
|              | 2018                             | 2017   | 2018                            | 2017   |
|              | Predecessor                      |        | Predecessor                     |        |
| Proceeds     | \$ 662                           | \$ 174 | \$ 4,310                        | \$ 606 |
| Gross gains  | 1                                | 9      | 9                               | 23     |
| Gross losses | (26)                             | (5)    | (91)                            | (18)   |

In accordance with the Company’s adoption of ASU 2016-01, for the three and nine months ended September 30, 2018 the Company had the following realized and unrealized gains and losses on equity securities:

|  | Three months ended<br>September 30, 2018 | Nine months ended<br>September 30, 2018 |
|--|--|---|
| Net gains (losses) recognized during the period on equity securities   | \$ (19)                                  | \$ (48)                                 |
| Less: Net gains (losses) recognized during the period on equity securities sold during the period                      | —  | (2)                                     |
| Unrealized gains (losses) recognized during the reporting period on equity securities still held at the reporting date | \$ (19)                                  | \$ (46)                                 |

The Company’s adoption of ASU 2016-01 with respect to gains and losses on equity securities had a \$(19) and \$(46) impact on pre-tax net income, or \$(0.09) and \$(0.21) per common share, for the three and nine months ended September 30, 2018, respectively.

*Unconsolidated Variable Interest Entities*

FGL Insurance owns investments in VIEs that are not consolidated within the Company's financial statements. VIEs do not have sufficient equity to finance their own activities without additional financial support and certain of its investors lack certain characteristics of a controlling financial interest. These VIEs are not consolidated in the Company's financial statements for the following reasons: 1) FGL Insurance either does not control or does not have any voting rights or notice rights; 2) the Company does not have any rights to remove the investment manager; and 3) the Company was not involved in the design of the investment. These characteristics indicate that FGL Insurance lacks the ability to direct the activities, or otherwise exert control, of the VIEs and is not considered the primary beneficiary of them.

The Company previously executed a commitment of \$75 to purchase common shares in an unaffiliated private business development company ("BDC"). The BDC invests in secured and unsecured fixed maturity and equity securities of middle market companies in the United States. Due to the voting structure of the transaction, the Company does not have voting power. The initial capital call occurred June 30, 2015, with the remaining commitment expected to fund June 2019. The Company has funded \$44 as of September 30, 2018.

The Company invests in various limited partnerships as a passive investor. These investments are in corporate credit and real estate debt strategies that have a current income bias. Limited partnership interests are accounted for under the equity method and are included in "Other invested assets" on the Company's consolidated balance sheet. The Company's maximum exposure to loss with respect to these investments is limited to the investment carrying amounts reported in the Company's consolidated balance sheet in addition to any required unfunded commitments. As of September 30, 2018, the Company's maximum exposure to loss was \$481 in recorded carrying value and \$860 in unfunded commitments.

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**(5) Derivative Financial Instruments**

The carrying amounts of derivative instruments, including derivative instruments embedded in FIA contracts, is as follows:

|  | <u>September 30, 2018</u> | <u>December 31, 2017</u> |
|--|---------------------------|--------------------------|
| <b>Assets:</b>   |                           |                          |
| Derivative investments:                                    |                           |                          |
| Call options   | \$ 431                    | \$ 492                   |
| Futures contracts  | —                         | —                        |
| Foreign currency forward                                   | 1                         | —                        |
| Other invested assets:                                     |                           |                          |
| Other derivatives and embedded derivatives                 | 17                        | 17                       |
|  | <u>\$ 449</u>             | <u>\$ 509</u>            |
| <b>Liabilities:</b>  |                           |                          |
| Contractholder funds:                                      |                           |                          |
| FIA embedded derivative                                    | \$ 2,551                  | \$ 2,277                 |
| Other liabilities:   |                           |                          |
| Preferred shares reimbursement feature embedded derivative | 22                        | 23                       |
|  | <u>\$ 2,573</u>           | <u>\$ 2,300</u>          |

The change in fair value of derivative instruments included in the accompanying Condensed Consolidated Statements of Operations is as follows:

|  | <u>Three months ended September 30,</u> |               | <u>Nine months ended September 30,</u> |               |
|--|---|---------------|--|---------------|
|  | <u>2018</u>                             | <u>2017</u>   | <u>2018</u>                            | <u>2017</u>   |
|  | Predecessor                             |               | Predecessor                            |               |
| <b>Revenues:</b>   |   |               |  |               |
| Net investment gains (losses):                                 |   |               |  |               |
| Call options   | \$ 153                                  | \$ 113        | \$ 86                                  | \$ 299        |
| Futures contracts  | 8                                       | 5             | 8                                      | 10            |
| Foreign currency forward                                       | 1                                       | —             | 1                                      | —             |
| Other derivatives and embedded derivatives                     | —                                       | 1             | —                                      | 3             |
| Reinsurance related embedded derivatives (a)                   | (3)                                     | (8)           | (37)                                   | (28)          |
| <b>Total net investment gains (losses)</b>                     | <u>\$ 159</u>                           | <u>\$ 111</u> | <u>\$ 58</u>                           | <u>\$ 284</u> |
| <b>Benefits and other changes in policy reserves:</b>          |   |               |  |               |
| FIA embedded derivatives                                       | <u>\$ 231</u>                           | <u>\$ 185</u> | <u>\$ 274</u>                          | <u>\$ 377</u> |
| <b>Acquisition and operating expenses, net of deferrals:</b>   |   |               |  |               |
| Preferred shares reimbursement feature embedded derivative (b) | <u>\$ 2</u>                             | <u>\$ —</u>   | <u>\$ 1</u>                            | <u>\$ —</u>   |

(a) Change in fair value of reinsurance related embedded derivatives in the successor period is due to FSRC unaffiliated third party business and the predecessor periods activity is due to the FGL and FSRC reinsurance treaty.

(b) Only applicable to Successor periods.

## ***Additional Disclosures***

### *Other Derivatives and Embedded Derivatives*

The Company holds a \$35 fund-linked note issued by Nomura International Funding Pte. Ltd. The note provides for an additional payment at maturity based on the value of an embedded derivative in AnchorPath Dedicated Return Fund (the "AnchorPath Fund") of \$11 which was based on the actual return of the fund. At September 30, 2018, the fair value of the fund-linked note and embedded derivative were \$25 and \$17, respectively. At maturity of the fund-linked note, FGL Insurance will receive the \$35 face value of the note plus the value of the embedded derivative in the AnchorPath Fund. The additional payment at maturity is an embedded derivative reported in "Other invested assets", while the host is an available-for-sale security reported in "Fixed maturities, available-for-sale".

### *Fixed Index Annuity ("FIA") Embedded Derivative and Call Options and Futures*

The Company has FIA Contracts that permit the holder to elect an interest rate return or an equity index linked component, where interest credited to the contracts is linked to the performance of various equity indices, primarily the S&P 500 Index. This feature represents an embedded derivative under GAAP. The FIA embedded derivative is valued at fair value and included in the liability for contractholder funds in the accompanying Condensed Consolidated Balance Sheets with changes in fair value included as a component of "Benefits and other changes in policy reserves" in the Condensed Consolidated Statements of Operations. See a description of the fair value methodology used in "Note 6. Fair Value of Financial Instruments".

The Company purchases derivatives consisting of a combination of call options and futures contracts on the applicable market indices to fund the index credits due to FIA contractholders. The call options are one, two, three, and five year options purchased to match the funding requirements of the underlying policies. On the respective anniversary dates of the index policies, the index used to compute the interest credit is reset and the Company purchases new one, two, three, or five year call options to fund the next index credit. The Company manages the cost of these purchases through the terms of its FIA contracts, which permit the Company to change caps, spreads or participation rates, subject to guaranteed minimums, on each contract's anniversary date. The change in the fair value of the call options and futures contracts is generally designed to offset the portion of the change in the fair value of the FIA embedded derivative related to index performance. The call options and futures contracts are marked to fair value with the change in fair value included as a component of "Net investment gains (losses)." The change in fair value of the call options and futures contracts includes the gains and losses recognized at the expiration of the instrument term or upon early termination and the changes in fair value of open positions.

Other market exposures are hedged periodically depending on market conditions and the Company's risk tolerance. The Company's FIA hedging strategy economically hedges the equity returns and exposes the Company to the risk that unhedged market exposures result in divergence between changes in the fair value of the liabilities and the hedging assets. The Company uses a variety of techniques, including direct estimation of market sensitivities and value-at-risk to monitor this risk daily. The Company intends to continue to adjust the hedging strategy as market conditions and the Company's risk tolerance change.

### *Preferred Equity Remarketing Reimbursement Embedded Derivative Liability*

On November 30, 2017 the Company issued 275,000 Series A cumulative preferred shares and 100,000 Series B cumulative preferred shares (together the "Preferred Shares"). The Preferred Shares do not have a maturity date and are non-callable for the first five years. From and after November 30, 2022, the original holders of the Preferred Shares may request and thus require, the Company (subject to customary blackout provisions) to remarket the Preferred Shares on their existing terms. If the remarketing is successful and the original holders elect to sell their preferred shares at the remarketed price and proceeds from such sale are less than the outstanding balance of the applicable shares (including dividends paid in kind and accumulated but unpaid dividends), the Company will be required to reimburse the sellers, up to a maximum of 10% of the par value of the originally issued preferred shares (including dividends paid in kind and accumulated but unpaid dividends) with such amount payable either in cash, ordinary shares, or any combination thereof, at the Company's option (the "Reimbursement Feature"). The Reimbursement Feature represents an embedded derivative that is not clearly and closely related to the preferred stock host and must be bifurcated. The Reimbursement Feature liability is held at fair value within "Other liabilities" in the accompanying Condensed Consolidated Balance Sheets using a Black Derman Toy model incorporating among other things the paid in kind dividend coupon rate and the Company's call option. Changes in fair value of

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this derivative are recognized within “Acquisition and operating expenses, net of deferrals” in the accompanying Condensed Consolidated Statements of Operations.

### *Foreign Currency Forward*

On September 28, 2018, the Company entered into a foreign currency forward contract to economically hedge against unfavorable movements in EUR on an affiliated limited partnership. Under the forward contract, the price is agreed upon at the time of the contract and payment is made at a specified future date. The value of the forward was \$1 at September 30, 2018 which is equal to the cumulative unrealized value and is reflected in “Derivative Instruments” with the changes in the fair value reflected in “Net investment gains”. The Company had realized net investment gains of \$1 for the nine months ended September, 30, 2018 related to the forward contract.

### *Credit Risk*

The Company is exposed to credit loss in the event of non-performance by its counterparties on the call options and reflects assumptions regarding this non-performance risk in the fair value of the call options. The non-performance risk is the net counterparty exposure based on the fair value of the open contracts less collateral held. The Company maintains a policy of requiring all derivative contracts to be governed by an International Swaps and Derivatives Association (“ISDA”) Master Agreement.

Information regarding the Company’s exposure to credit loss on the call options it holds is presented in the following table:

| Counterparty                       | Credit Rating<br>(Fitch/Moody's/S&P) (a) | September 30, 2018 |               |               |                 |
|------------------------------------|--|--------------------|---------------|---------------|-----------------|
|                                    |  | Notional<br>Amount | Fair Value    | Collateral    | Net Credit Risk |
| Merrill Lynch                      | A+/*A+                                   | \$ 3,515           | \$ 129        | \$ 89         | \$ 40           |
| Deutsche Bank                      | A-/A3/BBB+                               | 1,286              | 46            | 47            | (1)             |
| Morgan Stanley                     | */A1/A+                                  | 1,969              | 66            | 72            | (6)             |
| Barclay's Bank                     | A/Baa3/BBB                               | 1,387              | 65            | 42            | 23              |
| Canadian Imperial Bank of Commerce | */Aa2/A+                                 | 2,376              | 81            | 82            | (1)             |
| Wells Fargo                        | A+/A2/A-                                 | 1,063              | 37            | 37            | —               |
| Goldman Sachs                      | A/A3/BBB+                                | 309                | 7             | 8             | (1)             |
| <b>Total</b>                       |  | <b>\$ 11,905</b>   | <b>\$ 431</b> | <b>\$ 377</b> | <b>\$ 54</b>    |

  

| Counterparty                       | Credit Rating<br>(Fitch/Moody's/S&P) (a) | December 31, 2017  |               |               |                 |
|------------------------------------|--|--------------------|---------------|---------------|-----------------|
|                                    |  | Notional<br>Amount | Fair Value    | Collateral    | Net Credit Risk |
| Merrill Lynch                      | A/*A+                                    | \$ 2,780           | \$ 150        | \$ 118        | \$ 32           |
| Deutsche Bank                      | A-/A3/A-                                 | 1,345              | 51            | 55            | (4)             |
| Morgan Stanley                     | */A1/A+                                  | 1,555              | 92            | 101           | (9)             |
| Barclay's Bank                     | A*/A1/A                                  | 2,090              | 103           | 95            | 8               |
| Canadian Imperial Bank of Commerce | AA-/Aa3/A+                               | 2,807              | 96            | 98            | (2)             |
| <b>Total</b>                       |  | <b>\$ 10,577</b>   | <b>\$ 492</b> | <b>\$ 467</b> | <b>\$ 25</b>    |

(a) An \* represents credit ratings that were not available.

### *Collateral Agreements*

The Company is required to maintain minimum ratings as a matter of routine practice as part of its over-the-counter derivative agreements on ISDA forms. Under some ISDA agreements, the Company has agreed to maintain certain financial strength ratings. A downgrade below these levels provides the counterparty under the agreement the right to terminate the open option contracts between the parties, at which time any amounts payable by the Company or the counterparty would be dependent on the market value of the underlying option contracts. The Company's current rating doesn't allow any counterparty the right to terminate ISDA agreements. In certain



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transactions, the Company and the counterparty have entered into a collateral support agreement requiring either party to post collateral when the net exposures exceed pre-determined thresholds. For all counterparties, except one, this threshold is set to zero. As of September 30, 2018 and December 31, 2017, counterparties posted \$377 and \$467 of collateral, respectively, of which \$288 and \$349 is included in "Cash and cash equivalents" with an associated payable for this collateral included in "Other liabilities" on the Condensed Consolidated Balance Sheets. The remaining \$89 and \$118 of non-cash collateral was held by a third-party custodian and may not be sold or re-pledged, except in the event of default, and, therefore, is not included in the Company's Condensed Consolidated Balance Sheets at September 30, 2018 and December 31, 2017, respectively. This collateral generally consists of U.S. treasury bonds and mortgage-backed securities. Accordingly, the maximum amount of loss due to credit risk that the Company would incur if parties to the call options failed completely to perform according to the terms of the contracts was \$54 and \$25 at September 30, 2018 and December 31, 2017, respectively.

The Company is required to pay counterparties the effective federal funds rate each day for cash collateral posted to FGL for daily mark to market margin changes. In June 2017, the Company began reinvesting derivative cash collateral to reduce the interest cost. Cash collateral is invested in short term Treasury securities and A1/P1 commercial paper which are included in "Cash and cash equivalents" in the accompanying Condensed Consolidated Balance Sheets.

The Company held 1,029 and 1,754 futures contracts at September 30, 2018 and December 31, 2017, respectively. The fair value of the futures contracts represents the cumulative unsettled variation margin (open trade equity, net of cash settlements). The Company provides cash collateral to the counterparties for the initial and variation margin on the futures contracts which is included in "Cash and cash equivalents" in the accompanying Condensed Consolidated Balance Sheets. The amount of cash collateral held by the counterparties for such contracts was \$6 and \$8 at September 30, 2018 and December 31, 2017, respectively.

### *Reinsurance Related Embedded Derivatives (Predecessor)*

FGL Insurance has a coinsurance arrangement with FSRC, meaning that funds are withheld by FGL Insurance as the legal owner, but the credit risk is borne by FSRC. This arrangement created an obligation for FGL Insurance to pay FSRC at a later date, which resulted in an embedded derivative. This embedded derivative was considered a total return swap with contractual returns that were attributable to the assets and liabilities associated with this reinsurance arrangement. The fair value of the total return swap was based on the change in fair value of the underlying assets held in the funds withheld portfolio. Investment results for the assets that support the coinsurance funds withheld reinsurance arrangement, including gains and losses from sales, were passed directly to the reinsurer pursuant to contractual terms of the reinsurance arrangement. The reinsurance related embedded derivative was reported in "Other assets", if in a net gain position, or "Other liabilities", if in a net loss position, on the Predecessor's Condensed Consolidated Balance Sheets and the related gains or losses were reported in "Net investment gains" on the Predecessor's Condensed Consolidated Statements of Operations. Due to the acquisition of FSRC, the reinsurance related embedded derivative is eliminated in consolidation in the Successor periods.

### *Call option payable to FSRC (Predecessor)*

Under the terms of the coinsurance arrangement with FSRC, FGL Insurance is required to pay FSRC a portion of the net cost of equity option purchases and the proceeds from expirations related to the equity options which hedged the index credit feature of the reinsured FIA contracts. Accordingly, the payable to FSRC was reflected in "Funds withheld for reinsurance liabilities" as of the balance sheet date with changes in fair value reflected within the "Net investment gains (losses)" in Predecessor's Condensed Consolidated Statements of Operations. Due to the acquisition of FSRC, the call option payable to FSRC is eliminated in consolidation in the Successor periods.

## **(6) Fair Value of Financial Instruments**

The Company's measurement of fair value is based on assumptions used by market participants in pricing the asset or liability, which may include inherent risk, restrictions on the sale or use of an asset, or non-performance risk, which may include the Company's own credit risk. The Company's estimate of an exchange price is the price in an orderly transaction between market participants to sell the asset or transfer the liability ("exit price") in the principal market, or the most advantageous market for that asset or liability in the absence of a principal market as opposed to the price that would be paid to acquire the asset or assume a liability ("entry price"). The Company categorizes financial instruments carried at fair value into a three-level fair value hierarchy, based on the priority of inputs to the respective valuation technique. The three-level hierarchy for fair value measurement is defined as follows:

*Level 1* - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

*Level 2* - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads, and yield curves.

*Level 3* - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Company's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date based on the best information available in the circumstances.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

When a determination is made to classify an asset or liability within Level 3 of the fair value hierarchy, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement. Because certain securities trade in less liquid or illiquid markets with limited or no pricing information, the determination of fair value for these securities is inherently more difficult. In addition to the unobservable inputs, Level 3 fair value investments may include observable components, which are components that are actively quoted or can be validated to market-based sources.

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The carrying amounts and estimated fair values of the Company's financial instruments for which the disclosure of fair values is required, including financial assets and liabilities measured and carried at fair value on a recurring basis, with the exception of investment contracts, related party loans, portions of other invested assets and debt which are disclosed later within this footnote, was summarized according to the hierarchy previously described, as follows:

|  | September 30, 2018 |                  |                 |                  |                  |
|--|--------------------|------------------|-----------------|------------------|------------------|
|  | Level 1            | Level 2          | Level 3         | Fair Value       | Carrying Amount  |
| <b>Assets</b>  |                    |                  |                 |                  |                  |
| Cash and cash equivalents                                  | \$ 944             | \$ —             | \$ —            | \$ 944           | \$ 944           |
| Fixed maturity securities, available-for-sale:             |                    |                  |                 |                  |                  |
| Asset-backed securities                                    | —                  | 3,278            | 404             | 3,682            | 3,682            |
| Commercial mortgage-backed securities                      | —                  | 1,747            | 47              | 1,794            | 1,794            |
| Corporates   | —                  | 10,426           | 1,208           | 11,634           | 11,634           |
| Hybrids  | 282                | 660              | 9               | 951              | 951              |
| Municipals   | —                  | 1,345            | 36              | 1,381            | 1,381            |
| Residential mortgage-backed securities                     | —                  | 1,105            | 575             | 1,680            | 1,680            |
| U.S. Government  | 113                | 26               | —               | 139              | 139              |
| Foreign Governments  | —                  | 144              | 16              | 160              | 160              |
| Equity securities  | 490                | 901              | 4               | 1,395            | 1,395            |
| Derivative investments                                     | 1                  | 431              | —               | 432              | 432              |
| Short term investments                                     | 15                 | —                | —               | 15               | 15               |
| Other invested assets                                      | —                  | —                | 56              | 56               | 56               |
| Funds withheld for reinsurance receivables, at fair value  | 95                 | 583              | 2               | 680              | 680              |
| Total financial assets at fair value                       | <u>\$ 1,940</u>    | <u>\$ 20,646</u> | <u>\$ 2,357</u> | <u>\$ 24,943</u> | <u>\$ 24,943</u> |
| <b>Liabilities</b>   |                    |                  |                 |                  |                  |
| Derivatives:   |                    |                  |                 |                  |                  |
| FIA embedded derivatives, included in contractholder funds | —                  | —                | 2,551           | 2,551            | 2,551            |
| Preferred shares reimbursement feature embedded derivative | —                  | —                | 22              | 22               | 22               |
| Fair value of future policy benefits (FSRC)                | —                  | —                | 684             | 684              | 684              |
| Total financial liabilities at fair value                  | <u>\$ —</u>        | <u>\$ —</u>      | <u>\$ 3,257</u> | <u>\$ 3,257</u>  | <u>\$ 3,257</u>  |

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December 31, 2017

|  | Level 1         | Level 2          | Level 3         | Fair Value       | Carrying Amount  |
|--|-----------------|------------------|-----------------|------------------|------------------|
| <b>Assets</b>  |                 |                  |                 |                  |                  |
| Cash and cash equivalents                                  | \$ 1,215        | \$ —             | \$ —            | \$ 1,215         | \$ 1,215         |
| Fixed maturity securities, available-for-sale:             |                 |                  |                 |                  |                  |
| Asset-backed securities                                    | —               | 2,653            | 412             | 3,065            | 3,065            |
| Commercial mortgage-backed securities                      | —               | 907              | 49              | 956              | 956              |
| Corporates   | —               | 11,401           | 1,169           | 12,570           | 12,570           |
| Hybrids  | 253             | 804              | 10              | 1,067            | 1,067            |
| Municipals   | —               | 1,709            | 38              | 1,747            | 1,747            |
| Residential mortgage-backed securities                     | —               | 1,211            | 66              | 1,277            | 1,277            |
| U.S. Government  | 52              | 32               | —               | 84               | 84               |
| Foreign Governments  | —               | 180              | 17              | 197              | 197              |
| Equity securities  | 404             | 937              | 3               | 1,344            | 1,344            |
| Derivative investments                                     | —               | 492              | —               | 492              | 492              |
| Short term investments                                     | 25              | —                | —               | 25               | 25               |
| Other invested assets                                      | —               | —                | 17              | 17               | 17               |
| Funds withheld for reinsurance receivables, at fair value  | 88              | 648              | 4               | 740              | 740              |
| <b>Total financial assets at fair value</b>                | <b>\$ 2,037</b> | <b>\$ 20,974</b> | <b>\$ 1,785</b> | <b>\$ 24,796</b> | <b>\$ 24,796</b> |
| <b>Liabilities</b>   |                 |                  |                 |                  |                  |
| Derivatives:   |                 |                  |                 |                  |                  |
| FIA embedded derivatives, included in contractholder funds | \$ —            | \$ —             | \$ 2,277        | \$ 2,277         | \$ 2,277         |
| Preferred shares reimbursement feature embedded derivative | —               | —                | 23              | 23               | 23               |
| Fair value of future policy benefits (FSRC)                | —               | —                | 728             | 728              | 728              |
| <b>Total financial liabilities at fair value</b>           | <b>\$ —</b>     | <b>\$ —</b>      | <b>\$ 3,028</b> | <b>\$ 3,028</b>  | <b>\$ 3,028</b>  |

**Valuation Methodologies**

*Fixed Maturity Securities & Equity Securities*

The Company measures the fair value of its securities based on assumptions used by market participants in pricing the security. The most appropriate valuation methodology is selected based on the specific characteristics of the fixed maturity or equity security, and the Company will then consistently apply the valuation methodology to measure the security's fair value. The Company's fair value measurement is based on a market approach, which utilizes prices and other relevant information generated by market transactions involving identical or comparable securities. Sources of inputs to the market approach include third-party pricing services, independent broker quotations, or pricing matrices. The Company uses observable and unobservable inputs in its valuation methodologies. Observable inputs include benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data. In addition, market indicators and industry and economic events are monitored and further market data will be acquired when certain thresholds are met.

For certain security types, additional inputs may be used, or some of the inputs described above may not be applicable. The significant unobservable input used in the fair value measurement of equity securities for which the market approach valuation technique is employed is yields for comparable securities. Increases or decreases in the yields would result in lower or higher, respectively, fair value measurements. For broker-quoted only securities, quotes from market makers or broker-dealers are obtained from sources recognized to be market participants. Management believes the broker quotes are prices at which trades could be executed based on historical trades executed at broker-quoted or slightly higher prices. The Company also has an equity investment in a private business development company which is not traded on an exchange or valued by other sources such as analytics or brokers. The Company based the fair value of this investment on an estimated net asset value provided by the investee. Management did not make any adjustments to this valuation.

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The fair value of the Company's investment in mutual funds is based on the net asset value published by the respective mutual fund and represents the value the Company would have received if it withdrew its investment on the balance sheet date.

The Company did not adjust prices received from third parties as of September 30, 2018 or December 31, 2017. However, the Company does analyze the third-party valuation methodologies and related inputs to perform assessments to determine the appropriate level within the fair value hierarchy.

### *Derivative Financial Instruments*

The fair value of call option assets is based upon valuation pricing models, which represents what the Company would expect to receive or pay at the balance sheet date if it canceled the options, entered into offsetting positions, or exercised the options. Fair values for these instruments are determined internally, based on valuation pricing models which use market-observable inputs, including interest rates, yield curve volatilities, and other factors.

The fair value of futures contracts represents the cumulative unsettled variation margin (open trade equity, net of cash settlements) which represents what the Company would expect to receive or pay at the balance sheet date if it canceled the futures contract or entered into offsetting positions. These contracts are classified as Level 1.

