FIDELITY & GUARANTY LIFE INSURANCE COMPANY

Audited Financial Statements

December 31, 2019 and 2018

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FIDELITY & GUARANTY LIFE INSURANCE COMPANY

INDEX TO STATUTORY FINANCIAL STATEMENTS

KPMG LLP
2500 Ruan Center
666 Grand Avenue
Des Moines, IA 50309

Independent Auditors' Report

The Audit Committee of the Board of Directors
Fidelity & Guaranty Life Insurance Company:

Report on the Financial Statements

We have audited the accompanying financial statements of Fidelity & Guaranty Life Insurance Company (the Company), which comprise the statutory statements of admitted assets, liabilities, and capital and surplus as of December 31, 2019 and 2018, and the related statutory statements of operations, changes in capital and surplus, and cash flow for the years then ended, and the related notes to the statutory financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with statutory accounting practices prescribed or permitted by the Iowa Department of Commerce, Insurance Division. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 to the financial statements, the financial statements are prepared by Fidelity & Guaranty Life Insurance Company using statutory accounting practices prescribed or permitted by the Iowa Department of Commerce, Insurance Division, which is a basis of accounting other than U.S. generally accepted accounting principles. Accordingly, the financial statements are not intended to be presented in accordance with U.S. generally accepted accounting principles.

The effects on the financial statements of the variances between the statutory accounting practices described in Note 1 and U.S. generally accepted accounting principles, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the variances between statutory accounting practices and U.S. generally accepted accounting principles discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to above do not present fairly, in accordance with U.S. generally accepted accounting principles, the financial position of Fidelity & Guaranty Life Insurance Company as of December 31, 2019 and 2018, or the results of its operations or its cash flows for the years then ended.

Opinion on Statutory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of Fidelity & Guaranty Life Insurance Company as of December 31, 2019 and 2018, and the results of its operations and its cash flow for the years then ended, in accordance with statutory accounting practices prescribed or permitted by the Iowa Department of Commerce, Insurance Division described in Note 1.

Emphasis of Matter

As discussed in Note 1, the Company has elected to use the alternative accounting practice prescribed by Iowa Administrative Code 191 Chapter 97, *Accounting for Certain Derivative Instruments Used to Hedge the Growth in Interest Credited for Indexed Insurance Products and Accounting for the Indexed Insurance Product Reserve.* Under this prescribed accounting practice, the call option derivative instruments that hedge the growth in interest credited on indexed annuity products are accounted for at amortized cost with the corresponding amortization recorded as a decrease to net investment income and indexed annuity reserves are calculated based on Standard Valuation Law and Actuarial Guideline XXXV which assumes the market value of the call options associated with the current index term is zero regardless of the observable market value for such options. The effect of this election was a decrease to surplus of $(110) million and an increase to surplus of $29 million at December 31, 2019 and 2018, respectively, and an increase to net income of $223.8 million and a decrease to net income of $(309.6) million for the years ended December 31, 2019 and 2018, respectively. Our opinion is not modified with respect to this matter.

As discussed in Notes 1 and 3, the Company's investment in affiliated common stock of Raven Reinsurance Company reflects the subsidiary's effect of a permitted accounting practice approved by the Vermont Department of Financial Regulation to determine its assumed reserves from the Company under statutory accounting principles prescribed by the Iowa Department of Commerce, Insurance Division. The net effects of this permitted accounting practice increased Raven Reinsurance Company's statutory surplus by $5.8 million and $1.1 million as of December 31, 2019 and 2018, respectively. The Company carries its investment in Raven Reinsurance Company using the statutory equity method, and this permitted practice resulted in a $5.8 million and $1.1 million increase in its net investment in Raven Reinsurance Company and a $5.8 million and $1.1 million increase in its capital and surplus as of December 31, 2019 and 2018, respectively. Our opinion is not modified with respect to this matter.