The fair value measurement of the FIA embedded derivatives included in contractholder funds is determined through a combination of market observable information and significant unobservable inputs. The market observable inputs are the market value of option and interest swap rates. The significant unobservable inputs are the mortality multiplier, surrender rates, non-performance spread and option costs. The mortality multiplier at September 30, 2018 and December 31, 2017 was applied to the Annuity 2000 mortality tables. Significant increases or decreases in the market value of an option in isolation would result in a higher or lower, respectively, fair value measurement. Significant increases or decreases in interest swap rates, mortality multiplier, surrender rates, or non-performance spread in isolation would result in a lower or higher fair value measurement, respectively. Generally, a change in any one unobservable input would not directly result in a change in any other unobservable input. Changes in unrealized gains or losses of the Company's FIA embedded derivatives are included in "Benefits and other changes in policy reserves" in the Condensed Consolidated Statements of Operations.

The fair value of the Reimbursement Feature embedded derivative is determined using a Black Derman Toy model, incorporating the paid in kind dividend coupon, the Company's redemption option and the preferred shareholder's remarketing feature. The remarketing feature allows the shareholder to put the preferred shares to the Company for a value of par after five years and, if after a successful remarketing event the amount is less than 90% par, up to a maximum of 10% of liquidation price defined. There were \$(2) and \$(1) of changes in fair value recognized during the three and nine months ended September 30, 2018, respectively, due to changes in the credit spread.

### *Other Invested Assets*

Fair value of the AnchorPath embedded derivative is based on an unobservable input, the net asset value of the AnchorPath fund at the balance sheet date. The embedded derivative is similar to a call option on the net asset value of the AnchorPath fund with a strike price of zero since FGL Insurance will not be required to make any additional payments at maturity of the fund-linked note in order to receive the net asset value of the AnchorPath fund on the maturity date. A Black-Scholes model determines the net asset value of the AnchorPath fund as the fair value of the call option regardless of the values used for the other inputs to the option pricing model. The net asset value of the AnchorPath fund is provided by the fund manager at the end of each calendar month and represents the value an investor would receive if it withdrew its investment on the balance sheet date. Therefore, the key unobservable input used in the Black-Scholes model is the value of the AnchorPath fund. As the value of the AnchorPath fund increases or decreases, the fair value of the embedded derivative will increase or decrease.

### *FSRC Funds Withheld for Reinsurance Receivables and Future Policy Benefits*

FSRC elected to apply the Fair Value Option to account for its funds withheld receivables and future policy benefits liability related to its assumed reinsurance. FSRC measures the fair value of the Funds Withheld for Reinsurance Receivables based on the fair values of the securities in the underlying funds withheld portfolio held by the cedant. FSRC uses a discounted cash flows approach to measure the fair value of the Future Policy Benefits Reserve. The cash flows associated with future policy premiums and benefits are generated using best estimate assumptions (plus a risk margin, where applicable) and are consistent with market prices, where available. Risk

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margins are typically applied to non-observable, non-hedgeable market inputs such as long term volatility, mortality, morbidity, lapse, etc.

The significant unobservable inputs used in the fair value measurement of the FSRC future policy benefit liability are undiscounted cash flows, non-performance risk spread and risk margin to reflect uncertainty. Undiscounted cash flows used in our September 30, 2018 discounted cash flow model equaled \$1,025. Increases or decreases in non-performance risk spread and risk margin to reflect uncertainty would result in a lower or higher fair value measurement, respectively.

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Quantitative information regarding significant unobservable inputs used for recurring Level 3 fair value measurements of financial instruments carried at fair value as of September 30, 2018 and December 31, 2017, are as follows:

|  | Fair Value at<br>September 30, 2018 | Valuation Technique    | Unobservable Input<br>(s)          | Range (Weighted<br>average)<br>September 30, 2018 |
|--|-------------------------------------|------------------------|------------------------------------|---|
| <b>Assets</b>  |                                     |                        |                                    |   |
| Asset-backed securities                                    | \$ 396                              | Broker-quoted          | Offered quotes                     | 97.12% - 102.00% (99.40%)                         |
| Asset-backed securities                                    | 8                                   | Third-Party Valuation  | Offered quotes                     | 0.00% - 99.70% (14.41%)                           |
| Commercial mortgage-backed securities                      | 8                                   | Broker-quoted          | Offered quotes                     | 100.44% - 100.44%<br>(100.44%)                    |
| Commercial mortgage-backed securities                      | 39                                  | Matrix Pricing         | Quoted prices                      | 102.12% - 116.77%<br>(110.74%)                    |
| Corporates   | 684                                 | Broker-quoted          | Offered quotes                     | 72.02% - 105.50% (96.81%)                         |
| Corporates   | 524                                 | Matrix Pricing         | Quoted prices                      | 91.83% - 110.13% (99.14%)                         |
| Hybrids  | 9                                   | Matrix Pricing         | Quoted prices                      | 94.99% - 94.99% (94.99%)                          |
| Municipals   | 36                                  | Broker-quoted          | Offered quotes                     | 108.82% - 108.82%<br>(108.82%)                    |
| Residential mortgage-backed securities                     | 242                                 | Broker-quoted          | Offered quotes                     | 92.09% - 101.38% (99.68%)                         |
| Residential mortgage-backed securities                     | 333                                 | Matrix Pricing         | Quoted prices                      | 99.98% - 99.98% (99.98%)                          |
| Foreign Governments  | 16                                  | Broker-quoted          | Offered quotes                     | 98.94% - 99.83% (99.22%)                          |
| Equity securities (Salus preferred equity)                 | 4                                   | Income-Approach        | Yield                              | 7.11%   |
| Other invested assets:                                     |                                     |                        |                                    |   |
| Available-for-sale embedded derivative (AnchorPath)        | 17                                  | Black Scholes model    | Market value of AnchorPath fund    | 100.00%   |
| Affiliated bank loans                                      | 39                                  | Yield-method           | Blended rates                      | 7.20% - 9.20%                                     |
| Funds withheld for reinsurance receivables at fair value   | 2                                   | Matrix pricing         | Quoted prices                      | 100.00%   |
| Total  | <u>\$ 2,357</u>                     |                        |                                    |   |
| <b>Liabilities</b>   |                                     |                        |                                    |   |
| Future policy benefits (FSRC)                              | \$ 684                              | Discounted cash flow   | Non-Performance risk spread        | 0.12% - 0.15% (0.13%)                             |
|  |                                     |                        | Risk margin to reflect uncertainty | 0.50% - 0.62%<br>(0.54%)                          |
| Derivatives:   |                                     |                        |                                    |   |
| FIA embedded derivatives included in contractholder funds  | 2,551                               | Discounted cash flow   | Market value of option             | 0.00% - 39.48% (3.33%)                            |
|  |                                     |                        | SWAP rates                         | 3.07% - 3.12% (3.09%)                             |
|  |                                     |                        | Mortality multiplier               | 80.00% - 80.00%<br>(80.00%)                       |
|  |                                     |                        | Surrender rates                    | 0.50% - 75.00% (5.96%)                            |
|  |                                     |                        | Partial withdrawals                | 1.00% - 2.50%<br>(2.00%)                          |
|  |                                     |                        | Non-performance spread             | 0.25% - 0.25%<br>(0.25%)                          |
|  |                                     |                        | Option cost                        | 0.11% - 16.61% (2.14%)                            |
| Preferred shares reimbursement feature embedded derivative | 22                                  | Black Derman Toy model | Credit Spread                      | 3.66%   |
|  |                                     |                        | Yield Volatility                   | 20.00%  |
| Total liabilities at fair value                            | <u>\$ 3,257</u>                     |                        |                                    |   |

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|   | Fair Value at<br>December 31, 2017 | Valuation Technique       | Unobservable Input<br>(s)             | Range (Weighted average)<br>December 31, 2017 |
|---|------------------------------------|---------------------------|---------------------------------------|---|
| <b>Assets</b>   |                                    |                           |                                       |   |
| Asset-backed securities                                       | \$ 412                             | Broker-quoted             | Offered quotes                        | 98.00% - 102.56%<br>(100.27%)                 |
| Commercial mortgage-backed securities                         | 49                                 | Broker-quoted             | Offered quotes                        | 99.50% - 122.78%<br>(114.09%)                 |
| Corporates  | 763                                | Broker-quoted             | Offered quotes                        | 73.55% - 109.63% (99.66%)                     |
| Corporates  | 406                                | Matrix Pricing            | Quoted prices                         | 67.72% - 115.04%<br>(103.72%)                 |
| Hybrids   | 10                                 | Broker-quoted             | Offered quotes                        | 96.89% - 96.89%<br>(96.89%)                   |
| Municipals  | 38                                 | Broker-quoted             | Offered quotes                        | 111.84% - 111.84%<br>(111.84%)                |
| Residential mortgage-backed securities                        | 66                                 | Broker-quoted             | Offered quotes                        | 93.25% - 102.25%<br>(100.11%)                 |
| Foreign Governments   | 17                                 | Broker-quoted             | Offered quotes                        | 104.16% - 106.28%<br>(104.82%)                |
| Equity securities (Salus preferred equity)                    | 3                                  | Income-Approach           | Yield                                 | 5.00%   |
| Other invested assets:  |                                    |                           |                                       |   |
| Available-for-sale embedded derivative<br>(AnchorPath)        | 17                                 | Black Scholes model       | Market value of<br>AnchorPath fund    | 100.00%                                       |
| Funds withheld for reinsurance receivables at fair<br>value   | 3                                  | Matrix pricing            | Quoted prices                         | 100.00%                                       |
| Funds withheld for reinsurance receivables at fair<br>value   | 1                                  | Loan recovery value       | Recovery rate                         | 26.00%  |
| Total   | <u>\$ 1,785</u>                    |                           |                                       |   |
| <b>Liabilities</b>  |                                    |                           |                                       |   |
| Future policy benefits (FSRC)                                 | \$ 728                             | Discounted cash flow      | Non-Performance risk<br>spread        | 0.27%   |
|   |                                    |                           | Risk margin to reflect<br>uncertainty | 0.54%   |
| Derivatives:  |                                    |                           |                                       |   |
| FIA embedded derivatives included in<br>contractholder funds  | 2,277                              | Discounted cash flow      | Market value of option                | 0.00% - 29.93%<br>(4.11%)                     |
|   |                                    |                           | SWAP rates                            | 2.24% - 2.40%<br>(2.31%)                      |
|   |                                    |                           | Mortality multiplier                  | 80.00% - 80.00%<br>(80.00%)                   |
|   |                                    |                           | Surrender rates                       | 0.50% - 75.00%<br>(6.13%)                     |
|   |                                    |                           | Partial withdrawals                   | 2.00% - 3.50%<br>(2.75%)                      |
|   |                                    |                           | Non-performance<br>spread             | 0.25% - 0.25%<br>(0.25%)                      |
|   |                                    |                           | Option cost                           | 0.06% - 17.33%<br>(1.99%)                     |
| Preferred shares reimbursement feature embedded<br>derivative | \$ 23                              | Black Derman Toy<br>model | Credit Spread                         | 4.13%   |
|   |                                    |                           | Yield Volatility                      | 20.00%  |
| Total liabilities at fair value                               | <u>\$ 3,028</u>                    |                           |                                       |   |



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The following tables summarize changes to the Company's financial instruments carried at fair value and classified within Level 3 of the fair value hierarchy for the three and nine months ended September 30, 2018 and 2017, respectively. This summary excludes any impact of amortization of VOBA and DAC. The gains and losses below may include changes in fair value due in part to observable inputs that are a component of the valuation methodology.

|  | Three months ended September 30, 2018 |                      |                  |               |                |                |                                      | Balance at End of Period |
|--|---------------------------------------|----------------------|------------------|---------------|----------------|----------------|--------------------------------------|--------------------------|
|  | Balance at Beginning of Period        | Total Gains (Losses) |                  | Purchases     | Sales          | Settlements    | Net transfer In (Out) of Level 3 (a) |                          |
|  |                                       | Included in Earnings | Included in AOCI |               |                |                |                                      |                          |
| <b>Assets</b>  |                                       |                      |                  |               |                |                |                                      |                          |
| Fixed maturity securities available-for-sale:              |                                       |                      |                  |               |                |                |                                      |                          |
| Asset-backed securities                                    | \$ 330                                | \$ —                 | \$ —             | \$ 162        | \$ —           | \$ (11)        | \$ (77)                              | \$ 404                   |
| Commercial mortgage-backed securities                      | 60                                    | —                    | (1)              | —             | —              | —              | (12)                                 | 47                       |
| Corporates   | 1,190                                 | —                    | (9)              | 53            | —              | (5)            | (21)                                 | 1,208                    |
| Hybrids  | 10                                    | —                    | (1)              | —             | —              | —              | —                                    | 9                        |
| Municipals   | 37                                    | —                    | (1)              | —             | —              | —              | —                                    | 36                       |
| Residential mortgage-backed securities                     | 242                                   | —                    | (2)              | 375           | (1)            | (3)            | (36)                                 | 575                      |
| Foreign Governments  | 16                                    | —                    | —                | —             | —              | —              | —                                    | 16                       |
| Equity securities  | 3                                     | 1                    | —                | —             | —              | —              | —                                    | 4                        |
| Other invested assets:                                     |                                       |                      |                  |               |                |                |                                      |                          |
| Available-for-sale embedded derivative                     | 17                                    | —                    | —                | —             | —              | —              | —                                    | 17                       |
| Affiliated Bank Loans                                      | 50                                    | —                    | —                | —             | (11)           | —              | —                                    | 39                       |
| Funds withheld for reinsurance receivables at fair value   | 6                                     | —                    | —                | —             | —              | (4)            | —                                    | 2                        |
| <b>Total assets at Level 3 fair value</b>                  | <b>\$ 1,961</b>                       | <b>\$ 1</b>          | <b>\$ (14)</b>   | <b>\$ 590</b> | <b>\$ (12)</b> | <b>\$ (23)</b> | <b>\$ (146)</b>                      | <b>\$ 2,357</b>          |
| <b>Liabilities</b>   |                                       |                      |                  |               |                |                |                                      |                          |
| FIA embedded derivatives, included in contractholder funds | \$ 2,320                              | \$ 231               | \$ —             | \$ —          | \$ —           | \$ —           | \$ —                                 | \$ 2,551                 |
| Future policy benefits (FSRC)                              | 737                                   | (25)                 | —                | —             | —              | (28)           | —                                    | 684                      |
| Preferred shares reimbursement feature embedded derivative | 24                                    | (2)                  | —                | —             | —              | —              | —                                    | 22                       |
| <b>Total liabilities at Level 3 fair value</b>             | <b>\$ 3,081</b>                       | <b>\$ 204</b>        | <b>\$ —</b>      | <b>\$ —</b>   | <b>\$ —</b>    | <b>\$ (28)</b> | <b>\$ —</b>                          | <b>\$ 3,257</b>          |

(a) The net transfers out of Level 3 during the three months ended September 30, 2018 were exclusively to Level 2.

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| Three months ended September 30, 2017                      |                                      |                            |                        |               |                |                |   |                                |
|--|--------------------------------------|----------------------------|------------------------|---------------|----------------|----------------|---|--------------------------------|
| Predecessor  |                                      |                            |                        |               |                |                |   |                                |
|  | Balance at<br>Beginning<br>of Period | Total Gains (Losses)       |                        | Purchases     | Sales          | Settlements    | Net<br>transfer In<br>(Out) of<br>Level 3 (a) | Balance at<br>End of<br>Period |
|  |                                      | Included<br>in<br>Earnings | Included<br>in<br>AOCI |               |                |                |   |                                |
| <b>Assets</b>  |                                      |                            |                        |               |                |                |   |                                |
| Fixed maturity securities available-for-sale:              |                                      |                            |                        |               |                |                |   |                                |
| Asset-backed securities                                    | \$ 204                               | \$ —                       | \$ 1                   | \$ 22         | \$ —           | \$ (16)        | \$ (52)                                       | \$ 159                         |
| Commercial mortgage-backed securities                      | 84                                   | —                          | 1                      | 10            | —              | —              | —   | 95                             |
| Corporates   | 1,056                                | —                          | —                      | 73            | (15)           | (22)           | 5   | 1,097                          |
| Hybrids  | 10                                   | —                          | —                      | —             | —              | —              | —   | 10                             |
| Municipals   | 38                                   | —                          | —                      | —             | —              | —              | —   | 38                             |
| Residential mortgage-backed securities                     | 15                                   | —                          | —                      | —             | —              | —              | —   | 15                             |
| Foreign Governments  | 17                                   | —                          | —                      | —             | —              | —              | —   | 17                             |
| Equity securities  | 1                                    | —                          | 1                      | —             | —              | —              | —   | 2                              |
| Other invested assets:                                     |                                      |                            |                        |               |                |                |   |                                |
| Available-for-sale embedded derivative                     | 15                                   | 1                          | —                      | —             | —              | —              | —   | 16                             |
| Loan participations  | —                                    | —                          | —                      | —             | —              | —              | —   | —                              |
| <b>Total assets at Level 3 fair value</b>                  | <b>\$ 1,440</b>                      | <b>\$ 1</b>                | <b>\$ 3</b>            | <b>\$ 105</b> | <b>\$ (15)</b> | <b>\$ (38)</b> | <b>\$ (47)</b>                                | <b>\$ 1,449</b>                |
| <b>Liabilities</b>   |                                      |                            |                        |               |                |                |   |                                |
| FIA embedded derivatives, included in contractholder funds | \$ 2,442                             | \$ 185                     | \$ —                   | \$ —          | \$ —           | \$ —           | \$ —  | \$ 2,627                       |
| <b>Total liabilities at Level 3 fair value</b>             | <b>\$ 2,442</b>                      | <b>\$ —</b>                | <b>\$ —</b>            | <b>\$ —</b>   | <b>\$ —</b>    | <b>\$ —</b>    | <b>\$ —</b>                                   | <b>\$ 2,627</b>                |

(a) The net transfers out of Level 3 during the Predecessor three months ended September 30, 2017 were exclusively to Level 2.

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| Nine months ended September 30, 2018                       |                                |                      |                  |                 |                |                 |                 |                                      |                          |
|--|--------------------------------|----------------------|------------------|-----------------|----------------|-----------------|-----------------|--------------------------------------|--------------------------|
|  | Balance at Beginning of Period | Total Gains (Losses) |                  |                 | Purchases      | Sales           | Settlements     | Net transfer In (Out) of Level 3 (a) | Balance at End of Period |
|  |                                | Included in Earnings | Included in AOCI |                 |                |                 |                 |                                      |                          |
| <b>Assets</b>  |                                |                      |                  |                 |                |                 |                 |                                      |                          |
| Fixed maturity securities available-for-sale:              |                                |                      |                  |                 |                |                 |                 |                                      |                          |
| Asset-backed securities                                    | \$ 412                         | \$ —                 | \$ (2)           | \$ 342          | \$ —           | \$ (18)         | \$ (330)        | \$ 404                               |                          |
| Commercial mortgage-backed securities                      | 49                             | —                    | (3)              | 12              | —              | (6)             | (5)             | 47                                   |                          |
| Corporates   | 1,169                          | —                    | (36)             | 252             | —              | (108)           | (69)            | 1,208                                |                          |
| Hybrids  | 10                             | —                    | (1)              | —               | —              | —               | —               | 9                                    |                          |
| Municipals   | 38                             | —                    | (2)              | —               | —              | —               | —               | 36                                   |                          |
| Residential mortgage-backed securities                     | 66                             | —                    | —                | 554             | (1)            | (8)             | (36)            | 575                                  |                          |
| Foreign Governments  | 17                             | —                    | (1)              | —               | —              | —               | —               | 16                                   |                          |
| Equity securities  | 3                              | 2                    | (1)              | —               | —              | —               | —               | 4                                    |                          |
| Other invested assets:                                     |                                |                      |                  |                 |                |                 |                 |                                      |                          |
| Available-for-sale embedded derivative                     | 17                             | —                    | —                | —               | —              | —               | —               | 17                                   |                          |
| Affiliated Bank Loans                                      | —                              | —                    | —                | 50              | (11)           | —               | —               | 39                                   |                          |
| Funds withheld for reinsurance receivables at fair value   | 4                              | —                    | —                | 2               | —              | (4)             | —               | 2                                    |                          |
| <b>Total assets at Level 3 fair value</b>                  | <b>\$ 1,785</b>                | <b>\$ 2</b>          | <b>\$ (46)</b>   | <b>\$ 1,212</b> | <b>\$ (12)</b> | <b>\$ (144)</b> | <b>\$ (440)</b> | <b>\$ 2,357</b>                      |                          |
| <b>Liabilities</b>   |                                |                      |                  |                 |                |                 |                 |                                      |                          |
| FIA embedded derivatives, included in contractholder funds | \$ 2,277                       | \$ 274               | \$ —             | \$ —            | \$ —           | \$ —            | \$ —            | \$ 2,551                             |                          |
| Future policy benefits (FSRC)                              | 728                            | (44)                 | —                | —               | —              | —               | —               | 684                                  |                          |
| Preferred shares reimbursement feature embedded derivative | 23                             | (1)                  | —                | —               | —              | —               | —               | 22                                   |                          |
| <b>Total liabilities at Level 3 fair value</b>             | <b>\$ 3,028</b>                | <b>\$ 229</b>        | <b>\$ —</b>      | <b>\$ —</b>     | <b>\$ —</b>    | <b>\$ —</b>     | <b>\$ —</b>     | <b>\$ 3,257</b>                      |                          |

(a) The net transfers out of Level 3 during the nine months ended September 30, 2018 were exclusively to Level 2.

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| Nine months ended September 30, 2017                       |                                      |                            |                        |               |                |                 |                 |   |                                |
|--|--------------------------------------|----------------------------|------------------------|---------------|----------------|-----------------|-----------------|---|--------------------------------|
| Predecessor  |                                      |                            |                        |               |                |                 |                 |   |                                |
|  | Balance at<br>Beginning<br>of Period | Total Gains (Losses)       |                        |               | Purchases      | Sales           | Settlements     | Net<br>transfer In<br>(Out) of<br>Level 3 (a) | Balance at<br>End of<br>Period |
|  |                                      | Included<br>in<br>Earnings | Included<br>in<br>AOCI |               |                |                 |                 |   |                                |
| <b>Assets</b>  |                                      |                            |                        |               |                |                 |                 |   |                                |
| Fixed maturity securities available-for-sale:              |                                      |                            |                        |               |                |                 |                 |   |                                |
| Asset-backed securities                                    | \$ 197                               | \$ (1)                     | \$ 4                   | \$ 88         | \$ —           | \$ (33)         | \$ (96)         | \$ 159  |                                |
| Commercial mortgage-backed securities                      | 85                                   | —                          | 3                      | 10            | —              | (1)             | (2)             | 95  |                                |
| Corporates   | 1,062                                | —                          | 11                     | 138           | (15)           | (61)            | (38)            | 1,097   |                                |
| Hybrids  | 10                                   | —                          | —                      | —             | —              | —               | —               | 10  |                                |
| Municipals   | 37                                   | —                          | 1                      | —             | —              | —               | —               | 38  |                                |
| Residential mortgage-backed securities                     | —                                    | —                          | 1                      | —             | —              | —               | 14              | 15  |                                |
| Foreign Governments  | 16                                   | —                          | 1                      | —             | —              | —               | —               | 17  |                                |
| Equity securities  | 1                                    | —                          | 1                      | —             | —              | —               | —               | 2   |                                |
| Other invested assets:                                     |                                      |                            |                        |               |                |                 |                 |   |                                |
| Available-for-sale embedded derivative                     | 13                                   | 2                          | 1                      | —             | —              | —               | —               | 16  |                                |
| Loan participations  | 6                                    | (1)                        | 1                      | —             | —              | (6)             | —               | —   |                                |
| <b>Total assets at Level 3 fair value</b>                  | <b>\$ 1,427</b>                      | <b>\$ —</b>                | <b>\$ 24</b>           | <b>\$ 236</b> | <b>\$ (15)</b> | <b>\$ (101)</b> | <b>\$ (122)</b> | <b>\$ 1,449</b>                               |                                |
| <b>Liabilities</b>   |                                      |                            |                        |               |                |                 |                 |   |                                |
| FIA embedded derivatives, included in contractholder funds | \$ 2,250                             | \$ 377                     | \$ —                   | \$ —          | \$ —           | \$ —            | \$ —            | \$ 2,627                                      |                                |
| <b>Total liabilities at Level 3 fair value</b>             | <b>\$ 2,250</b>                      | <b>\$ 377</b>              | <b>\$ —</b>            | <b>\$ —</b>   | <b>\$ —</b>    | <b>\$ —</b>     | <b>\$ —</b>     | <b>\$ 2,627</b>                               |                                |

(a) The net transfers out of Level 3 during the Predecessor nine months ended September 30, 2017 were exclusively to Level 2.

**Valuation Methodologies and Associated Inputs for Financial Instruments Not Carried at Fair Value**

The following discussion outlines the methodologies and assumptions used to determine the fair value of our financial instruments not carried at fair value. Considerable judgment is required to develop these assumptions used to measure fair value. Accordingly, the estimates shown are not necessarily indicative of the amounts that would be realized in a one-time, current market exchange of all of our financial instruments.

*Commercial Mortgage Loans*

The fair value of commercial mortgage loans is established using a discounted cash flow method based on credit rating, maturity and future income. This yield-based approach is sourced from our third-party vendor. The ratings for mortgages in good standing are based on property type, location, market conditions, occupancy, debt service coverage, loan-to-value, quality of tenancy, borrower, and payment record. In the event of an impairment, the carrying value is based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's market price, or the fair value of the collateral if the loan is collateral-dependent. The inputs used to measure the fair value of our commercial mortgage loans are classified as Level 3 within the fair value hierarchy.

*Policy Loans (included within Other Invested Assets)*

Fair values for policy loans are estimated from a discounted cash flow analysis, using interest rates currently being offered for loans with similar credit risk. Loans with similar characteristics are aggregated for purposes of the calculations.

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*Investment Contracts*

Investment contracts include deferred annuities, FIAs, indexed universal life policies ("IULs") and immediate annuities. The fair value of deferred annuity, FIA, and IUL contracts is based on their cash surrender value (i.e. the cost the Company would incur to extinguish the liability) as these contracts are generally issued without an annuitization date. The fair value of immediate annuities contracts is derived by calculating a new fair value interest rate using the updated yield curve and treasury spreads as of the respective reporting date. At September 30, 2018 and December 31, 2017, this resulted in lower fair value reserves relative to the carrying value. The Company is not required to, and has not, estimated the fair value of the liabilities under contracts that involve significant mortality or morbidity risks, as these liabilities fall within the definition of insurance contracts that are exceptions from financial instruments that require disclosures of fair value.

*Debt*

The fair value of debt is based on quoted market prices. The inputs used to measure the fair value of our outstanding debt are classified as Level 2 within the fair value hierarchy. Our revolving credit facility debt is classified as Level 3 within the fair value hierarchy, and the estimated fair value reflects the carrying value as the revolver has no maturity date.

The following tables provide the carrying value and estimated fair value of our financial instruments that are carried on the Condensed Consolidated Balance Sheets at amounts other than fair value, summarized according to the fair value hierarchy previously described.

| <b>September 30, 2018</b>                                 |                |                |                  |                                       |                        |               |
|---|----------------|----------------|------------------|---------------------------------------|------------------------|---------------|
|   | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b>   | <b>Total Estimated<br/>Fair Value</b> | <b>Carrying Amount</b> |               |
| <b>Assets</b>   |                |                |                  |                                       |                        |               |
| FHLB common stock, included in other invested assets      | \$ —           | \$ 48          | \$ —             | \$ 48                                 | \$                     | 48            |
| Commercial mortgage loans                                 | —              | —              | 488              | 488                                   | \$                     | 497           |
| Policy loans, included in other invested assets           | —              | —              | 17               | 17                                    | \$                     | 21            |
| Funds withheld for reinsurance receivables, at fair value | —              | —              | 28               | 28                                    | \$                     | 28            |
| <b>Total</b>  | <b>\$ —</b>    | <b>\$ 48</b>   | <b>\$ 533</b>    | <b>\$ 581</b>                         | <b>\$</b>              | <b>594</b>    |
| <b>Liabilities</b>  |                |                |                  |                                       |                        |               |
| Investment contracts, included in contractholder funds    | \$ —           | \$ —           | \$ 17,869        | \$ 17,869                             | \$                     | 20,613        |
| Debt  | —              | 545            | —                | 545                                   | \$                     | 540           |
| <b>Total</b>  | <b>\$ —</b>    | <b>\$ 545</b>  | <b>\$ 17,869</b> | <b>\$ 18,414</b>                      | <b>\$</b>              | <b>21,153</b> |
| <b>December 31, 2017</b>                                  |                |                |                  |                                       |                        |               |
|   | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b>   | <b>Total Estimated<br/>Fair Value</b> | <b>Carrying Amount</b> |               |
| <b>Assets</b>   |                |                |                  |                                       |                        |               |
| Commercial mortgage loans                                 | \$ —           | \$ —           | \$ 549           | \$ 549                                | \$                     | 548           |
| Policy loans, included in other invested assets           | —              | —              | 15               | 15                                    | \$                     | 17            |
| Funds withheld for reinsurance receivables, at fair value | —              | —              | 16               | 16                                    | \$                     | 16            |
| <b>Total</b>  | <b>\$ —</b>    | <b>\$ —</b>    | <b>\$ 580</b>    | <b>\$ 580</b>                         | <b>\$</b>              | <b>581</b>    |
| <b>Liabilities</b>  |                |                |                  |                                       |                        |               |
| Investment contracts, included in contractholder funds    | \$ —           | \$ —           | \$ 16,769        | \$ 16,769                             | \$                     | 19,550        |
| Debt  | —              | 307            | 105              | 412                                   | \$                     | 412           |
| <b>Total</b>  | <b>\$ —</b>    | <b>\$ 307</b>  | <b>\$ 16,874</b> | <b>\$ 17,181</b>                      | <b>\$</b>              | <b>19,962</b> |

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The following table includes assets that have not been classified in the fair value hierarchy as the fair value of these investments are measured using the net asset value per share practical expedient. For further discussion about this adoption see “Note 2. Significant Accounting Policies” to the Company's 2017 Form 10-K.

|   | <b>Carrying Value After Measurement</b> |                          |
|---|---|--------------------------|
|   | <b>September 30, 2018</b>               | <b>December 31, 2017</b> |
| Equity securities   | \$ 45                                   | \$ 44                    |
| Limited partnership investment, included in other invested assets | 481                                     | 154                      |

The Company reviews the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets or liabilities. Such reclassifications are reported as transfers in and out of Level 3, or between other levels, at the beginning fair value for the reporting period in which the changes occur. The transfers into and out of Level 3 were related to changes in the primary pricing source and changes in the observability of external information used in determining the fair value.

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The Company's assessment resulted in gross transfers into and gross transfers out of certain fair value levels by asset class for the three and nine months ended September 30, 2018 and 2017, are as follows:

|  | Transfers Between Fair Value Levels |              |               |              |              |               |
|--|-------------------------------------|--------------|---------------|--------------|--------------|---------------|
|  | Level 1                             |              | Level 2       |              | Level 3      |               |
|  | In                                  | Out          | In            | Out          | In           | Out           |
| <b>Three months ended September 30, 2018</b> |                                     |              |               |              |              |               |
| Asset-backed securities                      | \$ —                                | \$ —         | \$ 90         | \$ 13        | \$ 13        | \$ 90         |
| Commercial mortgage-backed securities        | —                                   | —            | 12            | —            | —            | 12            |
| Corporates                                   | —                                   | —            | 21            | —            | —            | 21            |
| Hybrids                                      | —                                   | —            | —             | —            | —            | —             |
| Residential mortgage-backed securities       | —                                   | —            | 36            | —            | —            | 36            |
| Equity securities                            | —                                   | 30           | 30            | —            | —            | —             |
| <b>Total transfers</b>                       | <b>\$ —</b>                         | <b>\$ 30</b> | <b>\$ 189</b> | <b>\$ 13</b> | <b>\$ 13</b> | <b>\$ 159</b> |

*Predecessor*

|  |             |             |              |              |              |              |
|--|-------------|-------------|--------------|--------------|--------------|--------------|
| <b>Three months ended September 30, 2017</b> |             |             |              |              |              |              |
| Asset-backed securities                      | \$ —        | \$ —        | \$ 74        | \$ 22        | \$ 22        | \$ 74        |
| Commercial mortgage-backed securities        | —           | —           | —            | —            | —            | —            |
| Corporates                                   | —           | —           | —            | 5            | 5            | —            |
| Residential mortgage-backed securities       | —           | —           | —            | —            | —            | —            |
| Equity securities                            | —           | —           | —            | —            | —            | —            |
| <b>Total transfers</b>                       | <b>\$ —</b> | <b>\$ —</b> | <b>\$ 74</b> | <b>\$ 27</b> | <b>\$ 27</b> | <b>\$ 74</b> |

|   | Transfers Between Fair Value Levels |              |               |              |              |               |
|---|-------------------------------------|--------------|---------------|--------------|--------------|---------------|
|   | Level 1                             |              | Level 2       |              | Level 3      |               |
|   | In                                  | Out          | In            | Out          | In           | Out           |
| <b>Nine months ended September 30, 2018</b> |                                     |              |               |              |              |               |
| Asset-backed securities                     | \$ —                                | \$ —         | \$ 343        | \$ 13        | \$ 13        | \$ 343        |
| Commercial mortgage-backed securities       | —                                   | —            | 13            | 8            | 8            | 13            |
| Corporates                                  | —                                   | —            | 72            | 3            | 3            | 72            |
| Hybrids                                     | 20                                  | —            | —             | 20           | —            | —             |
| Residential mortgage-backed securities      | —                                   | —            | 36            | —            | —            | 36            |
| Equity securities                           | 25                                  | 30           | 30            | 25           | —            | —             |
| <b>Total transfers</b>                      | <b>\$ 45</b>                        | <b>\$ 30</b> | <b>\$ 494</b> | <b>\$ 69</b> | <b>\$ 24</b> | <b>\$ 464</b> |

*Predecessor*

|   |             |             |               |              |              |               |
|---|-------------|-------------|---------------|--------------|--------------|---------------|
| <b>Nine months ended September 30, 2017</b> |             |             |               |              |              |               |
| Asset-backed securities                     | \$ —        | \$ —        | \$ 154        | \$ 58        | \$ 58        | \$ 154        |
| Commercial mortgage-backed securities       | —           | —           | 8             | 6            | 6            | 8             |
| Corporates                                  | —           | —           | 44            | 6            | 6            | 44            |
| Residential mortgage-backed securities      | —           | —           | —             | 14           | 14           | —             |
| Equity securities                           | —           | —           | —             | —            | —            | —             |
| <b>Total transfers</b>                      | <b>\$ —</b> | <b>\$ —</b> | <b>\$ 206</b> | <b>\$ 84</b> | <b>\$ 84</b> | <b>\$ 206</b> |

**(7) Intangibles**

A summary of the changes in the carrying amounts of the Company's VOBA, DAC and DSI intangible assets are as follows:

|   | <b>VOBA</b>   | <b>DAC</b>    | <b>DSI</b>    | <b>Total</b>    |
|---|---------------|---------------|---------------|-----------------|
| <b>Balance at December 31, 2017</b>                     | \$ 821        | \$ 22         | \$ 10         | \$ 853          |
| Deferrals   | —             | 219           | 98            | 317             |
| Amortization  | (75)          | (6)           | (5)           | (86)            |
| Interest  | 15            | 2             | 1             | 18              |
| Unlocking   | (4)           | —             | —             | (4)             |
| Adjustment for net unrealized investment (gains) losses | 96            | 6             | 5             | 107             |
| <b>Balance at September 30, 2018</b>                    | <b>\$ 853</b> | <b>\$ 243</b> | <b>\$ 109</b> | <b>\$ 1,205</b> |

| <i>Predecessor</i>                                      | <b>VOBA</b> | <b>DAC</b>      | <b>DSI</b>    | <b>Total</b>    |
|---|-------------|-----------------|---------------|-----------------|
| <b>Balance at December 31, 2016</b>                     | \$ 118      | \$ 1,024        | \$ 86         | \$ 1,228        |
| Deferrals   | —           | 205             | 31            | 236             |
| Amortization  | (34)        | (98)            | (12)          | (144)           |
| Interest  | 9           | 32              | 3             | 44              |
| Unlocking   | 26          | 6               | (2)           | 30              |
| Adjustment for net unrealized investment (gains) losses | (119)       | (146)           | —             | (265)           |
| <b>Balance at September 30, 2017</b>                    | <b>\$ —</b> | <b>\$ 1,023</b> | <b>\$ 106</b> | <b>\$ 1,129</b> |

Amortization of VOBA, DAC, and DSI is based on the historical, current and future expected gross margins or profits recognized, including investment gains and losses. The interest accrual rate utilized to calculate the accretion of interest on VOBA ranged from 0.05% to 4.01%. The adjustment for unrealized net investment losses (gains) represents the amount of VOBA, DAC, and DSI that would have been amortized if such unrealized gains and losses had been recognized. This is referred to as the “shadow adjustments” as the additional amortization is reflected in AOCI rather than the Consolidated Statements of Operations. As of September 30, 2018, and September 30, 2017, the VOBA balances included cumulative adjustments for net unrealized investment (gains) losses of \$78 and \$(159), respectively, and the DAC balances included cumulative adjustments for net unrealized investment (gains) losses of \$5 and \$(139), respectively. As of September 30, 2018, the DSI balance included net unrealized investment (gains) losses of \$5.

Estimated amortization expense for VOBA in future fiscal periods is as follows:

| <b>Fiscal Year</b> | <b>Estimated Amortization Expense</b> |
|--------------------|---------------------------------------|
| 2018               | 15                                    |
| 2019               | 69                                    |
| 2020               | 89                                    |
| 2021               | 85                                    |
| 2022               | 79                                    |
| Thereafter         | 438                                   |

The Company had an unearned revenue balance of \$26 as of September 30, 2018, including deferrals of \$(28), amortization of \$18, unlocking of \$2, and adjustment for net unrealized investment (gains) losses of \$(18).



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*Definite Lived Intangible Assets*

Amortizable intangible assets as of September 30, 2018 consist of the following:

|             | September 30, 2018 |                          |     | Weighted Average Useful Life (Years) |
|-------------|--------------------|--------------------------|-----|--------------------------------------|
|             | Cost               | Accumulated amortization | Net |                                      |
| Trade names | 16                 | 2                        | 14  | 10                                   |

  

|                           | September 30, 2018 |    | Weighted Average Useful Life (Years) |
|---------------------------|--------------------|----|--------------------------------------|
|                           | Carrying amount    |    |                                      |
| State insurance licenses  | \$ 6               |    | Indefinite                           |
| Trade marks / trade names |                    | 14 | 10                                   |
| <b>Total</b>              | <b>\$ 20</b>       |    |                                      |

**(8) Debt**

On April 20, 2018, Fidelity & Guaranty Life Holdings, Inc. ("FGLH"), a subsidiary of the Company, completed a debt offering of \$550 aggregate principal amount of 5.50% senior notes due 2025, issued at 99.5% for proceeds of \$547. The Company used the net proceeds of the offering (i) to repay \$135 of borrowings under its revolving credit facility and related expenses and (ii) to redeem in full and satisfy and discharge all of the outstanding \$300 aggregate principal amount of FGLH's outstanding 6.375% Senior Notes due 2021. The Company expects to use the remaining proceeds of the offering for general corporate purposes, which may include additional capital contributions to the Company's insurance subsidiaries. This exchange of debt instruments constituted an extinguishment. As a result, the Company recognized a \$2 gain on the extinguishment of the 6.375% Senior Notes.

The Company capitalized \$7 of debt issuance costs in connection with the 5.50% Senior Notes offering, which are classified as an offset within the "Debt" line on the Company's Condensed Consolidated Balance Sheets, and are being amortized from the date of issue to the redemption date using the straight-line method.

The Company's outstanding debt as of September 30, 2018 and December 31, 2017 is as follows:

|                           | September 30, 2018 | December 31, 2017 |
|---------------------------|--------------------|-------------------|
| Debt                      | \$ 550             | \$ 307            |
| Revolving credit facility | —                  | 105               |

The \$0 and \$105 drawn balances on the revolver carried interest rates equal to 0% and 4.17%, as of September 30, 2018 and December 31, 2017, respectively. As of September 30, 2018 and December 31, 2017, the amount available to be drawn on the revolver was \$250 and \$145, respectively.

The interest expense and amortization of debt issuance costs for the three and nine months ended September 30, 2018 and 2017, respectively, were as follows:

|                                | Three months ended |              |                    |              | Nine months ended  |              |                    |              |
|--------------------------------|--------------------|--------------|--------------------|--------------|--------------------|--------------|--------------------|--------------|
|                                | September 30, 2018 |              | September 30, 2017 |              | September 30, 2018 |              | September 30, 2017 |              |
|                                | Interest Expense   | Amortization | Interest Expense   | Amortization | Interest Expense   | Amortization | Interest Expense   | Amortization |
|                                | Predecessor        |              |                    |              | Predecessor        |              |                    |              |
| Debt                           | 7                  | 1            | 5                  | —            | 20                 | 1            | 14                 | —            |
| Revolving credit facility      | —                  | —            | 1                  | —            | 2                  | —            | 3                  | 1            |
| Gain on extinguishment of debt | —                  | —            | —                  | —            | (2)                | —            | —                  | —            |

**(9) Equity**

***Dividends***

The Company did not declare a cash dividend to its common shareholders during the three and nine months ended September 30, 2018. The Predecessor declared the following cash dividends to its common shareholders during the three and nine months ended September 30, 2017:

| <b>Date Declared</b> | <b>Date Paid</b> | <b>Date Shareholders of record</b> | <b>Shareholders of record (in thousands)</b> | <b>Cash Dividend declared (per share)</b> | <b>Total cash paid</b> |
|----------------------|------------------|------------------------------------|--|---|------------------------|
| February 2, 2017     | March 6, 2017    | February 21, 2017                  | 58,308                                       | \$0.065                                   | \$4                    |
| May 1, 2017          | June 5, 2017     | May 22, 2017                       | 58,315                                       | \$0.065                                   | \$4                    |
| July 27, 2017        | August 28, 2017  | August 14, 2017                    | 58,316                                       | \$0.065                                   | \$4                    |

The Company declared the following dividends to its preferred shareholders during the three and nine months ended September 30, 2018:

| <b>Type of Preferred Share</b> | <b>Date Declared</b> | <b>Date Paid</b> | <b>Date Shareholders of record</b> | <b>Shares outstanding at date of record (in thousands)</b> | <b>Method of Payment</b> | <b>Total cash paid</b> | <b>Total shares paid in kind (in thousands)</b> |
|--------------------------------|----------------------|------------------|------------------------------------|--|--------------------------|------------------------|---|
| Series A Preferred Shares      | March 29, 2018       | April 1, 2018    | March 15, 2018                     | 277  | Paid in kind             | \$—                    | 5   |
| Series B Preferred Shares      | March 29, 2018       | April 1, 2018    | March 15, 2018                     | 101  | Paid in kind             | \$—                    | 1   |
| Series A Preferred Shares      | June 29, 2018        | July 1, 2018     | June 15, 2018                      | 282  | Paid in kind             | \$—                    | 5   |
| Series B Preferred Shares      | June 29, 2018        | July 1, 2018     | June 15, 2018                      | 102  | Paid in kind             | \$—                    | 2   |
| Series A Preferred Shares      | September 28, 2018   | October 1, 2018  | September 15, 2018                 | 287  | Paid in kind             | \$—                    | 5   |
| Series B Preferred Shares      | September 28, 2018   | October 1, 2018  | September 15, 2018                 | 104  | Paid in kind             | \$—                    | 2   |

There were no preferred shareholders during the Predecessor three and nine months ended September 30, 2017.

**(10) Stock Compensation**

On August 8, 2017, the Company adopted a stock-based incentive plan (the “FGL Incentive Plan”) that permits the granting of awards in the form of qualified stock options, non-qualified stock options, restricted stock, restricted stock units, stock appreciation rights, unrestricted stock, performance-based awards, dividend equivalents, cash awards and any combination of the foregoing. The Company’s Compensation Committee is authorized to grant up to 15,006 thousand equity awards under the Incentive Plan. At September 30, 2018, 1,171 thousand equity awards are available for future issuance.

**FGL Incentive Plan**

On May 15, 2018 FGL granted 13,835 thousand stock options to certain officers of the Company. The following table summarizes the vesting conditions for these options:

| Vesting mechanism                        | Vest Dates   | Number of options subject to these vesting conditions |
|--|--|---|
| Service                                  | Each March 15 from 2019 through 2023; subject to continued service   | 3,937   |
| Service and return on equity performance | March 15 2020, 2021 and 2022 subject to continued service and targeted return on equity                        | 4,949   |
| Service and stock price performance      | Each March 15 from 2019 through 2023; subject to continued service and target stock price goals being achieved | 4,949   |

The total fair value of the options granted in the nine months ended September 30, 2018 was \$29. The fair value of the awards is expensed over the service period, which generally corresponds to the vesting period.

At September 30, 2018, the intrinsic value of stock options outstanding or expected to vest was \$0. At September 30, 2018, the weighted average remaining contractual term of stock options outstanding or expected to vest was 7 years. At September 30, 2018 there were no options that were exercisable or vested.

A summary of the Company's outstanding stock options as of September 30, 2018, and related activity during the nine months ended September 30, 2018, is as follows (share amount in thousands):

| Stock Option Awards                               | Options | Weighted Average Exercise Price |
|---|---------|---------------------------------|
| Stock options outstanding at December 31, 2017    | —       | \$ —                            |
| Granted   | 13,835  | 10.00                           |
| Exercised   | —       | —                               |
| Forfeited or expired                              | —       | —                               |
| Stock options outstanding at September 30, 2018   | 13,835  | 10.00                           |
| Exercisable at September 30, 2018                 | —       | —                               |
| Vested or projected to vest at September 30, 2018 | 13,835  | 10.00                           |

To value the options granted with service and return on equity performance vesting conditions, we used a Black Scholes valuation model. To value the options granted with stock price market performance vesting conditions, we used a Monte Carlo simulation. The following inputs and assumptions were used in the determination of the grant date fair values for each.

|   | Black-Scholes Model |                       | Monte Carlo Model             | Source of input/ assumption                          |
|---|---------------------|-----------------------|-------------------------------|--|
|   | Serviced based      | ROE Performance based | Stock Price Performance based |  |
| Weighted average fair value per options granted | \$2.2               | \$2.35                | \$1.77                        | N/A  |
| Risk-free interest rate                         | 2.95%               | 2.98%                 | 3.02%                         | US Treasury Curve                                    |
| Assumed dividend yield                          | —%                  | —%                    | —%                            | Internal projection                                  |
| Expected option term                            | 5.5 years           | 6.0 years             | N/A                           | Internal model                                       |
| Contractual term                                | N/A                 | N/A                   | 7.0 years                     | N/A  |
| Volatility                                      | 25.00%              | 25.00%                | 25.72%                        | Predecessor and peer group experience                |
| Early exercise multiple                         | N/A                 | N/A                   | 2.8                           | Hull White model                                     |
| Cost of equity                                  | N/A                 | N/A                   | 10.50%                        | Capital asset pricing model - 20 year risk free rate |

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The Company granted 112 thousand restricted shares to directors in the nine months ended September 30, 2018. These shares will vest on December 31, 2018. The total fair value of the restricted shares granted in the nine months ended September 30, 2018 was \$1.

A summary of the Company's nonvested restricted shares outstanding as of September 30, 2018, and related activity during the nine months ended, is as follows (share amount in thousands):

| <b>Restricted Stock Awards</b>                                | <b>Shares</b> | <b>Weighted Average<br/>Grant<br/>Date Fair Value</b> |
|---|---------------|---|
| Nonvested restricted shares outstanding at December 31, 2017  | —             | \$ —  |
| Granted   | 112           | 10.01   |
| Vested  | —             | —   |
| Forfeited   | —             | —   |
| Nonvested restricted shares outstanding at September 30, 2018 | <u>112</u>    | <u>10.01</u>  |

**Management Incentive Plan**

In the nine months ended September 30, 2018, the Company granted 374 thousand phantom units to members of management under a management incentive plan (the "Management Incentive Plan"). The phantom units are settled in cash, and therefore the Management Incentive Plan is classified as a liability plan. The value of this plan is classified within "Other liabilities" on the unaudited Condensed Consolidated Balance Sheets and is adjusted each period, with a corresponding adjustment to "Acquisition and operating expenses, net of deferrals", to reflect changes in the Company's stock price. The total fair value of the restricted shares granted in the nine months ended September 30, 2018 was \$3.

One half of the phantom units vest in three equal installments on each March 15<sup>th</sup> from 2019 to 2021, subject to awardees continued service with the Company. The other half will begin vesting on March 15, 2020 and cliff vest on March 15, 2021 based on continued service and attainment of a performance metric: adjusted operating income return on equity.

At September 30, 2018, the liability for phantom units of \$0 was based on the number of units granted, the elapsed portion of the service period and the fair value of the Company's common stock on that date which was \$8.95.

A summary of the Management Incentive Plan nonvested phantom units outstanding as of September 30, 2018, and related activity during the nine months ended, is as follows (share amount in thousands):

| <b>Phantom units</b>                            | <b>Shares</b> | <b>Weighted Average<br/>Grant<br/>Date Fair Value</b> |
|---|---------------|---|
| Phantom units outstanding at December 31, 2017  | —             | \$ —  |
| Granted   | 374           | 8.95  |
| Vested  | —             | —   |
| Forfeited or expired                            | (13)          | 8.96  |
| Phantom units outstanding at September 30, 2018 | <u>361</u>    | <u>8.95</u>   |

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The Company recognized total stock compensation expense related to the FGL Incentive Plan and Management Incentive Plan is as follows:

|                                  | <b>Three months ended</b> | <b>Nine months ended</b>  |
|----------------------------------|---------------------------|---------------------------|
|                                  | <b>September 30, 2018</b> | <b>September 30, 2018</b> |
| <b>FGL Incentive Plan</b>        |                           |                           |
| Stock options                    | \$ 2                      | \$ 3                      |
| Restricted shares                | 1                         | 1                         |
|                                  | <u>3</u>                  | <u>4</u>                  |
| <b>Management Incentive Plan</b> |                           |                           |
| Phantom units                    | —                         | —                         |
|                                  | <u>—</u>                  | <u>—</u>                  |
| Total stock compensation expense | 3                         | 4                         |
| Related tax benefit              | 1                         | 1                         |
| Net stock compensation expense   | <u>\$ 2</u>               | <u>\$ 3</u>               |

The stock compensation expense is included in "Acquisition and operating expenses, net of deferrals" in the unaudited Condensed Consolidated Statements of Operations.

Total compensation expense related to the FGL Incentive Plan and Management Incentive Plan not yet recognized as of September 30, 2018 and the weighted-average period over which this expense will be recognized are as follows:

|  | <b>Unrecognized Compensation Expense</b> | <b>Weighted Average Recognition Period in Years</b> |
|--|--|---|
| <b>FGL Incentive Plan</b>                            |  |   |
| Stock options  | \$ 26                                    | 3   |
| Restricted shares                                    | —  | 0   |
|  | <u>26</u>                                |   |
| <b>Management Incentive Plan</b>                     |  |   |
| Phantom units  | 3  | 2   |
|  | <u>3</u>                                 |   |
| <b>Total unrecognized stock compensation expense</b> | <u>\$ 29</u>                             | 3   |

**(11) Income Taxes**

The Company ("FGL Holdings, Cayman") is a Cayman-domiciled corporation that has operations in Bermuda and the U.S. Neither the Cayman Islands nor Bermuda impose a corporate income tax. The Company's U.S. non-life subsidiaries file a consolidated non-life U.S. Federal income tax return. For tax years prior to December 1, 2017, the non-life members were included in former parent company HRG's consolidated U.S. Federal income tax return. The income tax liabilities of the Company as former members of the consolidated HRG return were calculated using the separate return method as prescribed in ASC 740. The Company's US life insurance subsidiaries file a separate life consolidated U.S. Federal income tax return. The life insurance companies will be eligible to join in a consolidated filing with the U.S. non-life companies in 2022.