As discussed in Note 3, the Company's investment in affiliated common stock for Raven Reinsurance Company reflects the subsidiary's effect of a permitted accounting practice approved by the Vermont Department of Financial Regulation to include as an admitted asset the value of a letter of credit for $100 million and $110 million as of December 31, 2019 and 2018, respectively. Under prescribed statutory accounting practices, such a letter of credit would not meet the definition of an admitted asset. The Company carries its investment in Raven Reinsurance Company using the statutory equity method, and this permitted accounting practice resulted in a $100 million and $110 million increase in its net investment in Raven Reinsurance Company and a $100 million and $110 million increase in its capital and surplus as of December 31, 2019 and 2018, respectively. Our opinion is not modified with respect to this matter.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included in the supplemental schedule of selected statutory financial data, supplemental investment risks interrogatories, and the summary investment schedule is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the Iowa Department of Commerce, Insurance Division. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole

/s/KPMG LLP

Des Moines, Iowa
May 29, 2020

FIDELITY & GUARANTY LIFE INSURANCE COMPANY

STATUTORY STATEMENTS OF ADMITTED ASSETS, LIABILITIES, AND CAPITAL AND SURPLUS

as of December 31,	2019	2018
(dollars in thousands, except share data)		
ADMITTED ASSETS		
Bonds	$ 20,358,190	$ 18,947,781
Preferred stocks	949,416	1,370,487
Common stocks	1,007,303	495,701
Mortgage loans on real estate	63,503	65,813
Cash and cash equivalents	798,778	217,110
Policy loans	26,620	20,419
Derivative instruments	206,848	138,891
Surplus debentures	556,533	497,400
Investment in limited partnerships	1,005,193	505,811
Other long term invested assets	68,057	50,523
Receivable for securities	9,764	4,916
Aggregate write-ins for invested assets	353	422
Total cash and invested assets	25,050,558	22,315,274
Investment income due and accrued	204,738	191,970
Deferred and uncollected premiums, net of loading (2019, $18,884; 2018, $19,850)	(8,197)	3,363
Amounts due from reinsurers	73,588	69,813
Funds held by or deposited with reinsured companies	540	540
Federal income tax recoverable and interest thereon	17,627	—
Net deferred tax asset	80,541	129,058
Receivables from affiliates	12,602	660,901
Cash surrender value of company owned life insurance ("CSV of COLI")	129,000	—
Other assets	2,466	3,343
TOTAL ADMITTED ASSETS EXCLUDING SEPARATE ACCOUNTS	25,563,463	23,374,262
Separate accounts	1,412,466	1,355,932
TOTAL ADMITTED ASSETS	$ 26,975,929	$ 24,730,194
LIABILITIES AND CAPITAL AND SURPLUS		
LIABILITIES		
Aggregate reserves-life, annuity and accident and health	$ 16,311,883	$ 15,249,615
Liability for deposit-type contracts	299,905	341,592
Policy and contract claims	10,012	7,906
Other policyholders' funds	148	139
Amounts payable on reinsurance	18,942	836
Interest maintenance reserve (IMR)	455,173	421,505

(continued)

FIDELITY & GUARANTY LIFE INSURANCE COMPANY

STATUTORY STATEMENTS OF ADMITTED ASSETS, LIABILITIES, AND CAPITAL AND SURPLUS

as of December 31,	2019	2018
(dollars in thousands, except share data)		
General expenses due or accrued	8,186	4,850
Taxes, licenses and fees due or accrued, excluding federal income taxes	3,946	5,856
Current federal income taxes		
(including $0 in 2019 and $0 in 2018 on realized capital gains)	—	24,204
Remittances and items not allocated	121,108	100,169
Asset valuation reserve (AVR)	258,704	150,921
Reinsurance in unauthorized companies	54,309	59,281
Funds withheld from unauthorized reinsurers	6,051,959	5,579,035
Payable to parent, subsidiaries and affiliates	64,790	21,193
Funds held under coinsurance	64,201	39,176
Derivatives	314	—
Payable for securities	10,117	37,063
Retained asset account liability	141,203	161,801
Options collateral payable	443,773	58,423
Accrued expenses and other liabilities	65,236	53,245
TOTAL LIABLITIES EXCLUDING SEPARATE ACCOUNTS	24,383,909	22,316,810
Separate accounts	1,078,740	867,956
TOTAL LIABILITIES	25,462,649	23,184,766
CAPITAL AND SURPLUS		
Common stock, par value $100 (50,000 shares authorized; 30,000 shares issued and outstanding)	3,000	3,000
Paid-in and contributed surplus	1,322,592	1,423,082
Surplus notes	225,000	225,000
Segregated surplus	182,967	187,840
Unassigned surplus (deficit)	(220,279)	(293,494)
TOTAL CAPITAL AND SURPLUS	1,513,280	1,545,428
TOTAL LIABILITIES AND CAPITAL AND SURPLUS	$ 26,975,929	$ 24,730,194

See Notes to Statutory Financial Statements.