The Company's Bermuda insurance subsidiary, F&G Life Re Ltd., is party to a ModCo reinsurance agreement with its US Life sister company, FGL Insurance. The Tax Cut and Jobs Act ("TCJA") enacted on December 22 2017, contained a Base-Erosion and Anti-Abuse Tax ("BEAT"). The BEAT provisions apply a minimum tax (5% in 2018) to certain reinsurance payments settled between FGL Insurance and F&G Life Re Ltd. Absent clarifying guidance, the current language in the Act suggests that the tax is applied without regard to deduction or offset under a typical ModCo reinsurance agreement (i.e. a "Gross application"). Without clarifying guidance from Regulatory authorities in regards to allowing for a "Net application" in the calculation of BEAT, the Company will make an election under IRC Code Section 953(d) for the 2018 tax year, which will result in F&G Re Ltd. being treated as if it were a US Tax Payer. The effect of the election would be retroactive to the

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beginning of the Tax calendar year. The current period financial statements reflect an assumed 953(d) election with regard to F&G Life Re Ltd. As a result of the assumed election, which would occur in the event that clarifying language allowing a "net application" is not determined, an opening balance sheet deferred tax liability was set up resulting in a discrete expense being recorded in the first quarter of 2018. The provision for income taxes represents federal income taxes. The effective tax rate for the three and nine months ended September 30, 2018 was 21% and 29%, respectively. The effective tax rate for the three and nine months ended September 30, 2017 was 30% and 32%, respectively. The effective tax rate on pre-tax income for the current nine months ended September 30, 2018 differs from the U.S Federal statutory rate for 2018 of 21% primarily due to the impact of F&G Life Re Ltd. making an election to be a US taxpayer. As a result of the election, an opening balance sheet deferred tax liability was set up resulting in a discrete expense being recorded in the first quarter. The effective tax rate on pre-tax income for the nine months ended September 30, 2017 differed from the U.S. Federal statutory rate for 2017 of 35% primarily due to a valuation allowance release within the non-life companies and favorable permanent adjustments, including low income housing credits and dividends received deduction. The effective tax rate on pre-tax income for the three months ended September 30, 2017 differed from the U.S Federal statutory rate for 2017 of 35% primarily due to a valuation allowance release within the non-life companies and the impact of favorable permanent adjustments.

The TCJA amended many provisions of the Internal Revenue Code that effect on the Company. The SEC's Staff Accounting Bulletin No. 118 ("SAB 118") provides guidance on accounting for the effects of U.S. tax reform in circumstances in which an exact calculation cannot be made, but for which a reasonable estimate can be determined. As internal systems are updated and additional guidance becomes available, the estimate will be updated in accordance with instruction outlined in the standard and within the measurement period, which is not to extend beyond one year from the enactment date. The only provisional amount utilized in the preparation of the Company's financial statements was tax reserves. As of the reporting date, the Company has not yet finalized the reserve impact of the TCJA. A reasonable estimate, prepared by the Company's Actuarial department, was calculated at December 31, 2017 and refined during the period ending June 30, 2018. The refinement had no impact on the Company's ETR as the book\tax difference on tax reserves is a timing difference. No other provisions of the U.S. tax reform had a significant impact on our 2018 income tax provisions.

The Company maintains a valuation allowance against most of the deferred tax assets of its non-life insurance company subsidiaries, FSRC, and the unrealized capital losses on F&G Life Re Ltd.. The Company has also placed a partial valuation allowance on its unrealized capital losses on the US life insurance subsidiaries. The non-life insurance company subsidiaries have a history of losses and insufficient sources of future income that would allow for recognition of all of their deferred tax assets. FSRC is in a cumulative loss position and does not have a sufficient track record of earnings to recognize any portion of its deferred tax assets. F&G Life Re Ltd. does not have a source of capital gain income needed to recognize its unrealized loss deferred tax assets. The Company's US life insurance subsidiaries have sources of capital gain income, but not enough to cover all of its unrealized loss deferred tax assets.

All other deferred tax assets are more likely than not to be realized based on expectations as to our future taxable income and considering all other available evidence, both positive and negative.

The valuation allowance is reviewed quarterly and will be maintained until there is sufficient positive evidence to support a release. At each reporting date, management considers new evidence, both positive and negative, that could impact the future realization of deferred tax assets. Management will consider a release of the valuation allowance once there is sufficient positive evidence that it is more likely than not that the deferred tax assets will be realized. Any release of the valuation allowance will be recorded as a tax benefit increasing net income or other comprehensive income.

As of September 30, 2018, the Company had a partial valuation allowance of \$82 against its gross deferred tax assets of \$367. The valuation allowance is an offset to most of the non-life company deferred tax assets, FSRC deferred tax assets, and F&G Life Re Ltd. and US Life Insurance Company deferred tax assets on unrealized capital losses that are considered more likely than not to be unrecoverable due to insufficient sources of future income.

## (12) Commitments and Contingencies

### *Commitments*

The Company has unfunded investment commitments as of September 30, 2018 based upon the timing of when investments are executed compared to when the actual investments are funded, as some investments require that funding occur over a period of months or years. A summary of unfunded commitments by invested asset class are included below:

|   | <u>September 30, 2018</u> |            |
|---|---------------------------|------------|
| <b>Asset Type</b>                             |                           |            |
| Other invested assets                         | \$                        | 859        |
| Equity securities                             |                           | 31         |
| Fixed maturity securities, available-for-sale |                           | 43         |
| Other assets                                  |                           | 9          |
| <b>Total</b>                                  | <b>\$</b>                 | <b>942</b> |

As of September 30, 2018, the Company had unfunded commitments in affiliated investments which are included in the table above. See "Note 14. Related Party Transactions" for further information.

### *Lease Commitments*

The Company leases office space under non-cancelable operating leases that expire in May 2021. Rent expense and minimum rental commitments under non-cancelable leases are immaterial.

### *Contingencies*

#### *Regulatory and Litigation Matters*

The Company is involved in various pending or threatened legal proceedings, including purported class actions, arising in the ordinary course of business. In some instances, these proceedings include claims for unspecified or substantial punitive damages and similar types of relief in addition to amounts for alleged contractual liability or requests for equitable relief. In the opinion of the Company's management and in light of existing insurance and other potential indemnification, reinsurance and established accruals, such litigation is not expected to have a material adverse effect on the Company's financial position, although it is possible that the results of operations and cash flows could be materially affected by an unfavorable outcome in any one period.

The Company is assessed amounts by state guaranty funds to cover losses to policyholders of insolvent or rehabilitated insurance companies. Those mandatory assessments may be partially recovered through a reduction in future premium taxes in certain states. At September 30, 2018, FGL has accrued \$2 for guaranty fund assessments that is expected to be offset by estimated future premium tax deductions of \$2.

The Company has received inquiries from a number of state regulatory authorities regarding its use of the U.S. Social Security Administration's Death Master File (the "Death Master File") and compliance with state claims practices regulation. Legislation requiring insurance companies to use the Death Master File to identify potential claims has been enacted in a number of states. As a result of these legislative and regulatory developments, the Company uses the Death Master File and other publicly available databases to identify persons potentially entitled to benefits under life insurance policies, annuities and retained asset accounts. In addition, the Company has received audit and examination notices from several state agencies responsible for escheatment and unclaimed property regulation in those states and in some cases has challenged the audits including litigation against the Controller for the State of California which is subject to a stay and separate litigation against the Treasurer for the State of Illinois. The Company believes its current accrual will cover the reasonably estimated liability arising out of these developments; however, costs that cannot be reasonably estimated as of the date of this filing are possible as a result of ongoing regulatory developments and other future requirements related to these matters.

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On June 30, 2017, a putative class action complaint was filed against FGL Insurance, FGL, and FS Holdco II Ltd in the United States District Court for the District of Maryland, captioned *Brokerage Insurance Partners v. Fidelity & Guaranty Life Insurance Company, Fidelity & Guaranty Life, FS Holdco II Ltd, and John Doe*, No. 17-cv-1815. The complaint alleges that FGL Insurance breached the terms of its agency agreement with Brokerage Insurance Partners (“BIP”) and other agents by changing certain compensation terms. The complaint asserts, among other causes of action, breach of contract, defamation, tortious interference with contract, negligent misrepresentation, and violation of the Racketeer Influenced and Corrupt Organizations Act (“RICO”). The complaint seeks to certify a class composed of all persons who entered into an agreement with FGL Insurance to sell life insurance and who sold at least one life insurance policy between January 1, 2015 and January 1, 2017. The complaint seeks unspecified compensatory, consequential, and punitive damages in an amount not presently determinable, among other forms of relief.

On September 1, 2017, FGL Insurance filed a counterclaim against BIP and John and Jane Does 1-10, asserting, among other causes of action, breach of contract, fraud, civil conspiracy and violations of RICO. On September 22, 2017, Plaintiff filed an Amended Complaint, and on October 16, 2017, FGL Insurance filed an Amended Counterclaim against BIP, Agent Does 1-10, and Other Person Does 1-10. The parties also filed cross-Motions to Dismiss in Part.

On August 17, 2018, the Court in the BIP Litigation denied all pending Motions to Dismiss filed by all parties without prejudice, pending a decision as to whether the BIP Litigation will be consolidated into related litigation, captioned *Fidelity & Guaranty Life Insurance Company v. Network Partners*, et al., Case No. 17-cv-1508. On August 31, 2018, FGL filed its Answer to BIP’s Amended Complaint. Also on that date, FGL Insurance filed its Answer to Amended Complaint, Affirmative Defenses, and Counterclaim, Filed Pursuant to Fed. R. Civ. P. 12(a)(4)(A). As of September 30, 2018, BIP has not filed any document in response to the Court’s August 17, 2018 Order or to FGL Insurance’s filing.

As of the date of this report, the Company does not have sufficient information to determine whether it has exposure to any losses that would be either probable or reasonably estimable.

**(13) Reinsurance**

The Company reinsures portions of its policy risks with other insurance companies. The use of indemnity reinsurance does not discharge an insurer from liability on the insurance ceded. The insurer is required to pay in full the amount of its insurance liability regardless of whether it is entitled to or able to receive payment from the reinsurer. The portion of risks exceeding the Company's retention limit is reinsured. The Company primarily seeks reinsurance coverage in order to limit its exposure to mortality losses and enhance capital management. The Company follows reinsurance accounting when there is adequate risk transfer. Otherwise, the deposit method of accounting is followed. The Company also assumes policy risks from other insurance companies.

The effect of reinsurance on net premiums earned and net benefits incurred (benefits incurred and reserve changes) for the three and nine months ended September 30, 2018, and the Predecessor three and nine months ended September 30, 2017 were as follows:

|         | Three months ended  |                       |                     |                       | Nine months ended   |                       |                     |                       |
|---------|---------------------|-----------------------|---------------------|-----------------------|---------------------|-----------------------|---------------------|-----------------------|
|         | September 30, 2018  |                       | September 30, 2017  |                       | September 30, 2018  |                       | September 30, 2017  |                       |
|         | Net Premiums Earned | Net Benefits Incurred | Net Premiums Earned | Net Benefits Incurred | Net Premiums Earned | Net Benefits Incurred | Net Premiums Earned | Net Benefits Incurred |
|         |                     |                       | Predecessor         |                       |                     |                       |                     |                       |
| Direct  | 54                  | 336                   | 58                  | 389                   | 172                 | 653                   | 176                 | 1,028                 |
| Assumed | —                   | 12                    | —                   | —                     | —                   | (14)                  | —                   | —                     |
| Ceded   | (42)                | (51)                  | (42)                | (69)                  | (127)               | (164)                 | (145)               | (205)                 |
| Net     | 12                  | 297                   | 16                  | 320                   | 45                  | 475                   | 31                  | 823                   |



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Amounts payable or recoverable for reinsurance on paid and unpaid claims are not subject to periodic or maximum limits. The Company did not write off any significant reinsurance balances during the nine months ended September 30, 2018 or the Predecessor nine months ended September 30, 2017. The Company did not commute any ceded reinsurance treaties during the nine months ended September 30, 2018 or the Predecessor nine months ended September 30, 2017.

Effective January 1, 2017, FGL Insurance entered into an indemnity reinsurance agreement with Hannover Re, a third party reinsurer, to reinsure an inforce block of its FIA and fixed deferred annuity contracts with GMWB and Guaranteed Minimum Death Benefit ("GMDB") guarantees. In accordance with the terms of this agreement, FGL Insurance cedes 70% net retention of guarantee payments in excess of account value for GMWB and GMDB guarantees. The effects of this agreement are not accounted for as reinsurance as it does not satisfy the risk transfer requirements for GAAP, since it is not "reasonably possible" that the reinsurer may realize significant loss from assuming the insurance risk. Effective July 1, 2017, FGL Insurance extended this agreement to include new business issued during 2017. Effective January 1, 2018 FGL Insurance extended this agreement to include new business issued during 2018, and extended the recapture period from 8 to 12 years. FGL Insurance incurred risk charge fees of \$3, and \$8 during the three and nine months ended September 30, 2018, respectively, in relation to this reinsurance agreement.

No policies issued by the Company have been reinsured with any foreign company, which is controlled, either directly or indirectly, by a party not primarily engaged in the business of insurance.

The Company has not entered into any reinsurance agreements in which the reinsurer may unilaterally cancel any reinsurance for reasons other than non-payment of premiums or other similar credit issues.

### ***FSRC***

FSRC, an affiliate of FGL Insurance, has entered into various reinsurance agreements on a funds withheld basis, meaning that funds are withheld by the ceding company from the coinsurance premium owed to FSRC as collateral for FSRC's payment obligations. Accordingly, the collateral assets remain under the ultimate ownership of the ceding company. FSRC manages the assets supporting the reserves assumed in accordance with the internal investment policy of the ceding companies and applicable law. Two treaties were recaptured effective July 1, 2018 resulting in a \$5 loss upon recapture, which is included in the "Benefits & Other Expenses" line in the Company's unaudited Condensed Consolidated Statements of Operations.

FSRC has three reinsurance treaties with unaffiliated parties. At September 30, 2018, FSRC had \$708 of funds withheld receivables and \$684 of insurance reserves related to these reinsurance treaties.

See a description of FSRC's accounting policy for its assumed reinsurance contracts in "Note 2. Significant Accounting Policies and Practices" within the Company's 2017 Form 10-K.

The Company adopted ASU 2016-01 effective January 1, 2018, which requires FSRC to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The adoption of this new accounting guidance had a \$1 and \$(1) impact on pre-tax net income, or \$0.00 and \$0.00 per common share, for the three and nine months ended September 30, 2018, respectively.

## **(14) Related Party Transactions**

### ***Affiliated Investments***

The Company entered into investment management agreements with Blackstone ISG-I Advisors LLC ("BISGA"), a wholly-owned subsidiary of The Blackstone Group LP ("Blackstone"), and certain subsidiaries of the Company on December 1, 2017. The Company paid \$23 to BISGA upon the close of the merger for services rendered related to the transaction and BISGA will forego approximately 30% of the first thirteen months' management fee to which it is entitled under the investment management agreement. As of September 30, 2018, the Company has a net liability of \$14 for the services consumed under this investment management agreement, partially offset by fees received and expense reimbursements from BISGA.

The Company holds certain fixed income security interests, limited partnerships and bank loans issued by portfolio companies that are affiliates of Blackstone Tactical Opportunities, an affiliate of Blackstone Tactical Opportunities LR Associates-B (Cayman) Ltd. (the "Blackstone Fixed Income Securities") both on a direct and indirect basis. Indirect investments include an investment made in an affiliates' asset backed fund while direct investments are an investment in affiliates' equity or debt securities. As of September 30, 2018 and December 31, 2017, the Company held \$445 and \$188 in affiliated investments, respectively, which includes foreign exchange

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unrealized loss of \$(1) and \$0, respectively. In addition, as of September 30, 2018, the Company had commitments to invest in 11 other affiliated investments. The unfunded commitments relating to these affiliated investments at September 30, 2018 is \$717.

The Company paid-in-kind dividends on preferred shares held by GSO Capital Partners, an indirect wholly owned subsidiary of The Blackstone Group LP, of 5 thousand shares and 15 thousand shares for the three and nine months ended September 30, 2018, respectively.

The Company had no gross realized gains or realized impairment losses on related party investments during the three and nine months ended September 30, 2018.

The Company had \$(1) and \$(3) gross realized gains (losses), inclusive of impairment losses on related party investments during the Predecessor three and nine months ended September 30, 2017, respectively.

**FSRC (Predecessor)**

FGL Insurance reinsures certain liabilities and obligations to FSRC. For the three and nine months ended September 30, 2017, FGL Insurance ceded \$0 and \$1 of premium revenue and \$12 and \$37 of benefits and other changes in policy reserves, respectively, to FSRC. There are no ceded operating results related to the FGL Insurance and FSRC reinsurance agreement reported in the unaudited Condensed Consolidated Statement of Operations for the three and nine months ended September 30, 2018 as such amounts are eliminated on consolidation.

**(15) Earnings Per Share**

The following table sets forth the computation of basic and diluted earnings per share (share amounts in thousands):

|   | Three months ended    |                       | Nine months ended     |                       |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
|   | September 30,<br>2018 | September 30,<br>2017 | September 30,<br>2018 | September 30,<br>2017 |
|   |                       | Predecessor           |                       | Predecessor           |
| Net Income  | \$ 56                 | \$ 61                 | \$ 161                | \$ 115                |
| Less Preferred stock dividend                       | 7                     | —                     | 21                    | —                     |
| Net income available to common shares               | 49                    | 61                    | 140                   | 115                   |
| Weighted-average common shares outstanding - basic  | 214,370               | 58,335                | 214,370               | 58,333                |
| Dilutive effect of unvested restricted stock & PRSU | 49                    | 52                    | 21                    | 37                    |
| Dilutive effect of stock options                    | —                     | 92                    | —                     | 68                    |
| Weighted-average shares outstanding - diluted       | 214,419               | 58,479                | 214,391               | 58,438                |
| Net income per common share:                        |                       |                       |                       |                       |
| Basic   | \$ 0.23               | \$ 1.06               | \$ 0.65               | \$ 1.98               |
| Diluted   | \$ 0.23               | \$ 1.06               | \$ 0.65               | \$ 1.98               |

The number of shares of common stock outstanding used in calculating the weighted average thereof reflects the actual number of the Successor and Predecessor shares of common stock outstanding, excluding unvested restricted stock and shares held in treasury.

The calculation of diluted earnings per share for the three and nine months ended September 30, 2018 excludes the incremental effect of 70 million weighted average common stock warrants outstanding due to their anti-dilutive effect. This calculation also excludes the potential dilutive effect of the 391 thousand preferred stock shares outstanding as of September 30, 2018 as the contingency that would allow for the preferred shares to be converted to common shares has not yet been met. The calculation of diluted earnings per share for the three and nine months ended September 30, 2018 excludes the incremental effect related to certain outstanding stock options and restricted shares due to their anti-dilutive effect. The number of weighted average equivalent shares excluded is 1,384 thousand and 609 thousand shares for the three and nine months ended September 30, 2018, respectively.

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The calculation of diluted earnings per share for the Predecessor three and nine months ended September 30, 2017 excludes the incremental effect related to certain outstanding stock options and restricted shares due to their anti-dilutive effect. The number of weighted average equivalent shares excluded in the Predecessor three and nine months ended September 30, 2017 are 0 thousand and 0 thousand shares.

The settlement terms of the PRSUs granted in 2017 by the Predecessor required cash settlement upon vesting as opposed to common equity settlement. As a result, these awards were liability classified and were excluded from EPS calculations.

### **(16) Insurance Subsidiary Financial Information and Regulatory Matters**

The Company's U.S. insurance subsidiaries file financial statements with state insurance regulatory authorities and the National Association of Insurance Commissioners ("NAIC") that are prepared in accordance with Statutory Accounting Principles ("SAP") prescribed or permitted by such authorities, which may vary materially from GAAP. Prescribed SAP includes the Accounting Practices and Procedures Manual of the NAIC as well as state laws, regulations and administrative rules. Permitted SAP encompasses all accounting practices not so prescribed. The principal differences between SAP financial statements and financial statements prepared in accordance with GAAP are that SAP financial statements do not reflect DAC and VOBA, some bond portfolios may be carried at amortized cost, assets and liabilities are presented net of reinsurance, contractholder liabilities are generally valued using more conservative assumptions and certain assets are non-admitted. Accordingly, SAP operating results and SAP capital and surplus may differ substantially from amounts reported in the GAAP basis financial statements for comparable items.

FSRC (Cayman), F&G Re Ltd. (Bermuda), and F&G Life Re Ltd. (Bermuda) file financial statements with their respective regulators that are based on U.S. GAAP.

FGL Insurance's statutory carrying value of Raven Re reflects the effect of permitted practices Raven Re received to treat the available amount of a letter of credit as an admitted asset which increased Raven Re's statutory capital and surplus by \$110 and \$110 at September 30, 2018 and December 31, 2017, respectively.

Raven Re is also permitted to follow Iowa prescribed statutory accounting practice for its reserves on reinsurance assumed from FGL Insurance which increased Raven Re's statutory capital and surplus by \$4 and \$5 at September 30, 2018 and December 31, 2017, respectively. Without such permitted statutory accounting practices Raven Re's statutory capital and (deficit) surplus would be \$(11) and \$(18) as of September 30, 2018 and December 31, 2017, respectively, and its risk-based capital would fall below the minimum regulatory requirements. The letter of credit facility is collateralized by NAIC 1 rated debt securities. If the permitted practice was revoked, the letter of credit could be replaced by the collateral assets with Nomura's consent. FGL Insurance's statutory carrying value of Raven Re at September 30, 2018 and December 31, 2017 was \$103 and \$97, respectively.

On November 1, 2013, FGL Insurance re-domesticated from Maryland to Iowa. After re-domestication, FGL Insurance elected to apply Iowa-prescribed accounting practices that permit Iowa-domiciled insurers to report equity call options used to economically hedge FIA index credits at amortized cost for statutory accounting purposes and to calculate FIA statutory reserves such that index credit returns will be included in the reserve only after crediting to the annuity contract. This resulted in a \$37 and \$54 decrease to statutory capital and surplus at September 30, 2018 and December 31, 2017, respectively.

The prescribed and permitted statutory accounting practices have no impact on the Company's unaudited condensed consolidated financial statements which are prepared in accordance with GAAP.

As of September 30, 2018, FGL NY Insurance did not follow any prescribed or permitted statutory accounting practices that differ from the NAIC's statutory accounting practices.

On May 14, 2018, FGLH made a dividend payment of \$27 to FGL US Holdings, Inc. ("FGL US Holdings"). On June 28, 2018, FGL US Holdings issued a \$65 intercompany note to F&G Life Re Ltd and subsequently approved a \$65 capital contribution to its wholly owned subsidiary, FGLH. On June 28, 2018, FGLH made a capital contribution for \$125 to FGL Insurance. On July 3, 2018, CF Bermuda Holdings Ltd. issued a \$50 intercompany note to F&G Life Re Ltd. (Bermuda) and subsequently approved a \$50 capital contribution to its wholly owned subsidiary, F&G Reinsurance, Ltd. (Bermuda).

**(17) Subsequent Events**

The Company's offer to exchange its outstanding warrants for 0.11 ordinary shares of the Company, par value \$0.0001 (the "Exchange Shares") and \$0.98, in cash, without interest, per warrant, expired on October 4, 2018. A total of 65,374 warrants were properly tendered prior to the expiration of the offer to exchange. On October 9, 2018 the Company issued 7,191 shares and paid \$64 in cash in exchange for the warrants tendered. After completion of the Offer to Exchange, 5,510 warrants still remain outstanding, which will expire on November 30, 2022, or upon earlier redemption or liquidation.

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

**Special Note Regarding Forward-Looking Statements**

This quarterly report includes forward-looking statements. Some of the forward-looking statements can be identified by the use of terms such as “believes”, “expects”, “may”, “will”, “should”, “could”, “seeks”, “intends”, “plans”, “estimates”, “anticipates” or other comparable terms. However, not all forward-looking statements contain these identifying words. These forward-looking statements include all matters that are not related to present facts or current conditions or that are not historical facts. They appear in a number of places throughout this report and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our consolidated results of operations, financial condition, liquidity, prospects and growth strategies and the industries in which we operate and including, without limitation, statements relating to our future performance.

Forward-looking statements are subject to known and unknown risks and uncertainties, many of which are beyond our control. We caution you that forward-looking statements are not guarantees of future performance and that our actual consolidated results of operations, financial condition and liquidity, and industry development may differ materially from those made in or suggested by the forward-looking statements contained in this report. In addition, even if our consolidated results of operations, financial condition and liquidity, and industry development are consistent with the forward-looking statements contained in this report, those results or developments may not be indicative of results or developments in subsequent periods. A number of important factors could cause actual results to differ materially from those contained in or implied by the forward-looking statements, including the risks and uncertainties discussed in “Risk Factors” included in our Annual Report on Form 10-K for the year ended December 31, 2017 (“2017 Form 10-K”), which can be found at the U.S. Securities & Exchange Commission's ("SEC's") website, [www.sec.gov](http://www.sec.gov). Factors that could cause actual results to differ from those reflected in forward-looking statements relating to our operations and business include:

- general economic conditions and other factors, including prevailing interest and unemployment rate levels and stock and credit market performance;
- concentration in certain states for distribution of our products;
- the impact of interest rate fluctuations;
- equity market volatility;
- credit market volatility or disruption;
- the impact of credit risk of our counterparties;
- volatility or decline in the market price of our ordinary shares could impair our ability to raise necessary capital;
- changes in our assumptions and estimates regarding the amortization of our deferred acquisition costs, deferred sales inducements and value of business acquired balances;
- changes in our methodologies, estimates and assumptions regarding our valuation of investments and the determinations of the amounts of allowances and impairments;
- changes in our valuation allowance against our deferred tax assets, and restrictions on our ability to fully utilize such assets;
- the accuracy of management’s reserving assumptions;
- regulatory changes or actions, including those relating to regulation of financial services affecting (among other things) underwriting of insurance products and regulation of the sale, underwriting and pricing of products and minimum capitalization and statutory reserve requirements for insurance companies, or the ability of our insurance subsidiaries to make cash distributions to us (including dividends or payments on surplus notes those subsidiaries issue to us);
- the ability to maintain or obtain approval of Iowa Insurance Division ("IID") and other regulatory authorities as required for our operations and those of our insurance subsidiaries
- the impact of the fiduciary rule proposals by the SEC and NAIC on the Company, its products, distribution and business model;
- changes in the federal income tax laws and regulations which may affect the relative income tax advantages of our products;
- changes in tax laws which affect us and/or our shareholders;
- potential adverse tax consequences if we are treated as a passive foreign investment company;
- the impact on our business of new accounting rules or changes to existing accounting rules;
- our potential need and our insurance subsidiaries’ potential need for additional capital to maintain our and their financial strength and credit ratings and meet other requirements and obligations;

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- our ability to successfully acquire new companies or businesses and integrate such acquisitions into our existing framework;
- the impact of potential litigation, including class action litigation;
- our ability to protect our intellectual property;
- our ability to maintain effective internal controls over financial reporting;
- the impact of restrictions in the Company's debt instruments on its ability to operate its business, finance its capital needs or pursue or expand its business strategies;
- our ability and our insurance subsidiaries' ability to maintain or improve financial strength ratings;
- the continued availability of capital required for our insurance subsidiaries to grow;
- the performance of third parties including third party administrators, independent distributors, underwriters, actuarial consultants and other outsourcing relationships;
- the loss of key personnel;
- interruption or other operational failures in telecommunication, information technology and other operational systems, or a failure to maintain the security, integrity, confidentiality or privacy of sensitive data residing on such systems;
- our exposure to unidentified or unanticipated risk not adequately addressed by our risk management policies and procedures;
- the impact on our business of natural and man-made catastrophes, pandemics, and malicious and terrorist acts;
- our ability to compete in a highly competitive industry;
- our ability to attract and retain national marketing organizations and independent agents;
- our subsidiaries' ability to pay dividends to us; and
- the other factors discussed in "Risk Factors" of our 2017 Form 10-K.

You should read this report completely and with the understanding that actual future results may be materially different from expectations. All forward-looking statements made in this report are qualified by these cautionary statements. These forward-looking statements are made only as of the date of this report and we do not undertake any obligation, other than as may be required by law, to update or revise any forward-looking statements to reflect future events or developments. Comparisons of results for current and any prior periods are not intended to express any future trends, or indications of future performance, unless expressed as such, and should only be viewed as historical data.

## **Introduction**

Management's discussion and analysis reviews our unaudited condensed consolidated financial position at September 30, 2018 (unaudited) and December 31, 2017, and the unaudited consolidated results of operations for the three and nine months ended September 30, 2018 and 2017 and where appropriate, factors that may affect future financial performance. This analysis should be read in conjunction with our unaudited condensed consolidated financial statements and notes thereto appearing elsewhere in this Form 10-Q and "Management's Discussion and Analysis of Financial Condition and Results of Operations" of FGL Holdings ("FGL Holdings," "we," "us," "our" and, collectively with its subsidiaries, the "Company"), which was included with our audited consolidated financial statements for the year ended December 31, 2017 included within the Company's 2017 Form 10-K. Certain statements we make under this Item 2 constitute "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. See "Special Note Regarding Forward-Looking Statements" in this report. You should consider our forward-looking statements in light of our unaudited condensed consolidated financial statements, related notes, and other financial information appearing elsewhere in this report, and our filings with the SEC, including our 2017 Form 10-K, which can be found at the SEC website, [www.sec.gov](http://www.sec.gov).

## **Basis of Presentation**

As a result of the completion of the Business Combination on November 30, 2017, our unaudited condensed consolidated financial statements included elsewhere in the Quarterly Report are presented: (i) as of September 30, 2018 and December 31, 2017; (ii) for the three and nine months ended September 30, 2018 and the Predecessor three and nine months ended September 30, 2017. In this Management's Discussion and Analysis of Financial Condition and Results of Operations, we discuss the three and nine months ended September 30, 2018 results compared to the Predecessor three and nine months ended September 30, 2017 results. We believe this discussion provides helpful information with respect to performance of our business during those respective periods. Our

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financial statement presentation includes the financial statements of FGL and its subsidiaries as “Predecessor” for the periods prior to the completion of the Business Combination and FGL Holdings, including the consolidation of FGL and its subsidiaries and FSR Companies, as “Successor” for periods from and after the Closing Date.

### **Overview**

We provide our principal life and annuity products through our insurance subsidiaries - Fidelity & Guaranty Life Insurance Company (“FGL Insurance”) and Fidelity & Guaranty Life Insurance Company of New York (“FGL NY Insurance”). Our customers range across a variety of age groups and are concentrated in the middle-income market. Our fixed indexed annuities (“FIAs”) provide for pre-retirement wealth accumulation and post-retirement income management. Our universal life products (“IUL”) provide wealth protection and transfer opportunities. Life and annuity products are primarily distributed through Independent Marketing Organizations (“IMOs”) and independent insurance agents.

In setting the features and pricing new FIA products relative to our targeted net margin, we take into account our expectations regarding (1) net investment spread, which is the difference between the net investment income we earn and the sum of the interest credited to policyholders and the cost of hedging our risk on the policies; (2) fees, including surrender charges and rider fees, partly offset by vesting bonuses that we pay our policyholders; and (3) a number of related expenses, including benefits and changes in reserves, acquisition costs, and general and administrative expenses.

### **Trends and Uncertainties**

The following factors represent some of the key trends and uncertainties that have influenced the development of our business and our historical financial performance and that we believe will continue to influence our business and financial performance in the future.

#### ***Market Conditions***

Market volatility has affected and may continue to affect our business and financial performance in varying ways. Volatility can pressure sales and reduce demand as consumers hesitate to make financial decisions. To enhance the attractiveness and profitability of our products and services, we continually monitor the behavior of our customers, as evidenced by annuitization rates and lapse rates, which vary in response to changes in market conditions.

#### ***Interest Rate Environment***

Some of our products include guaranteed minimum crediting rates, most notably our fixed rate annuities. As of September 30, 2018, the Company's reserves, net of reinsurance, and average crediting rate on our fixed rate annuities were \$4 billion and 3%, respectively. We are required to pay the guaranteed minimum crediting rates even if earnings on our investment portfolio decline, which would negatively impact earnings. In addition, we expect more policyholders to hold policies with comparatively high guaranteed rates for a longer period in a low interest rate environment. Conversely, a rise in average yield on our investment portfolio would increase earnings if the average interest rate we pay on our products does not rise correspondingly. Similarly, we expect that policyholders would be less likely to hold policies with existing guarantees as interest rates rise and the relative value of other new business offerings are increased, which would negatively impact our earnings and cash flows.

See “Item 3. Quantitative and Qualitative Disclosures about Market Risk” for a more detailed discussion of interest rate risk.

#### ***Aging of the U.S. Population***

We believe that the aging of the U.S. population will increase the demand for our products. As the “baby boomer” generation prepares for retirement, we believe that demand for retirement savings, growth, and income products will grow. The impact of this growth may be offset to some extent by asset outflows as an increasing percentage of the population begins withdrawing assets to convert their savings into income.

#### ***Industry Factors and Trends Affecting Our Results of Operations***

Demographics and macroeconomic factors are increasing the demand for our FIA and IUL products, for which demand is large and growing. Over 10,000 people will turn 65 each day in the United States over the next



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15 years, and according to the U.S. Census Bureau, the proportion of the U.S. population over the age of 65 is expected to grow from 15% in 2015 to 20% in 2030.

We operate in the sector of the insurance industry that focuses on the needs of middle-income Americans. The underserved middle-income market represents a major growth opportunity for the Company. As a tool for addressing the unmet need for retirement planning, we believe that many middle-income Americans have grown to appreciate the “sleep at night protection” that annuities such as our FIA products afford. Accordingly, the FIA market grew from nearly \$12 billion of sales in 2002 to \$54 billion of sales in 2017. Additionally, this market demand has positively impacted the IUL market as it has expanded from \$100 million of annual premiums in 2002 to \$2 billion of annual premiums in 2017.

### **Competition**

Please refer to "Part I-Item 1. Business-Competition" in our 2017 Form 10-K for discussion on our competition.

### **Annuity and Life Sales**

We regularly monitor and report the production volume metric titled “Sales”. Sales are not derived from any specific GAAP income statement accounts or line items and should not be viewed as a substitute for any financial measure determined in accordance with GAAP. Annuity and IUL sales are recorded as deposit liabilities (i.e. contractholder funds) within the Company's unaudited condensed consolidated financial statements in accordance with GAAP. Management believes that presentation of sales, as measured for management purposes, enhances the understanding of our business and helps depict longer term trends that may not be apparent in the results of operations due to the timing of sales and revenue recognition. Sales of annuities and IULs for the quarters ended March 31, June 30 and September 30 were as follows:

| (dollars in millions) | Annuity Sales   |                 | IUL Sales    |              |
|-----------------------|-----------------|-----------------|--------------|--------------|
|                       | 2018            | 2017            | 2018         | 2017         |
| First Quarter         | \$ 778          | \$ 732          | \$ 6         | \$ 14        |
| Second Quarter        | 769             | 582             | 7            | 9            |
| Third Quarter         | 842             | 588             | 7            | 6            |
| <b>Total</b>          | <b>\$ 2,389</b> | <b>\$ 1,902</b> | <b>\$ 20</b> | <b>\$ 29</b> |

### **Key Components of Our Historical Results of Operations**

Under U.S. GAAP, premium collections for fixed indexed annuities, fixed rate annuities, and immediate annuities without life contingency are reported in the financial statements as deposit liabilities (i.e., contractholder funds) instead of as sales or revenues. Similarly, cash payments to customers are reported as decreases in the liability for contractholder funds and not as expenses. Sources of revenues for products accounted for as deposit liabilities are net investment income, surrender and other charges deducted from contractholder funds, and net realized gains (losses) on investments. Components of expenses for products accounted for as deposit liabilities are interest-sensitive and index product benefits (primarily interest credited to account balances or the cost of providing index credits to the policyholder), amortization of deferred acquisition cost (“DAC”), deferred sales inducements (“DSI”), and value of business acquired (“VOBA”), other operating costs and expenses, and income taxes.

Through our insurance subsidiaries, we issue a broad portfolio of deferred annuities (fixed indexed and fixed rate annuities) and immediate annuities. A deferred annuity is a type of contract that accumulates value on a tax deferred basis and typically begins making specified periodic or lump sum payments a certain number of years after the contract has been issued. An immediate annuity is a type of contract that begins making specified payments within one annuity period (e.g., one month or one year) and typically makes payments of principal and interest earnings over a period of time.

The Company hedges certain portions of its exposure to product related equity market risk by entering into derivative transactions. We purchase derivatives consisting predominantly of call options and, to a lesser degree, futures contracts on the equity indices underlying the applicable policy. These derivatives are used to offset the statutory reserve impact of the index credits due to policyholders under the FIA contracts. The majority of all such call options are one-year options purchased to match the funding requirements underlying the FIA contracts. We attempt to manage the cost of these purchases through the terms of our FIA contracts, which permit us to change



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caps, spread, or participation rates, subject to certain guaranteed minimums that must be maintained. The call options and futures contracts are marked to fair value with the change in fair value included as a component of net investment gains (losses). The change in fair value of the call options and futures contracts includes the gains and losses recognized at the expiration of the instruments' terms or upon early termination and the changes in fair value of open positions.

Earnings from products accounted for as deposit liabilities are primarily generated from the excess of net investment income earned over the sum of interest credited to policyholders and the cost of hedging our risk on FIA policies, known as the net investment spread. With respect to FIAs, the cost of hedging our risk includes the expenses incurred to fund the index credits. Proceeds received upon expiration or early termination of call options purchased to fund annual index credits are recorded as part of the change in fair value of derivatives, and are largely offset by an expense for index credits earned on annuity contractholder fund balances.

Our profitability depends in large part upon the amount of assets under management ("AUM"), the net investment spreads earned on our average assets under management ("AAUM"), our ability to manage our operating expenses and the costs of acquiring new business (principally commissions to agents and bonuses credited to policyholders). As we grow AUM, earnings generally increase. AUM increases when cash inflows, which include sales, exceed cash outflows. Managing net investment spreads involves the ability to maximize returns on our AUM and minimize risks such as interest rate changes and defaults or impairment of investments. It also includes our ability to manage interest rates credited to policyholders and the costs of the options and futures purchased to fund the annual index credits on the FIAs or IULs. We analyze returns on AAUM pre- and post-DAC, DSI and VOBA as well as pre- and post-tax to measure our profitability in terms of growth and improved earnings.

### **Non-GAAP Financial Measures**

Management believes that certain non-GAAP financial measures may be useful in certain instances to provide additional meaningful comparisons between current results and results in prior operating periods. Our non-GAAP measures may not be comparable to similarly titled measures of other organizations because other organizations may not calculate such non-GAAP measures in the same manner as we do. Reconciliations of such measures to the most comparable GAAP measures are included herein.

Adjusted Operating Income ("AOI") is a non-GAAP economic measure we use to evaluate financial performance each period. AOI is calculated by adjusting net income (loss) to eliminate (i) the impact of net investment gains/losses including other than temporary impairment ("OTTI") losses recognized in operations, but excluding gains and losses on derivatives hedging our indexed annuity policies, (ii) the effect of changes in fair values of FIA related derivatives and embedded derivatives, net of hedging cost, (iii) the tax effect of affiliated reinsurance embedded derivative, (iv) the effect of integration, merger related & other non-operating items, (v) impact of extinguishment of debt, and (vi) net impact from Tax Cuts and Jobs Act. Adjustments to AOI are net of the corresponding impact on amortization of intangibles, as appropriate. The income tax impact related to these adjustments is measured using an effective tax rate of 21%, as appropriate. While these adjustments are an integral part of the overall performance of the Company, market conditions and/or the non-operating nature of these items can overshadow the underlying performance of the core business. Accordingly, Management considers this to be a useful measure internally and to investors and analysts in analyzing the trends of our operations.

Beginning with the quarter ended March 31, 2018, the Company updated its AOI definition to remove the residual impacts of fair value accounting on its FIA products, including gains and losses on derivatives hedging those policies. Management believes the revised measure enhances the understanding of the business post-merger and is more useful and relevant to investors as compared to the previous definition which eliminated only the effects of changes in the interest rates used to discount the FIA embedded derivative. Periods shown prior to March 31, 2018 have not been adjusted to reflect the new definition.

AOI should not be used as a substitute for net income. However, we believe the adjustments made to net income in order to derive AOI provide an understanding of our overall results of operations. For example, we could have strong operating results in a given period, yet report net income that is materially less, if during such period the fair value of our derivative assets hedging the FIA index credit obligations decreased due to general equity market conditions but the embedded derivative liability related to the index credit obligation did not decrease in the same proportion as the derivative assets because of non-equity market factors such as interest rate movements. Similarly, we could also have poor operating results in a given period yet show net income that is materially greater, if during such period the fair value of the derivative assets increases but the embedded derivative liability did not increase in the same proportion as the derivative assets. We hedge our FIA index credits with a combination of

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static and dynamic strategies, which can result in earnings volatility, the effects of which are generally likely to reverse over time. Our management and board of directors review AOI and net income as part of their examination of our overall financial results. However, these examples illustrate the significant impact derivative and embedded derivative movements can have on our net income. Accordingly, our management and board of directors perform a review and analysis of these items, as part of their review of our hedging results each period.

The adjustments to net income are net of DAC, DSI, and VOBA amortization. Amounts attributable to the fair value accounting for derivatives hedging the FIA index credits and the related embedded derivative liability fluctuate from period to period based upon changes in the fair values of call options purchased to fund the annual index credits for FIAs, changes in the interest rates used to discount the embedded derivative liability, and the fair value assumptions reflected in the embedded derivative liability. The accounting standards for fair value measurement require the discount rates used in the calculation of the embedded derivative liability to be based on risk-free interest rates as of the reporting date. The impact of the change in fair values of FIA-related derivatives, embedded derivatives and hedging costs has been removed from net income in calculating AOI.

AAUM is a non-GAAP measure we use to assess the rate of return on assets available for reinvestment. AAUM is calculated as the sum of (i) total invested assets at amortized cost, excluding derivatives; (ii) related party loans and investments; (iii) accrued investment income; (iv) funds withheld at fair value; (v) the net payable/receivable for the purchase/sale of investments and (iv) cash and cash equivalents, excluding derivative collateral, at the beginning of the period and the end of each month in the period, divided by the total number of months in the period plus one. Management considers this to be a useful measure internally and to investors and analysts when assessing the rate of return on assets available for reinvestment.

### **Critical Accounting Policies and Estimates**

The preparation of the Company's unaudited condensed consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of certain assets, liabilities, revenues, expenses and related disclosures regarding contingencies and commitments. Actual results could differ from these estimates. During the nine months ended September 30, 2018, the Company did not make any material changes in its critical accounting policies as previously disclosed in Management's Discussion and Analysis in the Company's 2017 Form 10-K as filed with the SEC.

### **Recent Accounting Pronouncements**

Please refer to "Note 2. Significant Accounting Policies and Practices" to our unaudited condensed consolidated financial statements for disclosure of recent accounting pronouncements.

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**Results of Operations**

(All amounts presented in millions unless otherwise noted)

The following tables set forth the consolidated results of operations for the three and nine months ended September 30, 2018 and the Predecessor three and nine months ended September 30, 2017:

|   | Three months ended |                    |                      | Nine months ended  |                    |                      |
|---|--------------------|--------------------|----------------------|--------------------|--------------------|----------------------|
|   | September 30, 2018 | September 30, 2017 | Increase/ (Decrease) | September 30, 2018 | September 30, 2017 | Increase/ (Decrease) |
|   |                    | <b>Predecessor</b> |                      |                    | <b>Predecessor</b> |                      |
| <b>Revenues:</b>  |                    |                    |                      |                    |                    |                      |
| Premiums  | \$ 12              | \$ 16              | \$ (4)               | \$ 45              | \$ 31              | \$ 14                |
| Net investment income                                     | 267                | 261                | 6                    | 812                | 765                | 47                   |
| Net investment gains (losses)                             | 119                | 117                | 2                    | (74)               | 265                | (339)                |
| Insurance and investment product fees and other           | 46                 | 41                 | 5                    | 139                | 129                | 10                   |
| <b>Total revenues</b>                                     | <b>444</b>         | <b>435</b>         | <b>9</b>             | <b>922</b>         | <b>1,190</b>       | <b>(268)</b>         |
| <b>Benefits and expenses:</b>                             |                    |                    |                      |                    |                    |                      |
| Benefits and other changes in policy reserves             | 297                | 320                | (23)                 | 475                | 823                | (348)                |
| Acquisition and operating expenses, net of deferrals      | 40                 | 36                 | 4                    | 126                | 109                | 17                   |
| Amortization of intangibles                               | 28                 | (14)               | 42                   | 72                 | 70                 | 2                    |
| <b>Total benefits and expenses</b>                        | <b>365</b>         | <b>342</b>         | <b>23</b>            | <b>673</b>         | <b>1,002</b>       | <b>(329)</b>         |
| <b>Operating income</b>                                   | <b>79</b>          | <b>93</b>          | <b>(14)</b>          | <b>249</b>         | <b>188</b>         | <b>61</b>            |
| Interest expense  | (8)                | (6)                | (2)                  | (21)               | (18)               | (3)                  |
| Income (loss) before income taxes                         | 71                 | 87                 | (16)                 | 228                | 170                | 58                   |
| Income tax expense  | (15)               | (26)               | 11                   | (67)               | (55)               | (12)                 |
| <b>Net income (loss)</b>                                  | <b>\$ 56</b>       | <b>\$ 61</b>       | <b>\$ (5)</b>        | <b>\$ 161</b>      | <b>\$ 115</b>      | <b>46</b>            |
| Less preferred stock dividend                             | 7                  | —                  | 7                    | 21                 | —                  | 21                   |
| <b>Net income (loss) available to common shareholders</b> | <b>\$ 49</b>       | <b>\$ 61</b>       | <b>\$ (12)</b>       | <b>\$ 140</b>      | <b>\$ 115</b>      | <b>\$ 25</b>         |

The following table summarizes sales by product type for the periods presented:

|                               | Three months ended |                    |                      | Nine months ended  |                    |                      |
|-------------------------------|--------------------|--------------------|----------------------|--------------------|--------------------|----------------------|
|                               | September 30, 2018 | September 30, 2017 | Increase/ (Decrease) | September 30, 2018 | September 30, 2017 | Increase/ (Decrease) |
|                               |                    | <b>Predecessor</b> |                      |                    | <b>Predecessor</b> |                      |
| Fixed index annuities ("FIA") | \$ 631             | \$ 424             | \$ 207               | \$ 1,616           | \$ 1,317           | \$ 299               |
| Fixed rate annuities ("MYGA") | 211                | 164                | 47                   | 573                | 449                | 124                  |
| Institutional spread based    | —                  | —                  | —                    | 200                | 136                | 64                   |
| Total annuity                 | \$ 842             | \$ 588             | \$ 254               | \$ 2,389           | \$ 1,902           | \$ 487               |
| Index universal life ("IUL")  | \$ 7               | \$ 6               | \$ 1                 | \$ 20              | \$ 29              | \$ (9)               |

- FIA sales during the three and nine months ended September 30, 2018 reflect continued strong and productive collaboration with our distribution partners, primarily Independent Marketing Organizations, as well as the overall growth of the FIA market.
- Institutional spread based products in both nine month periods reflect funding agreements with Federal Home Loan Bank, under an investment strategy. We view this volume as subject to fluctuation period to period.
- The decline in IUL sales during the nine months ended September 30, 2018 reflects our focus on quality of new business and pricing discipline to achieve profitability and capital targets.

**Revenues**

**Premiums**

Premiums primarily reflect insurance premiums for traditional life insurance products which are recognized as revenue when due from the policyholder. FGL Insurance has ceded the majority of its traditional life business to unaffiliated third party reinsurers. The traditional life insurance premiums are primarily related to the return of premium riders on traditional life contracts. While the base contract has been reinsured, we continue to retain the return of premium rider. The following table summarizes the change in premiums for the periods presented:

|                                   | Three months ended |                    |                         | Nine months ended  |                    |                         |  |
|-----------------------------------|--------------------|--------------------|-------------------------|--------------------|--------------------|-------------------------|--|
|                                   | September 30, 2018 | September 30, 2017 | Increase/<br>(Decrease) | September 30, 2018 | September 30, 2017 | Increase/<br>(Decrease) |  |
|                                   |                    | Predecessor        |                         |                    |                    | Predecessor             |  |
| Traditional life insurance        | \$ 7               | \$ 10              | \$ (3)                  | \$ 23              | \$ 17              | \$ 6                    |  |
| Life-contingent immediate annuity | 5                  | 6                  | (1)                     | 22                 | 14                 | 8                       |  |
| Premiums                          | \$ 12              | \$ 16              | \$ (4)                  | \$ 45              | \$ 31              | \$ 14                   |  |

**Net investment income**

Below is a summary of net investment income ("NII") for the periods presented:

|   | Three months ended |                    |                         | Nine months ended  |                    |                         |  |
|---|--------------------|--------------------|-------------------------|--------------------|--------------------|-------------------------|--|
|   | September 30, 2018 | September 30, 2017 | Increase/<br>(Decrease) | September 30, 2018 | September 30, 2017 | Increase/<br>(Decrease) |  |
|   |                    | Predecessor        |                         |                    |                    | Predecessor             |  |
| Fixed maturity securities, available-for-sale   | \$ 249             | \$ 247             | \$ 2                    | \$ 739             | \$ 725             | \$ 14                   |  |
| Equity securities   | 15                 | 10                 | 5                       | 51                 | 31                 | 20                      |  |
| Commercial mortgage loans, invested cash, short term investments, and other investments | 25                 | 9                  | 16                      | 70                 | 26                 | 44                      |  |
| Gross investment income   | 289                | 266                | 23                      | 860                | 782                | 78                      |  |
| Investment expense  | (22)               | (5)                | (17)                    | (48)               | (17)               | (31)                    |  |
| <b>Net investment income</b>  | <b>\$ 267</b>      | <b>\$ 261</b>      | <b>\$ 6</b>             | <b>\$ 812</b>      | <b>\$ 765</b>      | <b>\$ 47</b>            |  |

Our net investment spread and AAUM for the period is summarized as follows (annualized):

|   | Three months ended |                    |                         | Nine months ended  |                    |                         |  |
|---|--------------------|--------------------|-------------------------|--------------------|--------------------|-------------------------|--|
|   | September 30, 2018 | September 30, 2017 | Increase/<br>(Decrease) | September 30, 2018 | September 30, 2017 | Increase/<br>(Decrease) |  |
|   |                    | Predecessor        |                         |                    |                    | Predecessor             |  |
| Yield on AAUM (at amortized cost)       | 4.13 %             | 5.02 %             | (0.89)%                 | 4.26 %             | 4.98 %             | (0.72)%                 |  |
| Less: Interest credited and option cost | (2.42)%            | (2.58)%            | 0.16 %                  | (2.37)%            | (2.52)%            | 0.15 %                  |  |
| Net investment spread                   | 1.71 %             | 2.44 %             | (0.73)%                 | 1.89 %             | 2.46 %             | (0.57)%                 |  |
| AAUM                                    | \$ 25,883          | \$ 20,840          | \$ 5,043                | \$ 25,437          | \$ 20,524          | \$ 4,913                |  |

- The increases in AAUM during the three and nine months ended September 30, 2018 were primarily influenced by the \$1.7 billion net new business asset flows, \$1.2 billion increased mark-to-market valuation of the investment portfolio as of the date of the merger, and the inclusion of the \$1.9 billion acquired AAUM in FSR Companies.
- The 2% increase in NII from the Predecessor three months ended September 30, 2017 to the three months ended September 30, 2018 was primarily due to an increase in net investment income growth of \$29 from invested asset growth and \$11 from the portfolio reposition lift. This increase was offset by \$17 of premium amortization resulting from the fair value mark on the investment portfolio at merger transaction close and \$17 of higher planned investment fees under the new investment management agreement entered into upon merger close.