FIDELITY & GUARANTY LIFE INSURANCE COMPANY

STATUTORY STATEMENTS OF OPERATIONS

For the years ended December 31, (dollars in thousands)	2019	2018
REVENUES		
Premium and annuity considerations	$ 2,569,767	$ (1,613,187)
Consideration for supplementary contracts	5,198	21,330
Net investment income	1,107,977	1,211,859
Amortization of IMR	73,181	95,036
Separate Accounts net gain from operations excluding unrealized gains or losses	43,832	10,072
Commissions and expense allowances on reinsurance ceded	39,404	(23,338)
Reserve adjustments on reinsurance ceded	—	(931,941)
Interest maintenance reserve adjustment related to reinsurance	29,340	100,505
Miscellaneous income	1,636	69
Total Revenues	3,870,335	(1,129,595)
POLICY BENEFITS AND EXPENSES		
Policy benefits:		
Death	23,268	19,760
Annuity	455,367	422,958
Surrender benefits and other fund withdrawals	1,168,252	693,908
Payments on supplementary contracts with life contingencies and other benefits	16,177	14,915
Total policy benefits	1,663,064	1,151,541
Increase (Decrease) in aggregate reserves-life, annuity and accident and health	1,062,268	(2,939,195)
Interest and adjustments on contract or deposit-type contract funds	18,071	19,732
Commissions (direct and reinsurance assumed)	421,263	277,847
General insurance expenses	209,665	156,175
Taxes, licenses, and fees	8,308	8,361
Decrease in loading on deferred and uncollected premiums	(966)	(552)
Investment return transferred to reinsurer on funds held under reinsurance treaty	306,214	256,590
Other expenses	16,919	18,152
Total policy benefits and expenses	3,704,806	(1,051,349)
Gain (Loss) from operations before federal income tax	165,529	(78,246)
Federal income tax (benefit) expense	(9,084)	36,508
GAIN (LOSS) FROM OPERATIONS	174,613	(114,754)
Net realized capital gains (losses), net of applicable taxes		
(excluding net gains (losses) of $136,189 and $207,858 net of taxes of $2,328 and $0 transferred to the IMR during 2019 and 2018, respectively)	(22,931)	(51,833)
NET INCOME (LOSS)	$ 151,682	$ (166,587)

See Notes to Statutory Financial Statements.

FIDELITY & GUARANTY LIFE INSURANCE COMPANY

STATUTORY STATEMENTS OF CHANGES IN CAPITAL AND SURPLUS

for the years ended December 31 (dollars in thousands, except for share data)	Number of Shares	Common Stock	Paid-in and Contributed Surplus	Surplus Notes	Segregated Surplus	Unassigned Surplus (Deficit)	Total
BALANCE AT DECEMBER 31, 2017	30,000	$ 3,000	$ 812,597	$ 225,000	$ 223,317	$ (344,915)	$ 918,999
Net income (loss)	—	—	—	—	—	(166,587)	(166,587)
Change in net unrealized capital gains (losses)	—	—	—	—	—	(44,500)	(44,500)
Change in net deferred income tax	—	—	—	—	—	51,366	51,366
Change in net unrealized foreign exchange capital gains (losses)	—	—	—	—	—	(2,330)	(2,330)
Change in nonadmitted assets and related items	—	—	—	—	—	(37,399)	(37,399)
Change in asset valuation reserve	—	—	—	—	—	(718)	(718)
Change in liability for reinsurance in unauthorized and certified companies	—	—	—	—	—	(59,281)	(59,281)
Change in reserve on account of change in valuation basis	—	—	—	—	—	(11,228)	(11,228)
Surplus withdrawn from Separate Accounts	—	—	—	—	—	(455,304)	(455,304)
Other changes in surplus in Separate Accounts	—	—	—	—	—	455,304	455,304
Amortization of segregated surplus for ceding commission on reinsurance transactions	—	—	—	—	(35,477)	—	(35,477)
Additional capital contribution	—	—	955,400	—	—	—	955,400
Reclassification of negative unassigned surplus due to quasi-reorganization	—	—	(344,915)	—	—	344,915	—
Dividend to Stockholders	—	—	—	—	—	(60,000)	(60,000)
Investment return transferred to reinsurers on funds held under reinsurance treaties	—	—	—	—	—	37,183	37,183
BALANCE AT DECEMBER 31, 2018	30,000	$ 3,000	$ 1,423,082	$ 225,000	$ 187,840	$ (293,494)	$ 1,545,428
Net income (loss)	—	—	—	—	—	151,682	151,682
Change in net unrealized capital gains (losses)	—	—	—	—	—	75,926	75,926
Change in net deferred income tax	—	—	—	—	—	(45,211)	(45,211)
Change in net unrealized foreign exchange capital gains (losses)	—	—	—	—	—	(1,440)	(1,440)
Change in nonadmitted assets and related items	—	—	—	—	—	42,639	42,639
Change in asset valuation reserve	—	—	—	—	—	(107,783)	(107,783)
Ceding commission on reinsurance transactions	—	—	—	—	6,533	—	6,533
Change in liability for reinsurance in unauthorized and certified companies	—	—	—	—	—	4,972	4,972
Surplus withdrawn from Separate Accounts	—	—	—	—	—	198,082	198,082
Other changes in surplus in Separate Accounts	—	—	—	—	—	(198,082)	(198,082)
Amortization of segregated surplus for ceding commission on reinsurance transactions	—	—	—	—	(11,406)	—	(11,406)
Return of capital	—	—	(100,490)	—	—	—	(100,490)
Investment return transferred to reinsurers on funds held under reinsurance treaties	—	—	—	—	—	(47,570)	(47,570)
BALANCE AT DECEMBER 31, 2019	30,000	$ 3,000	$ 1,322,592	$ 225,000	$ 182,967	$ (220,279)	$ 1,513,280