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- The 6% increase in NII from the Predecessor nine months ended September 30, 2017 to the nine months ended September 30, 2018 was primarily due to an increase in AAUM (volume). The volume increase period over period resulted in net investment income growth of \$184. This increase was offset by \$138 driven by a decline in earned yields (rate) as the result of purchase accounting impacts.

**Net investment gains (losses)**

Below is a summary of the major components included in net investment gains (losses) for the three months ended September 30, 2018, the Predecessor three months ended September 30, 2017, the nine months ended September 30, 2018 and the Predecessor nine months ended September 30, 2017:

|  | Three months ended |                    |                         | Nine months ended     |                       |                         |
|--|--------------------|--------------------|-------------------------|-----------------------|-----------------------|-------------------------|
|  | September 30, 2018 | September 30, 2017 | Increase/<br>(Decrease) | September 30,<br>2018 | September 30,<br>2017 | Increase/<br>(Decrease) |
|  |                    | Predecessor        |                         |                       | Predecessor           |                         |
| Net realized gains (losses) on fixed maturity available-for-sale securities, equity securities and other invested assets | \$ (40)            | \$ 7               | \$ (47)                 | \$ (132)              | \$ (16)               | \$ (116)                |
| Net realized and unrealized gains (losses) on hedging derivatives and reinsurance-related embedded derivatives           | 162                | 118                | 44                      | 95                    | 309                   | (214)                   |
| Change in fair value of reinsurance related embedded derivatives   | (3)                | (8)                | 5                       | (37)                  | (28)                  | (9)                     |
| <b>Net investment gains (losses)</b>   | <b>\$ 119</b>      | <b>\$ 117</b>      | <b>\$ 2</b>             | <b>\$ (74)</b>        | <b>\$ 265</b>         | <b>\$ (339)</b>         |

- For the three months ended September 30, 2018, net realized losses on available-for-sale securities of \$40 includes \$24 of trading losses as part of a planned portfolio re-positioning strategy following the completion of the merger and \$19 change in the unrealized losses on equity securities reflecting the post adoption impact of ASU 2016-01.
- For the nine months ended September 30, 2018, net realized losses on available-for-sale securities of \$132 includes \$80 of trading losses as part of a planned portfolio re-positioning strategy following the completion of the merger, \$48 change in the unrealized losses on equity securities reflecting the post adoption impact of ASU 2016-01 and \$2 of impairment losses. In the Predecessor nine months ended September 30, 2017, net realized losses on available-for-sale securities of \$16, includes \$21 of impairments related to corporates, other invested assets and asset backed securities, comprised primarily of \$20 credit-related impairment losses on available-for-sale debt securities related to investments in First National Bank Holding Co.
- The fair value of reinsurance related embedded derivative is based on the change in fair value of the underlying assets held in the funds withheld ("FWH") portfolio. The majority of the movement in the value of this derivative was driven by the coinsurance agreement between FGL Insurance and FSRC. As part of the Business Combination, FSRC is now a subsidiary of the Company which eliminated the impact of this component of net investment gains (losses) for the three and nine months ended September 30, 2018. In the current period the change in fair value of the underlying assets held in FWH portfolio relates to FSRC's unaffiliated reinsurance agreements.
- See the table below for primary drivers of gains (losses) on certain derivatives.

We utilize a combination of static (call options) and dynamic (long futures contracts) instruments in our hedging strategy. A substantial portion of the call options and futures contracts are based upon the S&P 500 Index with the remainder based upon other equity, bond and gold market indices.

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The components of the realized and unrealized gains on certain derivative instruments hedging our indexed annuity and universal life products are summarized in the table below for the periods presented:

|  | Three months ended |                    |                      | Nine months ended  |                    |                      |
|--|--------------------|--------------------|----------------------|--------------------|--------------------|----------------------|
|  | September 30, 2018 | September 30, 2017 | Increase/ (Decrease) | September 30, 2018 | September 30, 2017 | Increase/ (Decrease) |
|  |                    | <b>Predecessor</b> |                      |                    | <b>Predecessor</b> |                      |
| Call Options:  |                    |                    |                      |                    |                    |                      |
| Gains (losses) on option expiration                  | \$ 23              | \$ 68              | \$ (45)              | \$ 14              | \$ 212             | \$ (198)             |
| Change in unrealized gains (losses)                  | 130                | 45                 | 85                   | 72                 | 87                 | (15)                 |
| Futures contracts:                                   |                    |                    |                      |                    |                    |                      |
| Gains (losses) on futures contracts expiration       | 4                  | 2                  | 2                    | 9                  | 6                  | 3                    |
| Change in unrealized gains (losses)                  | 5                  | 3                  | 2                    | —                  | 4                  | (4)                  |
| Total net change in fair value                       | \$ 162             | \$ 118             | \$ 44                | \$ 95              | \$ 309             | \$ (214)             |
| <b>Change in S&amp;P 500 Index during the period</b> | 9%                 | 5%                 | 4%                   | 7%                 | 13%                | (6)%                 |

- Realized gains and losses on certain derivative instruments are directly correlated to the performances of the indices upon which the call options and futures contracts are based and the value of the derivatives at the time of expiration compared to the value at the time of purchase. Additionally, the fair value of call options are primarily driven by the underlying performance of the S&P 500 index relative to the S&P index on the policyholder buy dates during each respective year.
- The net change in fair value of certain derivative instruments for the three and nine months ended September 30, 2018 and the Predecessor three and nine months ended September 30, 2017 were primarily driven by movements in the S&P 500 Index relative to the buy dates during each respective year.

The average index credits to policyholders for the periods presented:

|                                 | Three months ended |                    |                      | Nine months ended  |                    |                      |
|---------------------------------|--------------------|--------------------|----------------------|--------------------|--------------------|----------------------|
|                                 | September 30, 2018 | September 30, 2017 | Increase/ (Decrease) | September 30, 2018 | September 30, 2017 | Increase/ (Decrease) |
|                                 |                    | <b>Predecessor</b> |                      |                    | <b>Predecessor</b> |                      |
| Average Crediting Rate          | 4%                 | —%                 | 4 %                  | 4%                 | 5%                 | (1)%                 |
| S&P 500 Index:                  |                    |                    |                      |                    |                    |                      |
| Point-to-point strategy         | 4%                 | 4%                 | — %                  | 4%                 | 4%                 | — %                  |
| Monthly average strategy        | 4%                 | 4%                 | — %                  | 4%                 | 4%                 | — %                  |
| Monthly point-to-point strategy | 4%                 | 7%                 | (3)%                 | 5%                 | 6%                 | (1)%                 |
| 3 year high water mark          | 22%                | 15%                | 7 %                  | 14%                | 13%                | 1 %                  |

- Actual amounts credited to contractholder fund balances may differ from the index appreciation due to contractual features in the FIA contracts (caps, spreads and participation rates) which allow the Company to manage the cost of the options purchased to fund the annual index credits.
- The credits for the three months ended September 30, 2018 and the Predecessor three months ended September 30, 2017 were based on comparing the S&P 500 Index on each issue date in these respective periods to the same issue date in the respective prior year periods. Index performance resulted in comparable crediting rates in the periods disclosed above.

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**Insurance and investment product fees and other**

Below is a summary of the major components included in Insurance and investment product fees and other for the periods presented:

|   | Three months ended |                    |                      | Nine months ended  |                    |                      |
|---|--------------------|--------------------|----------------------|--------------------|--------------------|----------------------|
|   | September 30, 2018 | September 30, 2017 | Increase/ (Decrease) | September 30, 2018 | September 30, 2017 | Increase/ (Decrease) |
|   |                    | <b>Predecessor</b> |                      |                    | <b>Predecessor</b> |                      |
| Surrender charges                                     | \$ 9               | \$ 9               | \$ —                 | \$ 35              | \$ 27              | \$ 8                 |
| Cost of insurance fees and other income               | 37                 | 32                 | 5                    | 104                | 102                | 2                    |
| Total insurance and investment product fees and other | \$ 46              | \$ 41              | \$ 5                 | \$ 139             | \$ 129             | \$ 10                |

- Insurance and investment product fees and other consists primarily of the cost of insurance on IUL policies, policy rider fees primarily on FIA policies and surrender charges assessed against policy withdrawals in excess of the policyholder's allowable penalty-free amounts (up to 10% of the prior year's value, subject to certain limitations).
- Guaranteed minimum withdrawal benefit ("GMWB") rider fees were \$19 and \$15 for the three months ended September 30, 2018 and the Predecessor three months ended September 30, 2017, respectively. Guaranteed minimum withdrawal benefit ("GMWB") rider fees were \$61 and \$45 for the nine months ended September 30, 2018 and the Predecessor nine months ended September 30, 2017, respectively. This increase in fees is a result of growth in benefit base, which is partially offset by a corresponding increase in income rider reserves (included in Benefits and other changes in policy reserves). GMWB rider fees are based on the policyholder's benefit base and are collected at the end of the policy year.

**Benefits and expenses**

**Benefits and other changes in policy reserves**

Below is a summary of the major components included in Benefits and other changes in policy reserves for the periods presented:

|  | Three months ended |                    |                      | Nine months ended  |                    |                      |
|--|--------------------|--------------------|----------------------|--------------------|--------------------|----------------------|
|  | September 30, 2018 | September 30, 2017 | Increase/ (Decrease) | September 30, 2018 | September 30, 2017 | Increase/ (Decrease) |
|  |                    | <b>Predecessor</b> |                      |                    | <b>Predecessor</b> |                      |
| FIA FAS 133 impact   | 64                 | 91                 | (27)                 | (202)              | 142                | (344)                |
| Index credits, interest credited & bonuses                     | 183                | 174                | 9                    | 560                | 537                | 23                   |
| Annuity payments   | 37                 | 37                 | —                    | 113                | 112                | 1                    |
| Other policy benefits and reserve movements                    | 66                 | 18                 | 48                   | 48                 | 32                 | 16                   |
| Change in fair value of reserve liabilities held at fair value | (53)               | —                  | (53)                 | (44)               | —                  | (44)                 |
| Total benefits and other changes in policy reserves            | \$ 297             | \$ 320             | \$ (23)              | \$ 475             | \$ 823             | \$ (348)             |

- FIA FAS 133 Impact** - The FIA market value option liability decreased quarter over quarter and year over year, driven by the changes in the equity markets and risk free rates during the current quarter. The rise in risk free rates reduced the FAS 133 reserves by approximately \$11 during the three months ended September 30, 2018 as compared to an increase of \$12 for the corresponding period in 2017, with the remaining impacts from changes in the equity markets. The rise in risk free rates reduced the FAS 133 reserves by approximately \$135 during the nine months ended September 30, 2018 as compared to \$167 for the corresponding period in 2017, with the remaining impacts from changes in the equity markets. The change in equity market also impacts the market value of the derivative assets hedging our FIA policies. See table in the net investment gains/losses discussion above for summary and discussion of net unrealized gains (losses) on certain derivative instruments.

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- The quarter over quarter and year over year increases in index credits, interest credited & bonuses were primarily due to higher index credits on FIA policies reflecting increased sales volume for FIA products.
- The change in the fair value of reserve liabilities held at fair value represents FSRC's third-party business. The decrease for the three and nine months ended September 30, 2018 is primarily due to the recapture of two treaties effective July 1, 2018.

**Acquisition and operating expenses, net of deferrals**

Below is a summary of acquisition and operating expenses, net of deferrals for the periods presented:

|  | Three months ended |                    |                      | Nine months ended  |                    |                      |
|--|--------------------|--------------------|----------------------|--------------------|--------------------|----------------------|
|  | September 30, 2018 | September 30, 2017 | Increase/ (Decrease) | September 30, 2018 | September 30, 2017 | Increase/ (Decrease) |
|  |                    | Predecessor        |                      |                    | Predecessor        |                      |
| General expenses   | \$ 31              | \$ 30              | \$ 1                 | \$ 103             | \$ 95              | \$ 8                 |
| Acquisition expenses                                       | 94                 | 65                 | 29                   | 242                | 218                | 24                   |
| Deferred acquisition costs                                 | (85)               | (59)               | (26)                 | (219)              | (204)              | (15)                 |
| Total acquisition and operating expenses, net of deferrals | \$ 40              | \$ 36              | \$ 4                 | \$ 126             | \$ 109             | \$ 17                |

- The increase year over year reflects an increase in general expenses primarily related to planned employee headcount growth and higher professional fees related to post-merger year-end audit and project related costs. Gross acquisition expenses increased \$24 quarter over quarter due to higher commissions.

**Amortization of intangibles**

Below is a summary of the major components included in amortization of intangibles for the periods presented:

|                                   | Three months ended |                    |                      | Nine months ended  |                    |                      |
|-----------------------------------|--------------------|--------------------|----------------------|--------------------|--------------------|----------------------|
|                                   | September 30, 2018 | September 30, 2017 | Increase/ (Decrease) | September 30, 2018 | September 30, 2017 | Increase/ (Decrease) |
|                                   |                    | Predecessor        |                      |                    | Predecessor        |                      |
| Amortization                      | \$ 30              | \$ 28              | \$ 2                 | \$ 86              | \$ 144             | \$ (58)              |
| Interest                          | (7)                | (15)               | 8                    | (18)               | (44)               | 26                   |
| Unlocking                         | 5                  | (27)               | 32                   | 4                  | (30)               | 34                   |
| Total amortization of intangibles | \$ 28              | \$ (14)            | \$ 42                | \$ 72              | \$ 70              | \$ 2                 |

- Amortization of intangibles is based on historical, current and future expected gross margins (pre-tax operating income before amortization). The quarter over quarter and year over year increases in total net amortization were primarily due to higher actual gross profits ("AGPs") on the lines of business with VOBA. AGPs were driven primarily by lower change in reserves in the three and nine months ended September 30, 2018 compared to the three and nine months ended September 30, 2017.

**Other items affecting net income**

**Interest expense**

The interest expense and amortization of debt issuance costs of the Company's debt for the periods presented:

|                                | Three months ended |                    |                      | Nine months ended  |                    |                      |
|--------------------------------|--------------------|--------------------|----------------------|--------------------|--------------------|----------------------|
|                                | September 30, 2018 | September 30, 2017 | Increase/ (Decrease) | September 30, 2018 | September 30, 2017 | Increase/ (Decrease) |
|                                |                    | Predecessor        |                      |                    | Predecessor        |                      |
| Debt                           | \$ 8               | \$ 5               | \$ 3                 | \$ 21              | \$ 14              | \$ 7                 |
| Revolving credit facility      | —                  | 1                  | (1)                  | 2                  | 4                  | (2)                  |
| Gain on extinguishment of debt | —                  | —                  | —                    | (2)                | —                  | (2)                  |
| Total interest expense         | \$ 8               | \$ 6               | \$ 2                 | \$ 21              | \$ 18              | \$ 5                 |





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- On April 20, 2018, the Company completed a debt offering of \$550 aggregate principal amount of 5.50% senior notes due 2025. The Company used the net proceeds of the offering (i) to repay \$135 of borrowings under its revolving credit facility and related expenses and (ii) to redeem in full and satisfy and discharge all of the outstanding \$300 aggregate principal amount of FGLH's outstanding 6.375% Senior Notes due 2021. The current period reflects the interest expense incurred on the 5.50% senior notes due 2025.

***Income tax expense***

Below is a summary of the major components included in Income tax expense for the periods presented:

|                                       | Three months ended |                    |                      | Nine months ended  |                    |                      |
|---------------------------------------|--------------------|--------------------|----------------------|--------------------|--------------------|----------------------|
|                                       | September 30, 2018 | September 30, 2017 | Increase/ (Decrease) | September 30, 2018 | September 30, 2017 | Increase/ (Decrease) |
|                                       |                    | Predecessor        |                      |                    | Predecessor        |                      |
| Income before taxes                   | \$ 71              | \$ 87              | \$ (16)              | \$ 228             | \$ 170             | \$ 58                |
| Income tax before valuation allowance | 12                 | 27                 | (15)                 | 56                 | 56                 | —                    |
| Change in valuation allowance         | 3                  | (1)                | 4                    | 11                 | (1)                | 12                   |
| Income tax                            | \$ 15              | \$ 26              | \$ (11)              | \$ 67              | \$ 55              | \$ 12                |
| Effective rate                        | 21%                | 30%                | (9)%                 | 29%                | 32%                | (3)%                 |

- Income tax expense for the three months ended September 30, 2018 was \$15, inclusive of a valuation allowance expense of \$3, compared to income tax expense of \$26 for the Predecessor three months ended September 30, 2017, net of a valuation allowance release of \$(1). The decrease in income tax expense of \$11 quarter over quarter was primarily due to lower pre-tax income and the lower U.S. Federal statutory tax rate of 21% in 2018 compared with 35% in 2017, partially offset by the valuation allowance expense of \$3 in the 2018 quarter.
- Income tax expense for the nine months ended September 30, 2018 was \$67, inclusive of a valuation allowance expense of \$11, compared to income tax expense of \$55 for the Predecessor nine months ended September 30, 2017, net of a valuation allowance release of \$(1). The increase in income tax expense of \$12 period over period was primarily due to an expense of \$15 to establish an opening tax balance sheet as a result of the intended election by F&G Life Re to be treated as a US taxpayer, higher pre-tax earnings, and valuation allowance expense of \$11, partially offset by the lower U.S. Federal statutory tax rate of 21% in 2018 compared with 35% in 2017.



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**Investment Portfolio**

(All dollar amounts presented in millions unless otherwise noted)

The types of assets in which we may invest are influenced by various state laws, which prescribe qualified investment assets applicable to insurance companies. Within the parameters of these laws, we invest in assets giving consideration to four primary investment objectives: (i) maintain robust absolute returns; (ii) provide reliable yield and investment income; (iii) preserve capital and (iv) provide liquidity to meet policyholder and other corporate obligations.

Our investment portfolio is designed to contribute stable earnings and balance risk across diverse asset classes and is primarily invested in high quality fixed income securities.

As of September 30, 2018 and December 31, 2017, the fair value of our investment portfolio was approximately \$24 billion and \$24 billion, respectively, and was divided among the following asset class and sectors:

|   | September 30, 2018 |             | December 31, 2017 |             |
|---|--------------------|-------------|-------------------|-------------|
|   | Fair Value         | Percent     | Fair Value        | Percent     |
| Fixed maturity securities, available for sale:                            |                    |             |                   |             |
| United States Government full faith and credit                            | \$ 139             | 1%          | \$ 84             | 1%          |
| United States Government sponsored entities                               | 108                | —%          | 122               | 1%          |
| United States municipalities, states and territories                      | 1,381              | 6%          | 1,747             | 7%          |
| Foreign Governments   | 160                | 1%          | 197               | 1%          |
| Corporate securities:   |                    |             |                   |             |
| Finance, insurance and real estate  | 4,524              | 19%         | 5,500             | 23%         |
| Manufacturing, construction and mining                                    | 616                | 3%          | 1,002             | 4%          |
| Utilities, energy and related sectors                                     | 2,545              | 10%         | 2,281             | 10%         |
| Wholesale/retail trade  | 1,503              | 6%          | 1,428             | 6%          |
| Services, media and other   | 2,446              | 10%         | 2,359             | 10%         |
| Hybrid securities   | 951                | 4%          | 1,067             | 4%          |
| Non-agency residential mortgage-backed securities                         | 1,572              | 6%          | 1,155             | 5%          |
| Commercial mortgage-backed securities                                     | 1,794              | 7%          | 956               | 4%          |
| Asset-backed securities   | 3,682              | 15%         | 3,065             | 13%         |
| <b>Total fixed maturity available for sale securities</b>                 | <b>21,421</b>      | <b>88%</b>  | <b>20,963</b>     | <b>89%</b>  |
| Equity securities (a)   | 1,440              | 6%          | 1,388             | 6%          |
| Commercial mortgage loans   | 488                | 2%          | 549               | 2%          |
| Other (primarily derivatives, limited partnerships and FHLB common stock) | 1,034              | 4%          | 678               | 3%          |
| Short term investments  | 15                 | —%          | 25                | —%          |
| <b>Total investments</b>  | <b>\$ 24,398</b>   | <b>100%</b> | <b>\$ 23,603</b>  | <b>100%</b> |

(a) Includes investment grade non-redeemable preferred stocks (\$1,273 and \$1,194, respectively) and Federal Home Loan Bank of Atlanta common stock ( \$42 December 31, 2017). Federal Home Loan Bank of Atlanta common stock was reclassified on January 1, 2018 from "Equity securities" to "Other invested assets".

Insurance statutes regulate the type of investments that our life insurance subsidiaries are permitted to make and limit the amount of funds that may be used for any one type of investment. In light of these statutes and regulations, and our business and investment strategy, we generally seek to invest in (i) corporate securities rated investment grade by established nationally recognized statistical rating organizations (each, an "NRSRO"), (ii) U.S. Government and government-sponsored agency securities, or (iii) securities of comparable investment quality, if not rated.

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As of September 30, 2018 and December 31, 2017, our fixed maturity available-for-sale ("AFS") securities portfolio was approximately \$21 billion and \$21 billion, respectively. The following table summarizes the credit quality, by Nationally Recognized Statistical Ratings Organization ("NRSRO") rating, of our fixed income portfolio:

| Rating          | September 30, 2018 |             | December 31, 2017 |             |
|-----------------|--------------------|-------------|-------------------|-------------|
|                 | Fair Value         | Percent     | Fair Value        | Percent     |
| AAA             | \$ 2,711           | 13%         | \$ 1,784          | 8%          |
| AA              | 1,454              | 7%          | 2,036             | 10%         |
| A               | 5,159              | 24%         | 5,834             | 28%         |
| BBB             | 9,829              | 46%         | 9,256             | 44%         |
| BB (a)          | 1,326              | 6%          | 975               | 5%          |
| B and below (b) | 942                | 4%          | 1,078             | 5%          |
| <b>Total</b>    | <b>\$ 21,421</b>   | <b>100%</b> | <b>\$ 20,963</b>  | <b>100%</b> |

(a) Includes \$52 and \$47 at September 30, 2018 and December 31, 2017, respectively, of non-agency residential mortgage-backed securities ("RMBS") that carry a National Association of Insurance Commissioners ("NAIC") 1 designation.

(b) Includes \$749 and \$853 at September 30, 2018 and December 31, 2017, respectively, of non-agency RMBS that carry a NAIC 1 designation.

The NAIC's Securities Valuation Office ("SVO") is responsible for the day-to-day credit quality assessment and valuation of securities owned by state regulated insurance companies. Insurance companies report ownership of securities to the SVO when such securities are eligible for regulatory filings. The SVO conducts credit analysis on these securities for the purpose of assigning an NAIC designation or unit price. Typically, if a security has been rated by an NRSRO, the SVO utilizes that rating and assigns an NAIC designation based upon the following system:

| NAIC Designation | NRSRO Equivalent Rating |
|------------------|-------------------------|
| 1                | AAA/AA/A                |
| 2                | BBB                     |
| 3                | BB                      |
| 4                | B                       |
| 5                | CCC and lower           |
| 6                | In or near default      |

The NAIC has adopted revised designation methodologies for non-agency RMBS, including RMBS backed by subprime mortgage loans and for commercial mortgage-backed securities ("CMBS"). The NAIC's objective with the revised designation methodologies for these structured securities was to increase accuracy in assessing expected losses and to use the improved assessment to determine a more appropriate capital requirement for such structured securities. The NAIC designations for structured securities, including subprime and Alternative A-paper ("Alt-A") RMBS, are based upon a comparison of the bond's amortized cost to the NAIC's loss expectation for each security. Securities where modeling does not generate an expected loss in all scenarios are given the highest designation of NAIC 1. A large percentage of our RMBS securities carry a NAIC 1 designation while the NRSRO rating indicates below investment grade. The revised methodologies reduce regulatory reliance on rating agencies and allow for greater regulatory input into the assumptions used to estimate expected losses from such structured securities. In the tables below, we present the rating of structured securities based on ratings from the revised NAIC rating methodologies described above (which in some cases do not correspond to rating agency designations). All NAIC designations (e.g., NAIC 1-6) are based on the revised NAIC methodologies.