See Notes to Statutory Financial Statements.

FIDELITY & GUARANTY LIFE INSURANCE COMPANY

STATUTORY STATEMENTS OF CASH FLOW

for the years ended December 31 (dollars in thousands)	2019	2018
CASH FROM OPERATIONS		
Premiums collected net of reinsurance	$ 3,659,252	$ 3,010,120
Net investment income	1,124,358	1,024,722
Miscellaneous income	47,574	(847,666)
Cash provided from revenues	4,831,184	3,187,176
Benefit and loss related payments	(1,657,957)	(1,173,051)
Commissions, expenses paid and aggregate write-in for deductions	(904,334)	(550,652)
Federal income taxes paid	15,524	(2,750)
Cash applied to general and other expenses	(2,546,767)	(1,726,453)
NET CASH PROVIDED BY (USED IN) OPERATIONS	$ 2,284,417	$ 1,460,723
CASH FROM INVESTMENTS		
Proceeds from investments sold, matured or repaid:		
Bonds	3,529,475	7,599,172
Stocks	674,650	180,392
Mortgage loans	2,304	64,778
Other invested assets	65,877	166,522
Miscellaneous proceeds	254,794	415,231
Total investment proceeds	4,527,100	8,426,095
Cost of investments acquired:		
Bonds	4,260,359	9,119,793
Stocks	743,963	596,933
Other invested assets	620,725	469,931
Miscellaneous applications	311,076	311,877
Total investments acquired	5,936,123	10,498,534
Net increase in policy loans	6,206	4,280
NET CASH PROVIDED BY (USED IN) INVESTMENTS	$ (1,415,229)	$ (2,076,719)
CASH FROM FINANCING AND MISCELLANEOUS SOURCES		
Net withdrawals on deposit-type contracts and other insurance liabilities	(57,556)	(55,299)
Dividends to stockholders	—	(60,000)
Capital and paid-in surplus	(75,000)	125,000
Other cash (used) provided	(154,964)	(49,246)
NET CASH PROVIDED BY (USED IN) FINANCING AND MISCELLANEOUS SOURCES	$ (287,520)	$ (39,545)
NET CHANGE IN CASH AND CASH EQUIVALENTS	581,668	(655,541)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	217,110	872,651
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 798,778	$ 217,110