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The tables below present our fixed maturity securities by NAIC designation as of September 30, 2018 and December 31, 2017:

| NAIC Designation | September 30, 2018 |                  |                             |
|------------------|--------------------|------------------|-----------------------------|
|                  | Amortized Cost     | Fair Value       | Percent of Total Fair Value |
| 1                | \$ 11,215          | \$ 10,915        | 51%                         |
| 2                | 9,415              | 9,031            | 42%                         |
| 3                | 1,306              | 1,270            | 6%                          |
| 4                | 169                | 167              | 1%                          |
| 5                | 33                 | 33               | —%                          |
| 6                | 5                  | 5                | —%                          |
| <b>Total</b>     | <b>\$ 22,143</b>   | <b>\$ 21,421</b> | <b>100%</b>                 |

| NAIC Designation | December 31, 2017 |                  |                             |
|------------------|-------------------|------------------|-----------------------------|
|                  | Amortized Cost    | Fair Value       | Percent of Total Fair Value |
| 1                | \$ 11,046         | \$ 11,109        | 53%                         |
| 2                | 8,563             | 8,619            | 41%                         |
| 3                | 1,036             | 1,037            | 5%                          |
| 4                | 136               | 136              | 1%                          |
| 5                | 65                | 61               | —%                          |
| 6                | 1                 | 1                | —%                          |
| <b>Total</b>     | <b>\$ 20,847</b>  | <b>\$ 20,963</b> | <b>100%</b>                 |

**Investment Industry Concentration**

The tables below present the top ten industry categories of our fixed maturity and equity securities and FHLB common stock, including the fair value and percent of total fixed maturity and equity securities and FHLB common stock fair value as of September 30, 2018 and December 31, 2017:

| <b>Top 10 Industry Concentration</b>                  | <b>September 30, 2018</b> |                                    |
|---|---------------------------|------------------------------------|
|   | <b>Fair Value</b>         | <b>Percent of Total Fair Value</b> |
| Banking   | \$ 2,642                  | 12%                                |
| ABS collateralized loan obligation ("CLO")            | 2,259                     | 10%                                |
| Whole loan collateralized mortgage obligation ("CMO") | 1,989                     | 9%                                 |
| Life insurance  | 1,500                     | 7%                                 |
| Municipal   | 1,497                     | 7%                                 |
| ABS Other   | 1,417                     | 6%                                 |
| Electric  | 990                       | 4%                                 |
| Pipelines   | 951                       | 4%                                 |
| CMBS  | 946                       | 4%                                 |
| Technology  | 727                       | 3%                                 |
| <b>Total</b>  | <b>\$ 14,918</b>          | <b>65%</b>                         |

| <b>Top 10 Industry Concentration</b> | <b>December 31, 2017</b> |                                    |
|--------------------------------------|--------------------------|------------------------------------|
|                                      | <b>Fair Value</b>        | <b>Percent of Total Fair Value</b> |
| Banking                              | \$ 2,851                 | 13%                                |
| ABS CLO                              | 2,078                    | 9%                                 |
| Municipal                            | 1,977                    | 9%                                 |
| Life insurance                       | 1,514                    | 7%                                 |
| Electric                             | 1,097                    | 5%                                 |
| Property and casualty insurance      | 1,006                    | 5%                                 |
| ABS Other                            | 980                      | 4%                                 |
| Whole loan CMO                       | 834                      | 4%                                 |
| CMBS                                 | 791                      | 3%                                 |
| Other financial institutions         | 781                      | 3%                                 |
| <b>Total</b>                         | <b>\$ 13,909</b>         | <b>62%</b>                         |

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The amortized cost and fair value of fixed maturity AFS securities by contractual maturities as of September 30, 2018 and December 31, 2017, as applicable, are shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations.

|  | September 30, 2018 |                  | December 31, 2017 |                  |
|--|--------------------|------------------|-------------------|------------------|
|  | Amortized Cost     | Fair Value       | Amortized Cost    | Fair Value       |
| <b>Corporate, Non-structured Hybrids, Municipal and Government securities:</b> |                    |                  |                   |                  |
| Due in one year or less  | \$ 242             | \$ 241           | \$ 268            | \$ 268           |
| Due after one year through five years  | 1,055              | 1,039            | 2,087             | 2,086            |
| Due after five years through ten years   | 2,462              | 2,384            | 3,127             | 3,126            |
| Due after ten years  | 11,195             | 10,601           | 10,069            | 10,185           |
| Subtotal   | \$ 14,954          | \$ 14,265        | \$ 15,551         | \$ 15,665        |
| <b>Other securities which provide for periodic payments:</b>                   |                    |                  |                   |                  |
| Asset-backed securities  | \$ 3,705           | \$ 3,682         | \$ 3,061          | \$ 3,065         |
| Commercial-mortgage-backed securities  | 1,808              | 1,794            | 956               | 956              |
| Residential mortgage-backed securities   | 1,676              | 1,680            | 1,279             | 1,277            |
| Subtotal   | \$ 7,189           | \$ 7,156         | \$ 5,296          | \$ 5,298         |
| <b>Total fixed maturity available-for-sale securities</b>                      | <b>\$ 22,143</b>   | <b>\$ 21,421</b> | <b>\$ 20,847</b>  | <b>\$ 20,963</b> |

**Non-Agency RMBS Exposure**

Our investment in non-agency RMBS securities is predicated on the conservative and adequate cushion between purchase price and NAIC 1 rating, general lack of sensitivity to interest rates, positive convexity to prepayment rates and correlation between the price of the securities and the unfolding recovery of the housing market.

The fair value of our investments in subprime and Alt-A RMBS securities was \$228 and \$622 as of September 30, 2018, respectively, and \$267 and \$689 as of December 31, 2017, respectively.



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The following tables summarize our exposure to subprime and Alt-A RMBS by credit quality using NAIC designations, NRSRO ratings and vintage year as of September 30, 2018 and December 31, 2017:

| NAIC Designation: | September 30, 2018 |                  | December 31, 2017 |                  |
|-------------------|--------------------|------------------|-------------------|------------------|
|                   | Fair Value         | Percent of Total | Fair Value        | Percent of Total |
| 1                 | \$ 827             | 98%              | \$ 929            | 96%              |
| 2                 | 19                 | 2%               | 17                | 2%               |
| 3                 | 3                  | —%               | 5                 | 1%               |
| 4                 | —                  | —%               | —                 | —%               |
| 5                 | 1                  | —%               | 5                 | 1%               |
| 6                 | —                  | —%               | —                 | —%               |
| <b>Total</b>      | <b>\$ 850</b>      | <b>100%</b>      | <b>\$ 956</b>     | <b>100%</b>      |
| <b>NRSRO:</b>     |                    |                  |                   |                  |
| AAA               | \$ 27              | 3%               | \$ 43             | 4%               |
| AA                | 16                 | 2%               | 11                | 1%               |
| A                 | 50                 | 6%               | 36                | 4%               |
| BBB               | 38                 | 4%               | 67                | 7%               |
| BB and below      | 719                | 85%              | 799               | 84%              |
| <b>Total</b>      | <b>\$ 850</b>      | <b>100%</b>      | <b>\$ 956</b>     | <b>100%</b>      |
| <b>Vintage:</b>   |                    |                  |                   |                  |
| 2017              | \$ 12              | 1%               | \$ 12             | 1%               |
| 2016              | 15                 | 2%               | 15                | 2%               |
| 2007              | 178                | 21%              | 199               | 21%              |
| 2006              | 312                | 37%              | 346               | 36%              |
| 2005 and prior    | 333                | 39%              | 384               | 40%              |
| <b>Total</b>      | <b>\$ 850</b>      | <b>100%</b>      | <b>\$ 956</b>     | <b>100%</b>      |

**ABS Exposure**

As of September 30, 2018 and December 31, 2017, our ABS exposure was largely composed of CLOs, which comprised 61% and 68%, respectively, of all ABS holdings. These exposures are generally senior tranches of CLOs which have leveraged loans as their underlying collateral. The remainder of our ABS exposure was largely diversified by underlying collateral and issuer type, including automobile and home equity receivables.

As of September 30, 2018, the non-CLO exposure represents 39% of total ABS assets, or 6% of total invested assets and the CLO and non-CLO positions were trading at a net unrealized loss position of \$13 and \$10, respectively. As of December 31, 2017, the non-CLO exposure represented 32% of total ABS assets, or 4% of total invested assets and the CLO and non-CLO positions were trading at a net unrealized gain position of \$4 and \$0, respectively.

The following tables summarize our ABS exposure.

| Asset Class      | September 30, 2018 |             | December 31, 2017 |             |
|------------------|--------------------|-------------|-------------------|-------------|
|                  | Fair Value         | Percent     | Fair Value        | Percent     |
| ABS CLO          | \$ 2,259           | 61%         | \$ 2,078          | 68%         |
| ABS auto         | 3                  | —%          | 4                 | —%          |
| ABS credit card  | 3                  | —%          | 3                 | —%          |
| ABS other        | 1,417              | 39%         | 980               | 32%         |
| <b>Total ABS</b> | <b>\$ 3,682</b>    | <b>100%</b> | <b>\$ 3,065</b>   | <b>100%</b> |

## **Commercial Mortgage Loans**

We rate all CMLs to quantify the level of risk. We place those loans with higher risk on a watch list and closely monitor them for collateral deficiency or other credit events that may lead to a potential loss of principal and/or interest. If we determine the value of any CML to be impaired (i.e., when it is probable that we will be unable to collect on amounts due according to the contractual terms of the loan agreement), the carrying value of the CML is reduced to either the present value of expected cash flows from the loan, discounted at the loan's effective interest rate, or fair value of the collateral. For those mortgage loans that are determined to require foreclosure, the carrying value is reduced to the fair value of the underlying collateral, net of estimated costs to obtain and sell at the point of foreclosure. The carrying value of the impaired loans is reduced by establishing a specific write-down recorded in "Net realized capital gains (losses)" in the Condensed Consolidated Statements of Operations.

Loan-to-value ("LTV") and debt service coverage ("DSC") ratios are utilized as part of the review process described above. See "Note 4. Investments" to our unaudited condensed consolidated financial statements for additional information regarding our LTV and DSC ratios.

As of September 30, 2018, our mortgage loans on real estate portfolio had a weighted average DSC ratio of 2.3 times, and a weighted average LTV ratio of 49%.

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**Unrealized Losses**

The amortized cost and fair value of the fixed maturity securities and the equity securities that were in an unrealized loss position as of September 30, 2018 and December 31, 2017 were as follows:

|   | September 30, 2018   |                  |                   |                  |
|---|----------------------|------------------|-------------------|------------------|
|   | Number of securities | Amortized Cost   | Unrealized Losses | Fair Value       |
| Fixed maturity securities, available for sale:            |                      |                  |                   |                  |
| United States Government full faith and credit            | 15                   | \$ 141           | \$ (2)            | \$ 139           |
| United States Government sponsored agencies               | 75                   | 93               | (2)               | 91               |
| United States municipalities, states and territories      | 143                  | 1,408            | (52)              | 1,356            |
| Foreign Governments                                       | 16                   | 149              | (6)               | 143              |
| Corporate securities:                                     |                      |                  |                   |                  |
| Finance, insurance and real estate                        | 330                  | 4,402            | (216)             | 4,186            |
| Manufacturing, construction and mining                    | 93                   | 655              | (39)              | 616              |
| Utilities, energy and related sectors                     | 233                  | 2,490            | (130)             | 2,360            |
| Wholesale/retail trade                                    | 207                  | 1,589            | (104)             | 1,485            |
| Services, media and other                                 | 269                  | 2,428            | (119)             | 2,309            |
| Hybrid securities   | 54                   | 832              | (36)              | 796              |
| Non-agency residential mortgage backed securities         | 133                  | 815              | (8)               | 807              |
| Commercial mortgage backed securities                     | 145                  | 1,233            | (25)              | 1,208            |
| Asset backed securities                                   | 336                  | 2,891            | (28)              | 2,863            |
| <b>Total fixed maturity available for sale securities</b> | <b>2,049</b>         | <b>19,126</b>    | <b>(767)</b>      | <b>18,359</b>    |
| Equity securities   | 87                   | 1,352            | (52)              | 1,300            |
| <b>Total</b>  | <b>2,136</b>         | <b>\$ 20,478</b> | <b>\$ (819)</b>   | <b>\$ 19,659</b> |

  

|   | December 31, 2017    |                 |                   |                 |
|---|----------------------|-----------------|-------------------|-----------------|
|   | Number of securities | Amortized Cost  | Unrealized Losses | Fair Value      |
| Fixed maturity securities, available for sale:            |                      |                 |                   |                 |
| United States Government full faith and credit            | 9                    | \$ 74           | \$ —              | \$ 74           |
| United States Government sponsored agencies               | 54                   | 58              | (1)               | 57              |
| United States municipalities, states and territories      | 46                   | 286             | (1)               | 285             |
| Foreign Governments                                       | 9                    | 141             | (1)               | 140             |
| Corporate securities:                                     |                      |                 |                   |                 |
| Finance, insurance and real estate                        | 183                  | 1,914           | (5)               | 1,909           |
| Manufacturing, construction and mining                    | 50                   | 290             | (2)               | 288             |
| Utilities, energy and related sectors                     | 70                   | 506             | (6)               | 500             |
| Wholesale/retail trade                                    | 115                  | 610             | (2)               | 608             |
| Services, media and other                                 | 98                   | 513             | (4)               | 509             |
| Hybrid securities   | 27                   | 269             | (3)               | 266             |
| Non-agency residential mortgage backed securities         | 205                  | 884             | (2)               | 882             |
| Commercial mortgage backed securities                     | 64                   | 479             | (1)               | 478             |
| Asset backed securities                                   | 236                  | 1,947           | (3)               | 1,944           |
| <b>Total fixed maturity available for sale securities</b> | <b>1,166</b>         | <b>7,971</b>    | <b>(31)</b>       | <b>7,940</b>    |
| Equity securities   | 58                   | 805             | (7)               | 798             |
| <b>Total</b>  | <b>\$ 1,224</b>      | <b>\$ 8,776</b> | <b>\$ (38)</b>    | <b>\$ 8,738</b> |

The gross unrealized loss position on the available-for-sale fixed and equity portfolio increased \$781 from December 31, 2017 to September 30, 2018. Most components of the portfolio exhibited price declines as interest rates rose and credit spreads widened during the period. The total book value of all securities in an unrealized loss position was \$20,478 and \$8,776 as of September 30, 2018 and December 31, 2017, respectively. The total book value of all securities in an unrealized loss position increased 133% from December 31, 2017 to September 30,



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2018. The average market value/book value of corporate bonds in an unrealized loss position was 95% and 100% as of September 30, 2018 and December 31, 2017, respectively. In aggregate, corporate bonds represented 74% and 50% of the total unrealized loss position of the fixed and equity securities as of September 30, 2018 and December 31, 2017, respectively.

Our municipal bond exposure is a combination of general obligation bonds (fair value of \$259 and an amortized cost of \$270 as of September 30, 2018) and special revenue bonds (fair value of \$1,122 and amortized cost of \$1,164 as of September 30, 2018).

Across all municipal bonds, the largest issuer represented 8% of the category, less than 1% of the entire portfolio and is rated NAIC 1. Our focus within municipal bonds is on NAIC 1 rated instruments, and 91% of our municipal bond exposure is rated NAIC 1.

The amortized cost and fair value of fixed maturity securities and equity securities (excluding U.S. Government and U.S. Government-sponsored agency securities) in an unrealized loss position greater than 20% and the number of months in an unrealized loss position with fixed maturity investment grade securities (NRSRO rating of BBB/Baa or higher) as of September 30, 2018 and December 31, 2017, were as follows:

|  | September 30, 2018   |                |            |                         |
|--|----------------------|----------------|------------|-------------------------|
|  | Number of securities | Amortized Cost | Fair Value | Gross Unrealized Losses |
| <b>Investment grade:</b>                       |                      |                |            |                         |
| Less than six months                           | —                    | \$ —           | \$ —       | \$ —                    |
| Six months or more and less than twelve months | —                    | —              | —          | —                       |
| Twelve months or greater                       | —                    | —              | —          | —                       |
| Total investment grade                         | —                    | —              | —          | —                       |
| <b>Below investment grade:</b>                 |                      |                |            |                         |
| Less than six months                           | 2                    | —              | —          | —                       |
| Six months or more and less than twelve months | 2                    | 7              | 5          | (2)                     |
| Twelve months or greater                       | —                    | —              | —          | —                       |
| Total below investment grade                   | 4                    | 7              | 5          | (2)                     |
| <b>Total</b>                                   | 4                    | \$ 7           | \$ 5       | \$ (2)                  |
|  |                      |                |            |                         |
|  | December 31, 2017    |                |            |                         |
|  | Number of securities | Amortized Cost | Fair Value | Gross Unrealized Losses |
| <b>Investment grade:</b>                       |                      |                |            |                         |
| Less than six months                           | —                    | \$ —           | \$ —       | \$ —                    |
| Six months or more and less than twelve months | —                    | —              | —          | —                       |
| Twelve months or greater                       | —                    | —              | —          | —                       |
| Total investment grade                         | —                    | —              | —          | —                       |
| <b>Below investment grade:</b>                 |                      |                |            |                         |
| Less than six months                           | 1                    | 13             | 10         | (3)                     |
| Six months or more and less than twelve months | —                    | —              | —          | —                       |
| Twelve months or greater                       | —                    | —              | —          | —                       |
| Total below investment grade                   | 1                    | 13             | 10         | (3)                     |
| <b>Total</b>                                   | 1                    | \$ 13          | \$ 10      | \$ (3)                  |

### ***OTTI and Watch List***

At September 30, 2018 and December 31, 2017, our watch list included 5 and 1 securities, respectively, in an unrealized loss position with an amortized cost of \$7 and \$13, unrealized losses of \$2 and \$3, and a fair value of \$5 and \$10, respectively. As part of the cash flow testing analysis, we evaluated each of these securities to assess the following:

- whether the issuer is currently meeting its financial obligations
- its ability to continue to meet these obligations
- its existing cash available
- its access to additional available capital
- any expense management actions the issuer has taken; and
- whether the issuer has the ability and willingness to sell non-core assets to generate liquidity

Based on our analysis, these securities demonstrated that the September 30, 2018 and December 31, 2017 carrying values were fully recoverable.

There were 3 and 0 structured securities with a fair value of \$0 and \$0 on the watch list to which we had potential credit exposure as of September 30, 2018 and December 31, 2017, respectively. Our analysis of these structured securities, which included cash flow testing results, demonstrated the September 30, 2018 and December 31, 2017 values were fully recoverable.

### ***Exposure to Sovereign Debt***

Our investment portfolio had no direct exposure to European sovereign debt as of September 30, 2018 and December 31, 2017.

As of September 30, 2018 and December 31, 2017 the Company also had no material exposure risk related to financial investments in Puerto Rico.

### ***Available-For-Sale Securities***

For additional information regarding our AFS securities, including the amortized cost, gross unrealized gains (losses), and fair value as well as the amortized cost and fair value of fixed maturity AFS securities by contractual maturities as of September 30, 2018, refer to "Note 4. Investments", to our unaudited condensed consolidated financial statements.

### ***Concentrations of Financial Instruments***

For detail regarding our concentration of financial instruments refer to "Note 3. Significant Risks and Uncertainties" to our unaudited condensed consolidated financial statements.

### ***Derivatives***

We are exposed to credit loss in the event of nonperformance by our counterparties on call options. We attempt to reduce this credit risk by purchasing such options from large, well-established financial institutions.

We also hold cash and cash equivalents received from counterparties for call option collateral, as well as U.S. Government securities pledged as call option collateral, if our counterparty's net exposures exceed pre-determined thresholds.

In June 2017, the Company began a program to reduce the negative interest cost associated with cash collateral posted from counterparties under various ISDA agreements by reinvesting derivative cash collateral. The Company is required to pay counterparties the effective federal funds rate each day for cash collateral posted to FGL for daily mark to market margin changes. The new program permits collateral cash received to be invested in short term Treasury securities and commercial paper rated A1/P1 which are included in "Cash and cash equivalents" in the accompanying Condensed Consolidated Balance Sheets.

See "Note 5. Derivative Financial Instruments" to our unaudited condensed consolidated financial statements for additional information regarding our derivatives and our exposure to credit loss on call options.

## Liquidity and Capital Resources

### Liquidity and Cash Flow

Liquidity refers to the ability of an enterprise to generate adequate amounts of cash from its normal operations to meet cash requirements with a prudent margin of safety. Our principal sources of cash flow from operating activities are insurance premiums, and fees and investment income, however, sources of cash flows from investing activities also result from maturities and sales of invested assets. Our operating activities provided (used) cash of \$264 in the nine months ended September 30, 2018 and \$165 in the Predecessor nine months ended September 30, 2017, respectively. When considering our liquidity and cash flow, it is important to distinguish between the needs of our insurance subsidiaries and the needs of the holding company, FGL Holdings. As a holding company with no operations of its own, FGL Holdings derives its cash primarily from its insurance subsidiaries and CF Bermuda Holdings Limited, a Bermuda exempted limited liability company and a wholly owned direct subsidiary of the Company ("CF Bermuda"), a downstream holding company that provides additional sources of liquidity. Dividends from our insurance subsidiaries flow through CF Bermuda to FGL Holdings.

The sources of liquidity of the holding company are principally comprised of dividends from subsidiaries, bank lines of credit (at FGLH level) and the ability to raise long-term public financing under an SEC-filed registration statement or private placement offering. These sources of liquidity and cash flow support the general corporate needs of the holding company, interest and debt service, funding acquisitions and investment in core businesses.

Our cash flows associated with collateral received from and posted with counterparties change as the market value of the underlying derivative contract changes. As the value of a derivative asset declines (or increases), the collateral required to be posted by our counterparties would also decline (or increase). Likewise, when the value of a derivative liability declines (or increases), the collateral we are required to post to our counterparties would also decline (or increase).

### Discussion of Consolidated Cash Flows

Presented below is a table that summarizes the cash provided or used in our activities and the amount of the respective increases or decreases in cash provided or used from those activities for the nine months ended September 30, 2018, the Predecessor nine months ended September 30, 2017:

(dollars in millions)

|  | Nine months ended     |                       |
|--|-----------------------|-----------------------|
|  | September 30,<br>2018 | September 30,<br>2017 |
| <b>Cash provided by (used in):</b>                   |                       | Predecessor           |
| Operating activities                                 | \$ 264                | \$ 165                |
| Investing activities                                 | (1,696)               | (623)                 |
| Financing activities                                 | 1,161                 | 711                   |
| Net increase (decrease) in cash and cash equivalents | \$ (271)              | \$ 253                |

#### Operating Activities

Cash provided by operating activities totaled \$264 and \$165 for the nine months ended September 30, 2018 and the Predecessor nine months ended September 30, 2017, respectively, which were principally due to a \$129 increase of investment income receipts period over period, partially offset by a \$53 increase in deferred acquisition costs period over period.

#### Investing Activities

Cash used in investing activities was \$1,696 and \$623 for the nine months ended September 30, 2018 and the Predecessor nine months ended September 30, 2017, respectively, which were principally due to the purchases of fixed maturity securities and other investments, net of cash proceeds from sales, maturities and repayments.

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### *Financing Activities*

Cash provided by financing activities was \$1,161 and \$711 for the Company in the nine months ended September 30, 2018 and the Predecessor nine months ended September 30, 2017, respectively, which were primarily related to the issuance of investment contracts and pending new production, including annuity and universal life insurance contracts, net of redemptions and benefit payments.

On April 20, 2018, the FGLH completed a debt offering of \$550 aggregate principal amount of 5.50% senior notes due 2025 (the “5.50% Senior Notes”). The Company used the net proceeds of the offering (i) to repay \$135 of borrowings under its revolving credit facility and related expenses and (ii) to redeem in full and satisfy and discharge all of the outstanding \$300 aggregate principal amount of FGLH's outstanding 6.375% Senior Notes due 2021. The Company also expects to use the remaining proceeds for general corporate purposes, which may include additional capital contributions to the Company's insurance subsidiaries.

The 5.50% Senior Notes were issued pursuant to an indenture, dated as of April 20, 2018 (the “Base Indenture”), among FGLH, the guarantors from time to time party thereto and Wells Fargo Bank, National Association, as trustee (the “Trustee”), and a supplemental indenture thereto (the “Supplemental Indenture” and, together with the Base Indenture, the “Indenture”). FGLH will pay interest on the 5.50% Senior Notes in cash on May 1 and November 1 of each year at a rate of 5.50% per annum. Interest on the 5.50% Senior Notes will accrue from and including April 20, 2018 and the first interest payment date is November 1, 2018. The 5.50% Senior Notes will mature on May 1, 2025. The 5.50% Senior Notes are fully and unconditionally guaranteed by FGLH's direct parent, FGL US Holdings Inc., a Delaware corporation, FGL's indirect parent, CF Bermuda, and certain existing and future wholly-owned domestic restricted subsidiaries of the CF Bermuda, other than its insurance subsidiaries.

The Indenture contains covenants that restrict the CF Bermuda's and its restricted subsidiaries' ability to, among other things, pay dividends on or make other distributions in respect of equity interests or make other restricted payments, make certain investments, incur or guarantee additional indebtedness, create liens on certain assets to secure debt, sell certain assets, consummate certain mergers or consolidations or sell all or substantially all assets, or enter into transactions with affiliates.

### *Off-Balance Sheet Arrangements*

Throughout our history, we have entered into indemnifications in the ordinary course of business with our customers, suppliers, service providers, business partners and in certain instances, when we sold businesses. Additionally, we have indemnified our directors and officers who are, or were, serving at our request in such capacities. Although the specific terms or number of such arrangements is not precisely known due to the extensive history of our past operations, costs incurred to settle claims related to these indemnifications have not been material to our financial statements. We have no reason to believe that future costs to settle claims related to our former operations will have a material impact on our financial position, results of operations or cash flows.

On November 30, 2017, FGLH and CF Bermuda, together as borrowers and each as a borrower, entered into the Credit Agreement with certain financial institutions party thereto, as lenders, and Royal Bank of Canada, as administrative agent and letter of credit issuer, which provides for a \$250 senior unsecured revolving credit facility with a maturity of three years. The Credit Agreement provides a letter of credit sub-facility in a maximum amount of \$20. The borrowers are permitted to use the proceeds of the loans under the Credit Agreement for working capital, growth initiatives and general corporate purposes, as well as to pay fees, commissions and expenses incurred in connection with the Credit Agreement and the transactions contemplated thereby. Amounts borrowed under the Credit Agreement may be reborrowed until the maturity date or termination of commitments under the Credit Agreement. The borrowers may increase the maximum amount of availability under the Credit Agreement from time to time by up to an aggregate amount not to exceed \$50, subject to certain conditions, including the consent of the lenders participating in each such increase. As of September 30, 2018, the total drawn on the revolver was \$0.