FIDELITY & GUARANTY LIFE INSURANCE COMPANY

STATUTORY STATEMENTS OF CASH FLOW

for the years ended December 31 (dollars in thousands)	2019	2018
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION FOR NON-CASH TRANSACTIONS:		
Non-cash from Operations		
Initial cession of in-force business	$ (1,189,773)	$ (4,727,789)
Transfer of IRS receivable from affiliated reinsurer	52,700	—
Experience Rating Refund	109,721	—
Interest transferred to parent as return of capital	(555)	—
Non-cash from Financing and Miscellaneous Sources:		
Assets transferred to (from) the separate account	—	716,945
Bonds and stocks transferred to (from) Parent as return of capital	(602,912)	—
Bond interest capitalization	(24,000)	(8,810)
Surplus notes acquired/disposed (net)	—	43
Initial cession of in-force business	1,189,773	4,727,789
Experience Rating Refund	(109,721)	—
Transfer of IRS receivable from affiliated reinsurer	(52,700)	—
Accrual contribution from Parent-Intercompany receivable	—	(830,400)
Bonds transferred to Parent as return of capital	25,490	—
Accrual contribution from Parent-Paid in capital	—	830,400
Non-cash from Investments:		
Bonds transferred to parent as return of capital	(24,935)	—
Bonds interest capitalization	24,000	8,810
Bonds and stocks acquired as a result of exchange transactions	270,067	964,049
Bonds and stocks disposed of as a result of exchange transactions	(270,067)	(964,049)
Assets transferred to the separate account	—	(716,945)
Bonds and stocks (to) from Parent as capital contribution	602,912	—
Surplus notes acquired/disposed (net)	—	(43)

See Notes to Statutory Financial Statements.

NOTE 1: BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements include the accounts of Fidelity & Guaranty Life Insurance Company (the "Company"), an Iowa domiciled life insurance company. The Company is a direct, wholly-owned subsidiary of Fidelity & Guaranty Life Holdings, Inc. ("FGLH"), a Delaware corporation, which is a direct, wholly owned subsidiary of FGL US Holdings, Inc ("FGL US"), a Delaware corporation and wholly owned indirect subsidiary of FGL Holdings ("F&G"), a Cayman Islands exempted company.

The Blackstone Group L.P. ("Blackstone") indirectly owns a total of 20.5% of the outstanding ordinary shares of F&G as of December 31, 2019 through two indirect subsidiaries, Blackstone Tactical Opportunities Fund II L.P. ("Blackstone Tactical Opportunities" or "BTO") and GSO Capital Partners LP.

(a) Business Concentration, Significant Risks and Uncertainties

The Company's primary business is the sale of individual life insurance products and annuities through independent agents, managing general agents, and specialty brokerage firms and in select institutional markets. The Company's principal products are deferred annuities (including fixed indexed annuities), immediate annuities and life insurance products. Direct premiums generated from fixed indexed annuity ("FIA") products represented 61% and 53% of total statutory direct premiums in 2019 and 2018, respectively. The Company is licensed in forty-nine states, the District of Columbia and Puerto Rico and markets products in New York through its wholly owned subsidiary, Fidelity & Guaranty Life Insurance Company of New York ("FGLICNY"), which is domiciled in New York.

The Company uses static and dynamic hedging strategies to economically hedge the equity linked liability underlying its FIA products and its equity indexed universal life ("EIUL") products. Exchange traded equity indexed futures and over the counter equity call options are used to hedge market exposures of the liabilities with the objective of offsetting fair value changes. The indices underlying the futures and options are the same indices referenced by the FIA and EIUL products. The futures and options are continuously monitored to match the liabilities with respect to equity index movements. Static and dynamic hedging minimizes the Company's risk that un-hedged 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 to monitor this risk periodically during the year. The Company intends to continue to adjust the strategy as product design evolves, and as market conditions and the Company's risk tolerance change.

The Company is exposed to credit loss in the event of non-performance by its counterparties on 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. 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. Management attempts to minimize the credit risk associated with these agreements through the use of collateral support agreements.

In certain 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. Any cash collateral posted by the counterparties is included in "Cash and cash equivalents" with an associated payable for the collateral included in "Options collateral payable" within the Statutory Statements of Admitted Assets, Liabilities, and Capital and Surplus. Non-cash collateral posted by the counterparties is held by a third-party custodian and is not included on the Company's Statement of Admitted Assets, Liabilities, and Capital and Surplus.

The Company is exposed to financial and capital markets risk, including changes in interest rates and credit spreads. 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 gross unrealized losses in 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 the surrender charge protection provided by the Company's products. Also, the purpose of the interest maintenance reserve ("IMR") liability is to accumulate realized capital gains and losses resulting from fluctuations in the interest rates and prevents those losses, if realized, to have an immediate impact on surplus as they are amortized into the Gain from Operations in a manner which reflects the runoff in future yields as closely as possible.

We are closely monitoring developments related to the COVID-19 pandemic to assess its impact on our business. While still evolving, the COVID-19 pandemic has caused significant economic and financial turmoil in the U.S. and around the world subsequent to December 31, 2019, and has fueled concerns that it will lead to a global recession. These conditions may continue or worsen in the near term. At this time, it is not possible to estimate how long it will take to halt the spread of the virus or the longer term-effects the COVID-19 pandemic could have on our business. Increased economic uncertainty and increased unemployment resulting from the economic impacts of the spread of COVID-19 may result in policyholders seeking sources of liquidity and withdrawing at rates greater than we previously expected. If policyholder lapse and surrender rates significantly exceed our expectations, it could have a material adverse effect on our business, financial condition, results of operations, liquidity and cash flows. Such events or conditions could also have an adverse effect on our sales of new policies. The Company is monitoring the impact of COVID-19 on the Company's investment portfolio and the potential for ratings changes caused by the sudden slowdown of economic activity. The extent to which the COVID-19 pandemic impacts our business, results of operations, financial condition, liquidity or prospects will depend on future developments which are highly uncertain and cannot be predicted.

(b) Basis of Presentation

The financial statements of the Company are presented on the basis of accounting practices prescribed or permitted by the Iowa Insurance Divisions ("IID"). The IID recognizes only statutory accounting practices prescribed or permitted by the State of Iowa for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under Iowa Insurance Law. The National Association of Insurance Commissioners' ("NAIC") Accounting Practices and Procedures Manual ("NAIC SAP") has been adopted as a component of prescribed or permitted practices by the State of Iowa. The Company has elected to use the alternative accounting practices prescribed by Iowa Administrative Code ("IAC") 191 Chapter 97, *Accounting for Certain Derivative Instruments Used to Hedge the Growth in Interest Credited for Indexed Insurance Products and Accounting for the Indexed Insurance Products Reserve*, for its FIA products. Under this prescribed accounting practice, the call option derivative instruments that hedge the growth in interest credited on indexed annuity products are accounted for at amortized cost with the corresponding amortization recorded as a decrease to net investment income and indexed annuity reserves are calculated based on Standard Valuation Law and Actuarial Guideline XXXV which assumes the market value of the call options associated with the current index term is zero regardless of the observable market value for such options.

If the Company had not elected the alternative prescribed accounting practice, statutory surplus would have increased by $110,057 and decreased by $29,010 at December 31, 2019 and 2018, respectively. Additionally, net income would have decreased by $223,787 and increased by $309,618 for the years December 31, 2019 and 2018, respectively. The Company's risk-based capital ("RBC") would not have triggered a regulatory event had it not adopted the alternative prescribed accounting practice described above.

(DOLLARS IN THOUSANDS)

The Company's reconciliation of net income (loss) and capital and surplus between NAIC SAP and practices prescribed and permitted by the IID at December 31, 2019 and 2018 was as follows:

For the years ended December 31	SSAP #	Financial Statement Line Item	2019	2018
NET INCOME (LOSS)				
(1) FIDELITY & GUARANTY LIFE INSURANCE COMPANY state basis			$ 151,682	$ (166,587)
(2) State Prescribed Practices that are increases/decreases from NAIC SAP:				
191 IAC 97 Accounting for certain derivative instruments	86	Net investment income	(6,160)	(26,232)
191 IAC 97 Accounting for certain derivative instruments	51, 61R	Increase (decrease) in aggregate reserves- life, annuity and accident and health	202,177	(284,897)
191 IAC 97 Accounting for certain derivative instruments	51, 61R, 86	Federal income tax benefit	27,770	1,511
Total net impact of 191 IAC 97			223,787	(309,618)
(3) State Permitted Practices that are increases/decreases from NAIC SAP:				
None			—	—
(4) NAIC SAP (1 - 2 - 3 = 4)			$ (72,105)	$ 143,031