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The Company has unfunded investment commitments as of September 30, 2018 based upon the timing of when investments are executed compared to when the actual investments are funded, as some investments require that funding occur over a period of months or years. A summary of unfunded commitments by invested asset class are included below:

|   | <u>September 30, 2018</u> |            |
|---|---------------------------|------------|
| <b>Asset Type</b>                             |                           |            |
| Other invested assets                         | \$                        | 859        |
| Equity securities                             |                           | 31         |
| Fixed maturity securities, available-for-sale |                           | 43         |
| Other assets                                  |                           | 9          |
| <b>Total</b>                                  | <b>\$</b>                 | <b>942</b> |

### **Item 3.      *Quantitative and Qualitative Disclosures about Market Risk***

#### **Market Risk Factors**

Market risk is the risk of the loss of fair value resulting from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates, commodity prices and equity prices. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying financial instruments are traded. We have significant holdings in financial instruments and are naturally exposed to a variety of market risks. We are primarily exposed to interest rate risk, credit risk and equity price risk and have some exposure to counterparty risk, which affect the fair value of financial instruments subject to market risk.

#### **Enterprise Risk Management**

For information about our enterprise risk management see "Part II - Item 7a Quantitative and Qualitative Disclosures about Market Risk" included in our 2017 Form 10-K.

#### **Interest Rate Risk**

Interest rate risk is our primary market risk exposure. We define interest rate risk as the risk of an economic loss due to adverse changes in interest rates. This risk arises from our holdings in interest sensitive assets and liabilities, primarily as a result of investing life insurance premiums and fixed annuity deposits received in interest-sensitive assets and carrying these funds as interest-sensitive liabilities. Substantial and sustained increases or decreases in market interest rates can affect the profitability of the insurance products and the fair value of our investments, as the majority of our insurance liabilities are backed by fixed maturity securities.

The profitability of most of our products depends on the spreads between interest yield on investments and rates credited on insurance liabilities. We have the ability to adjust the rates credited, primarily caps and credit rates, on the majority of the annuity liabilities at least annually, subject to minimum guaranteed values. In addition, the majority of the annuity products have surrender and withdrawal penalty provisions designed to encourage persistency and to help ensure targeted spreads are earned. However, competitive factors, including the impact of the level of surrenders and withdrawals, may limit our ability to adjust or maintain crediting rates at the levels necessary to avoid a narrowing of spreads under certain market conditions.

In order to meet our policy and contractual obligations, we must earn a sufficient return on our invested assets. Significant changes in interest rates exposes us to the risk of not earning the anticipated spreads between the interest rate earned on our investments and the credited interest rates paid on outstanding policies and contracts. Both rising and declining interest rates can negatively affect interest earnings, spread income and the attractiveness of certain of our products.

During periods of increasing interest rates, we may offer higher crediting rates on interest-sensitive products, such as IUL insurance and fixed annuities, and we may increase crediting rates on in-force products to keep these products competitive. A rise in interest rates, in the absence of other countervailing changes, will result in a decline in the market value of our investment portfolio.

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As part of our asset liability management (“ALM”) program, we have made a significant effort to identify the assets appropriate to different product lines and ensure investing strategies match the profile of these liabilities. Our ALM strategy is designed to align the expected cash flows from the investment portfolio with the expected liability cash flows. As such, a major component of our effort to manage interest rate risk has been to structure the investment portfolio with cash flow characteristics that are consistent with the cash flow characteristics of the insurance liabilities. We use actuarial models to simulate the cash flows expected from the existing business under various interest rate scenarios. These simulations enable us to measure the potential gain or loss in the fair value of interest rate-sensitive financial instruments, to evaluate the adequacy of expected cash flows from assets to meet the expected cash requirements of the liabilities and to determine if it is necessary to lengthen or shorten the average life and duration of our investment portfolio. Duration measures the price sensitivity of a security to a small change in interest rates. When the durations of assets and liabilities are similar, exposure to interest rate risk is minimized because a change in the value of assets could be expected to be largely offset by a change in the value of liabilities.

The duration of the investment portfolio, excluding cash and cash equivalents, derivatives, policy loans, and common stocks as of September 30, 2018, is summarized as follows:

(dollars in millions)

| Duration     | Amortized Cost   | % of Total  |
|--------------|------------------|-------------|
| 0-4          | \$ 8,358         | 34%         |
| 5-9          | 7,146            | 29%         |
| 10-14        | 7,399            | 30%         |
| 15-19        | 1,813            | 7%          |
| 20-25        | 7                | —%          |
| <b>Total</b> | <b>\$ 24,723</b> | <b>100%</b> |

### Credit Risk and Counterparty Risk

We are exposed to the risk that a counterparty will default on its contractual obligation resulting in financial loss. The major source of credit risk arises predominantly in our insurance operations’ portfolios of debt and similar securities and FSRC’s funds withheld receivables portfolio that consists primarily of debt and equity securities. The fair value of our fixed maturity portfolio totaled \$21 billion and \$21 billion at September 30, 2018 and December 31, 2017, respectively. Our credit risk materializes primarily as impairment losses. We are exposed to occasional cyclical economic downturns, during which impairment losses may be significantly higher than the long-term historical average. This is offset by years where we expect the actual impairment losses to be substantially lower than the long-term average. Credit risk in the portfolio can also materialize as increased capital requirements as assets migrate into lower credit qualities over time. The effect of rating migration on our capital requirements is also dependent on the economic cycle and increased asset impairment levels may go hand in hand with increased asset related capital requirements.

We attempt to manage the risk of default and rating migration by applying disciplined credit evaluation and underwriting standards and limiting allocations to lower quality, higher risk investments. In addition, we diversify our exposure by issuer and country, using rating based issuer and country limits. We also set investment constraints that limit our exposure by industry segment. To limit the impact that credit risk can have on earnings and capital adequacy levels, we have portfolio-level credit risk constraints in place. Limit compliance is monitored on a monthly or, in some cases, daily basis.

In connection with the use of call options, we are exposed to counterparty credit risk—the risk that a counterparty fails to perform under the terms of the derivative contract. We have adopted a policy of only dealing with credit worthy counterparties and obtaining sufficient collateral where appropriate, as a means of attempting to mitigate the financial loss from defaults. The exposure and credit rating of the counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst different approved counterparties to limit the concentration in one counterparty. Our policy allows for the purchase of derivative instruments from counterparties and/or clearinghouses that meet the required qualifications under the Iowa Code. The Company reviews the ratings of all the counterparties periodically. Collateral support documents are negotiated to further reduce the exposure when deemed necessary. See "Note 5. Derivative Financial Instruments" to our unaudited condensed consolidated financial statements for additional information regarding our exposure to credit loss.

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Information regarding the Company's exposure to credit loss on the call options it holds is presented in the following table:

| (dollars in millions) | Counterparty                          | Credit Rating<br>(Fitch/Moody's/S&P)<br>(a) | September 30, 2018 |               |               |                 | December 31, 2017 |               |               |                 |
|-----------------------|---------------------------------------|---|--------------------|---------------|---------------|-----------------|-------------------|---------------|---------------|-----------------|
|                       |                                       |   | Notional Amount    | Fair Value    | Collateral    | Net Credit Risk | Notional Amount   | Fair Value    | Collateral    | Net Credit Risk |
|                       | Merrill Lynch                         | A+*/A+                                      | \$ 3,515           | \$ 129        | \$ 89         | \$ 40           | \$ 2,780          | \$ 150        | \$ 118        | \$ 32           |
|                       | Deutsche Bank                         | A-/A3/BBB+                                  | 1,286              | 46            | 47            | (1)             | 1,345             | 51            | 55            | (4)             |
|                       | Morgan Stanley                        | */A1/A+                                     | 1,969              | 66            | 72            | (6)             | 1,555             | 92            | 101           | (9)             |
|                       | Barclay's Bank                        | A/Baa3/BBB                                  | 1,387              | 65            | 42            | 23              | 2,090             | 103           | 95            | 8               |
|                       | Canadian Imperial<br>Bank of Commerce | */Aa2/A+                                    | 2,376              | 81            | 82            | (1)             | 2,807             | 96            | 98            | (2)             |
|                       | Wells Fargo                           | A+/A2/A-                                    | 1,063              | 37            | 37            | —               | —                 | —             | —             | —               |
|                       | Goldman Sachs                         | A/A3/BBB+                                   | 309                | 7             | 8             | (1)             | \$ —              | \$ —          | \$ —          | \$ —            |
|                       | <b>Total</b>                          |   | <b>\$ 11,905</b>   | <b>\$ 431</b> | <b>\$ 377</b> | <b>\$ 54</b>    | <b>\$ 10,577</b>  | <b>\$ 492</b> | <b>\$ 467</b> | <b>\$ 25</b>    |

(a) An \* represents credit ratings that were not available.

We also have credit risk related to the ability of reinsurance counterparties to honor their obligations to pay the contract amounts under various agreements. To minimize the risk of credit loss on such contracts, we diversify our exposures among many reinsurers and limit the amount of exposure to each based on credit rating. We also generally limit our selection of counterparties with which we do new transactions to those with an "A-" credit rating or above and/or that are appropriately collateralized and provide credit for reinsurance. When exceptions are made to that principle, we ensure that we obtain collateral to mitigate our risk of loss. The following table presents our reinsurance recoverable balances and financial strength ratings for our five largest reinsurance recoverable balances as of September 30, 2018:

| (in millions) | Parent Company/Principal Reinsurers | Reinsurance Recoverable | Financial Strength Rating |           |           |
|---------------|-------------------------------------|-------------------------|---------------------------|-----------|-----------|
|               |                                     |                         | AM Best                   | S&P       | Moody's   |
|               | Wilton Re.                          | \$1,546                 | A+                        | Not Rated | Not Rated |
|               | Security Life of Denver             | 164                     | A                         | A         | A2        |
|               | Hannover Re                         | 125                     | A+                        | AA-       | Not Rated |
|               | London Life                         | 110                     | A+                        | Not Rated | Not Rated |
|               | Swiss Re Life and Health            | 103                     | A+                        | AA-       | Aa3       |

In the normal course of business, certain reinsurance recoverables are subject to reviews by the reinsurers. We are not aware of any material disputes arising from these reviews or other communications with the counterparties as of September 30, 2018 that would require an allowance for uncollectible amounts.

Through FSRC, the Company is exposed to insurance counterparty risk, which is the potential for FSRC to incur losses due to a client, retrocessionaire, or partner becoming distressed or insolvent. This includes run-on-the-bank risk and collection risk. The run-on-the-bank risk is that a client's in force block incurs substantial surrenders and/or lapses due to credit impairment, reputation damage or other market changes affecting the counterparty. Substantially higher than expected surrenders and/or lapses could result in inadequate in force business to recover cash paid out for acquisition costs. The collection risk for clients and retrocessionaires includes their inability to satisfy a reinsurance agreement because the right of offset is disallowed by the receivership court; the reinsurance contract is rejected by the receiver, resulting in a premature termination of the contract; and/or the security supporting the transaction becomes unavailable to FSRC. To limit the impact that credit risk can have on earnings and capital adequacy levels, FSRC has portfolio-level credit risk constraints in place. Limit compliance is monitored on a daily or, in some cases, monthly basis.

## Equity Price Risk

We are primarily exposed to equity price risk through certain insurance products, specifically those products with GMWB. We offer a variety of FIA contracts with crediting strategies linked to the performance of indices such as the S&P 500 Index, Dow Jones Industrials or the NASDAQ 100 Index. The estimated cost of providing GMWB incorporates various assumptions about the overall performance of equity markets over certain time periods. Periods of significant and sustained downturns in equity markets, increased equity volatility or reduced interest rates could result in an increase in the valuation of the future policy benefit or policyholder account balance liabilities associated with such products, resulting in a reduction in our net income. The rate of amortization of intangibles related to FIA products and the cost of providing GMWB could also increase if equity market performance is worse than assumed.

To economically hedge the equity returns on these products, we purchase derivatives to hedge the FIA equity exposure. The primary way we hedge FIA equity exposure is to purchase over the counter equity index call options from broker-dealer derivative counterparties approved by the Company. The second way to hedge FIA equity exposure is by purchasing exchange traded equity index futures contracts. Our hedging strategy enables us to reduce our overall hedging costs and achieve a high correlation of returns on the call options purchased relative to the index credits earned by the FIA contractholders. The majority of the call options are one-year options purchased to match the funding requirements underlying the FIA contracts. These hedge programs are limited to the current policy term of the FIA contracts, based on current participation rates. Future returns, which may be reflected in FIA contracts' credited rates beyond the current policy term, are not hedged. We attempt to manage the costs of these purchases through the terms of our FIA contracts, which permit us to change caps or participation rates, subject to certain guaranteed minimums that must be maintained.

The derivatives are used to fund the FIA contract index credits and the cost of the call options purchased is treated as a component of spread earnings. While the FIA hedging program does not explicitly hedge GAAP income volatility, the FIA hedging program tends to mitigate a significant portion of the GAAP reserve changes associated with movements in the equity market and risk-free rates. This is due to the fact that a key component in the calculation of GAAP reserves is the market valuation of the current term embedded derivative. Due to the alignment of the embedded derivative reserve component with hedging of this same embedded derivative, there should be a reasonable match between changes in this component of the reserve and changes in the assets backing this component of the reserve. However, there may be an interim mismatch due to the fact that the hedges which are put in place are only intended to cover exposures expected to remain until the end of an indexing term. To the extent index credits earned by the contractholder exceed the proceeds from option expirations and futures income, we incur a raw hedging loss.

See "Note 5. Derivative Financial Instruments" to our unaudited condensed consolidated financial statements for additional details on the derivatives portfolio.

Fair value changes associated with these investments are intended to, but do not always, substantially offset the increase or decrease in the amounts added to policyholder account balances for index products. When index credits to policyholders exceed option proceeds received at expiration related to such credits, any shortfall is funded by our net investment spread earnings and futures income. For the nine months ended September 30, 2018 and the Predecessor nine months ended September 30, 2017, the annual index credits to policyholders on their anniversaries were \$328 and \$232, respectively. Proceeds received at expiration on options related to such credits were \$332 and \$232, respectively.

Other market exposures are hedged periodically depending on market conditions and our risk tolerance. The FIA hedging strategy economically hedges the equity returns and exposes us to the risk that unhedged market exposures result in divergence between changes in the fair value of the liabilities and the hedging assets. We use a variety of techniques including direct estimation of market sensitivities and value-at-risk to monitor this risk daily. We intend to continue to adjust the hedging strategy as market conditions and risk tolerance change.

## **Sensitivity Analysis**

The analysis below is hypothetical and should not be considered a projection of future risks. Earnings projections are before tax and non-controlling interest.

### ***Interest Rate Risk***

We assess interest rate exposures for financial assets, liabilities and derivatives using hypothetical test scenarios that assume either increasing or decreasing 100 basis point parallel shifts in the yield curve, reflecting changes in either credit spreads or risk-free rates.

If interest rates were to increase 100 basis points from levels at September 30, 2018, the estimated fair value of our fixed maturity securities would decrease by approximately \$1,614. The impact on shareholders' equity of such decrease, net of income taxes (assumes a 21% tax rate) and intangibles adjustments, and the change in reinsurance related derivative would be a decrease of \$1,272 in AOCI and a decrease of \$1,231 in total shareholders' equity. If interest rates were to decrease by 100 basis points from levels at September 30, 2018, the estimated impact on the FIA embedded derivative liability of such a decrease would be an increase of \$234.

The actuarial models used to estimate the impact of a one percentage point change in market interest rates incorporate numerous assumptions, require significant estimates and assume an immediate and parallel change in interest rates without any management of the investment portfolio in reaction to such change. Consequently, potential changes in value of financial instruments indicated by these simulations will likely be different from the actual changes experienced under given interest rate scenarios, and the differences may be material. Because we actively manage our investments and liabilities, the net exposure to interest rates can vary over time. However, any such decreases in the fair value of fixed maturity securities, unless related to credit concerns of the issuer requiring recognition of an OTTI, would generally be realized only if we were required to sell such securities at losses prior to their maturity to meet liquidity needs. Our liquidity needs are managed using the surrender and withdrawal provisions of the annuity contracts and through other means.

### ***Equity Price Risk***

Assuming all other factors are constant, we estimate that a decline in equity market prices of 10% would cause the market value of our equity investments to decrease by approximately \$144, our call option investments to decrease by approximately \$18 based on equity positions and our FIA embedded derivative liability to decrease by approximately \$35 as of September 30, 2018. Due to the adoption of ASU 2016-01, the 10% decline in market value of our equity securities would affect current earnings. These scenarios consider only the direct effect on fair value of declines in equity market levels and not changes in asset-based fees recognized as revenue, or changes in our estimates of total gross profits used as a basis for amortizing DAC and VOBA.

## **Item 4. Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

An evaluation was performed under the supervision and participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this report. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that, as of September 30, 2018, the Company's disclosure controls and procedures were effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and is accumulated and communicated to the Company's management, including the Company's CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Notwithstanding the foregoing, there can be no assurance that the Company's disclosure controls and procedures will detect or uncover all failures of persons within the Company to disclose material information otherwise required to be set forth in the Company's periodic reports. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable, not absolute, assurance of achieving their control objectives.

## **Changes in Internal Control Over Financial Reporting**

The design and implementation of internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company post-Business Combination has required and will continue to require significant time and resources from management and other personnel. During the quarter ended September 30, 2018, we continue to engage in the process of the design and implementation of our internal control over financial reporting in a manner commensurate with the scale and complexity of our operations post-Business Combination.

In preparation for the quarter ended September 30, 2018, and in conjunction with the Company's post-Business Combination internal control implementation activities, management identified a deficiency in the design of an internal control to validate the accuracy of actuarial model methodology changes. Specifically, the design of our internal control relating to the review of the actuarial model methodology changes required to measure the Company's FIA contract reserve liabilities as part of the accounting for the Business Combination was not modified to address the increased risk associated with the complexity and volume of such changes.

As disclosed in Note 2 to the interim financial statements, this control deficiency did not result in a material misstatement of our previously issued financial statements; however, immaterial corrections were made to the Condensed Consolidated Balance Sheet as of December 31, 2017 and the Condensed Consolidated Statements of Operations for the three months ended March 31, 2018 and June 30, 2018 and the one month ended December 31, 2017. While not required to include management's report on internal controls over financial reporting in the 2017 annual report on Form 10-K pursuant to Section 215.02 of the SEC Division of Corporation Finance's Regulation S-K Compliance & Disclosure Interpretations, management has concluded the deficiency represented a material weakness in internal control over financial reporting based upon the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework (2013) (COSO 2013 Framework) as of December 31, 2017 and during the quarters ended March 31, 2018 and June 30, 2018.

We evaluated the controls associated with actuarial model methodology changes and designed a remediation plan to strengthen the control associated with the review of such changes. During the quarter ended September 30, 2018, management implemented the remediation plan and executed those procedures necessary to remediate the deficiency, which included review of the changes to the valuation model code resulting from the errors identified. Management tested the enhanced control associated with the review of actuarial model methodology changes and concluded the deficiency has been remediated as of September 30, 2018.

Management continues to execute the previously disclosed remediation plan relative to the material weakness identified during the quarter ended June 30, 2018. As of September 30, 2018 management has implemented a redesigned control associated with the identification of securities requiring analysis as to debt and equity classification under ASC 320, including validation of data, assumptions and other inputs to ensure a complete analysis has been performed. Management believes the remediation steps will strengthen the Company's internal control over financial reporting. Management will test the ongoing operating effectiveness of the new controls subsequent to implementation and anticipate this material weakness will be remediated as of December 31, 2018 (i.e., after the applicable controls operate effectively for a sufficient period of time).

Except with respect to the activities described above, the Company's management, including the CEO and CFO, concluded that no changes in the Company's internal control over financial reporting occurred during the quarter ended September 30, 2018 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## **Limitations on the Effectiveness of Controls**

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

## PART II

### Item 1. Legal Proceedings

See "Note 12. Commitments and Contingencies" to our unaudited condensed consolidated financial statements.

### Item 1A. Risk Factors

A detailed discussion of our risk factors can be found in our 2017 Form 10-K, which can be found at the SEC's website [www.sec.gov](http://www.sec.gov). There have been no material changes to the risk factors disclosed in our 2017 Form 10-K, except for the inclusion of the following risk factor regarding our growth strategy and the amendment and restatement of the risk factor regarding fiduciary rule proposals.

*Our growth strategy includes selectively acquiring business through acquisitions of other insurance companies and reinsurance of insurance obligations written by unaffiliated insurance companies, and our ability to consummate these acquisitions on economically advantageous terms acceptable to us in the future is unknown.*

We intend to grow our business in the future in part by acquisitions of other insurance companies and businesses, and through block reinsurance, which could materially increase the size of our business and could require additional capital, systems development and skilled personnel. Any such acquisitions could be funded through cash from operations, the issuance of equity and/or the incurrence of additional indebtedness, which amount may be material, or a combination thereof. We actively monitor the market for merger and acquisition opportunities; however the timing, structure and size of any such acquisitions are uncertain and any such acquisitions could be material.

Moreover, we may experience challenges identifying, financing, consummating and integrating such acquisitions and block reinsurance transactions. Competition exists in the market for profitable blocks of business and such competition is likely to intensify as insurance businesses become more attractive targets.

It is also possible that merger and acquisition transactions will become less frequent, or be difficult to consummate due to financing or other factors, which could also make it more difficult for us to implement this aspect of our growth strategy. Our acquisition and block reinsurance transaction activities may also divert the attention of our management from our business, which may have an adverse effect on our business and results of operations.

Occasionally we may acquire or seek to acquire an insurance company or business that writes businesses that are not core to our business. The ability of our management to transfer or source sufficient reasonably priced reinsurance for non-core businesses that we may acquire and want to dispose of may be limited. In the event that we were unable to find buyers or purchase adequate reinsurance, we would have to accept an increase in our net risk exposures, revise our pricing to reflect higher reinsurance premiums, or otherwise modify our acquisitions and product offerings, each of which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

In furtherance of our strategy of growth through acquisitions, we may review and conduct investigations of potential acquisitions or block reinsurance transactions, some of which may be material. When we believe a favorable opportunity exists, we may seek to enter into discussions with target companies or sellers regarding the possibility of such transactions. At any given time, we may be in discussions with one or more counterparties. There can be no assurance that any such negotiations will lead to definitive agreements, or if such agreements are reached, that any transactions would be consummated.

*Our business is highly regulated and subject to numerous legal restrictions and regulations.*

*“Fiduciary” Rule Proposals*

A significant portion of our annuity sales are to IRAs. Prior to being vacated, the DOL “fiduciary” rule applied to insurance agents who advise and sell products to IRA owners. As a result, commissioned insurance agents selling the Company’s IRA products would have been required to qualify for a prohibited transaction exemption. Although the DOL rule has been vacated in total, similar rules proposed by state officials or the Securities and Exchange Commission may have an adverse effect on sales of annuity products to IRA owners particularly in the independent agent distribution channel. Compliance with such rules may require additional supervision of agents, cause changes to compensation practices and product offerings, and increase litigation risk, all of which could have adversely impact our business, results of operations and/or financial condition. Management will continue to monitor for potential action by state officials or the Securities and Exchange Commission to implement rules similar to the vacated DOL rule.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.



**Item 6. Exhibits**

The following is a list of exhibits filed or incorporated by reference as a part of this Quarterly Report on Form 10-Q.

| <b>Exhibit No.</b> | <b>Description of Exhibits</b>   |
|--------------------|--|
| 31.1 *             | <a href="#">Certification of Chief Executive Officer, pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a> |
| 31.2 *             | <a href="#">Certification of Chief Financial Officer, pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a> |
| 32.1 *             | <a href="#">Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>      |
| 32.2 *             | <a href="#">Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>      |
| 101.INS *          | XBRL Instance Document.  |
| 101.SCH *          | XBRL Taxonomy Extension Schema.  |
| 101.CAL *          | XBRL Taxonomy Extension Calculation Linkbase.  |
| 101.DEF *          | XBRL Taxonomy Definition Linkbase.   |
| 101.LAB *          | XBRL Taxonomy Extension Label Linkbase.  |
| 101.PRE *          | XBRL Taxonomy Extension Presentation Linkbase.   |

\* Filed herewith

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**FGL HOLDINGS (Registrant)**

Date: November 7, 2018

By: /s/ Dennis R. Vigneau

Chief Financial Officer

(on behalf of the Registrant and as Principal Financial Officer)

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**Section 2: EX-31.1 (EXHIBIT 31.1)**

**Exhibit 31.1**

**CERTIFICATION OF CEO PURSUANT TO RULE 13a-14(a) or 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Christopher J. Littlefield, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended September 30, 2018 of FGL Holdings;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is

- being prepared;
- (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2018

/s/ CHRISTOPHER J. LITTLEFIELD

Christopher J. Littlefield

President & Chief Executive Officer

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## Section 3: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

**CERTIFICATION OF CFO PURSUANT TO RULE 13a-14(a) or 15d-14(a) OF THE SECURITIES  
EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002**

I, Dennis R. Vigneau, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended September 30, 2018 of FGL Holdings;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

- (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2018

/s/ DENNIS R. VIGNEAU

Dennis R. Vigneau  
Chief Financial Officer

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## **Section 4: EX-32.1 (EXHIBIT 32.1)**

**Exhibit 32.1**

### **CERTIFICATION OF CEO PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of FGL Holdings (the "Company") on Form 10-Q for the quarter ended September 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Christopher J. Littlefield, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ CHRISTOPHER J. LITTLEFIELD

Christopher J. Littlefield  
President & Chief Executive Officer

November 7, 2018

This Certification accompanies this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

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## **Section 5: EX-32.2 (EXHIBIT 32.2)**

**CERTIFICATION OF CFO PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of FGL Holdings (the “Company”) on Form 10-Q for the quarter ended September 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Dennis R. Vigneau, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ DENNIS R. VIGNEAU

Dennis R. Vigneau  
Chief Financial Officer

November 7, 2018

This Certification accompanies this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

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