As of December 31	SSAP #	Financial Statement Line Item	2019	2018
CAPITAL AND SURPLUS				
(5) FIDELITY & GUARANTY LIFE INSURANCE COMPANY state basis			$ 1,513,280	$ 1,545,428
(6) State Prescribed Practices that are increases/decreases from NAIC SAP:				
191 IAC 97 Accounting for certain derivative instruments	61R	Common stocks	5,766	(60)
191 IAC 97 Accounting for certain derivative instruments	86	Derivative instruments	(324,533)	51,601
191 IAC 97 Accounting for certain derivative instruments	51, 61R, 86	Federal income tax recoverable and interest thereon	27,310	26,016
191 IAC 97 Accounting for certain derivative instruments	51, 61R	Aggregate reserve for life contracts	234,856	32,679
191 IAC 97 Accounting for certain derivative instruments	86	Interest maintenance reserve	23,309	25,782
191 IAC 97 Accounting for certain derivative instruments	86	Asset valuation reserve	174	174
191 IAC 97 Accounting for certain derivative instruments	51, 61R, 86	Federal income tax recoverable and interest thereon	(76,939)	(107,182)
Total net impact of 191 IAC 97			(110,057)	29,010
(7) State Permitted Practices that are increases/decreases from NAIC SAP:				
None			—	—
(8) NAIC SAP (5 - 6 - 7 = 8)			$ 1,623,337	$ 1,516,418

The Company has no statutory accounting practices that differ from those of NAIC SAP other than 191 IAC 97 which could affect the Company's net income (loss), surplus or Risk Based Capital.

These financial statements have been prepared on the basis of accounting practices permitted or prescribed by the IID. These practices vary in certain respects from U.S. generally accepted accounting principles ("GAAP") and the variances are presumed to be material. The more significant variances from GAAP are as follows:

- In the statutory statements of admitted assets, liabilities, and capital and surplus, bonds and preferred stocks are generally carried at amortized cost with certain investments in bonds and unaffiliated preferred stocks and all unaffiliated common stocks carried based on estimated fair values with unrealized gains and losses reported in unassigned surplus. For GAAP, investments in bonds are designated at purchase as held-to-maturity, trading, or available-for-sale. Bonds designated as held-to-maturity are reported at amortized cost. Bonds designated as trading or available-for-sale are reported at fair value with unrealized holding gains and losses reported in operations or as a separate component of accumulated other comprehensive income in shareholders' equity, net of certain adjustments, respectively. For GAAP, investments in common and preferred stock are reported at fair value with unrealized gains and losses reported in operations.
- Under GAAP, limited partnership income realized (i.e. capital distributions) and unrealized (i.e. NAV adjustments) is recognized in net investment income. Under SSAP No. 48, "*Joint Ventures, Partnerships and Limited Liability Companies",* distributions received are recognized as investment income when declared to the extent that they are not in excess of the undistributed accumulated earnings. Distributions declared in excess of the undistributed accumulated earnings reduces the carrying amount of the investment.
- The costs of successfully acquiring and renewing business are expensed when incurred. Under GAAP, such acquisition costs related to traditional life insurance, to the extent recoverable from future policy revenues, are deferred and amortized over the premium-paying period of the related policies using assumptions consistent with those used in computing policy benefit reserves. For universal life insurance and investment products, deferred policy acquisition costs are generally amortized over the lives of the policies in relation to the expected emergence of estimated gross profits ("EGPs") from investment income, surrender charges and other product fees, less policy benefits, maintenance expenses, mortality and expense margins. Recognized gains (losses) on investments are included in actual gross profits in the period realized.
- Certain policy reserves are calculated using statutory limitations on interest and mortality assumptions rather than on estimated expected experience or actual account balances as is required under GAAP. Also, the equity index feature of the Company's FIA products represents an embedded derivative under GAAP which is valued at fair value and included in the liability for contractholder funds. Under the accounting practices prescribed by IID, the market value of the call options associated with the current index term is zero regardless of the observable market value for such options.
- Deferred federal income tax assets, net of deferred tax liabilities, arising from the differences between the financial statement and the tax bases of assets and liabilities are computed at the Company's current enacted tax rate. The net assets are limited based on admissibility tests in accordance with SSAP No. 101, "*Income Taxes*", and are recorded directly in unassigned surplus. Deferred income tax expense is recorded in operations under GAAP.
- Certain assets are designated as "nonadmitted" under statutory accounting principles ("SAP") in accordance with SSAP No. 4 *"Assets and Nonadmitted Assets"*. These assets include, but are not limited to, certain agents' debit balances, capitalized software, prepaid expenses, negative IMR, certain reinsurance recoverable assets and a portion of deferred tax assets, as applicable. Nonadmitted assets are excluded from the statutory statements of admitted assets, liabilities, and capital and surplus and are charged directly to unassigned surplus.
- The accounts and operations of the Company's subsidiaries are not consolidated with the accounts and operations of the Company as would be required under GAAP.
- Under a formula prescribed by the NAIC, the Company defers the portion of realized gains and losses on fixed maturity investments, principally bonds, preferred stocks, surplus debentures and mortgage loans, attributable to changes in the general level of interest rates. The Company amortizes those deferrals over the remaining period to expected maturity based on groupings of the individual securities. The groupings are done in five-year bands. That net deferral is reported as the IMR in the accompanying statutory statements of admitted assets, liabilities, and capital and surplus. A negative IMR is reported as a nonadmitted asset. Realized gains and losses are reported in income net of tax and net of transfers to the IMR. Capital gain taxes are capitalized into IMR based on a methodology wherein tax operating losses are offset against tax capital gains prior to calculating capital gain taxes. This method follows an actual tax return methodology approach and is applied

on a standalone company level. Under GAAP, realized gains and losses are reported in the income statement on a pre-tax basis in the period that the asset giving rise to the gain or loss is sold. Also, under GAAP, when there has been a decline in fair value deemed other-than-temporary the credit loss is reported in the income statement with the non-credit portion recognized in other comprehensive income.

- The asset valuation reserve ("AVR") is computed in accordance with an NAIC prescribed formula and represents a provision for possible fluctuations in the value of bonds, equity securities, mortgage loans, real estate, and other invested assets, as applicable. The AVR is reported as a liability with changes reported as a direct adjustment to unassigned surplus. Under GAAP, an AVR is not established.
- Policy and contract liabilities ceded to reinsurers have been reported as reductions of the related direct reserves rather than as reinsurance recoverable assets as required under GAAP.
- Under GAAP, the surplus notes issued by the Company are reported as a liability with interest accrued as incurred. Under SAP, the surplus notes are reported as a component of surplus with interest expense recognized only upon receipt of written approval for payment from the IID.
- Revenues for universal life insurance and investment products, except those that do not incorporate mortality or morbidity risk, consist of the entire premium received and benefits represent the death and surrender benefits paid and the change in policy reserves. Under GAAP, premiums received in excess of policy charges are not recognized as premium revenue and benefits represent the excess of benefits paid over the policy account value and interest credited to the account values.
- A liability for reinsurance balances is provided for unsecured policy reserves ceded to reinsurers not authorized by the IID to assume such business. Changes to those amounts are credited or charged to unassigned surplus. Under GAAP, this liability is not established.
- Cash and cash equivalents in the statement of cash flow represent cash balances and investments with maturities of less than one year at the date of acquisition. Under GAAP, the corresponding captions of cash and cash equivalents include cash balances and investments with initial maturities of three months or less.
- Under the accounting practices prescribed by the IID, equity call options which hedge the Company's FIA products are stated at amortized cost with amortization recognized as a reduction in net investment income. Gains and losses realized on these equity call options are also recognized in net investment income. Under SAP, all other derivative instruments are reported at fair value with unrealized gains/losses recorded as a surplus adjustment. All derivative instruments are reported at fair value with realized and unrealized gains/losses reflected in the results of operations under GAAP.

The preparation of financial statements in conformity with NAIC SAP requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

(c) Investments

Statement Values:

Investments are reported according to valuation procedures prescribed by the NAIC. Bonds are carried at amortized cost using the interest method, except for those bonds deemed to be other-than-temporarily impaired ("OTTI") and those bonds rated NAIC 6, which are carried at the lower of amortized cost or fair value. Bonds deemed to be OTTI are written down through the statement of operations to estimated fair value except for loan-backed and structured securities, which the Company has no intent to sell and has the intent and ability to retain, are written down through the statement of operations to the amount of the discounted estimated future cash flows.

Preferred stocks are reported at amortized cost, except for those preferred stocks rated NAIC 4 or lower, which are carried at the lower of amortized cost or fair value, or those preferred stocks deemed to be OTTI which are written down to estimated fair value.

The Company considers the following in determining whether bonds and preferred stocks in an unrealized loss position are OTTI:

- The estimated range and period until recovery;
- The extent and the duration of the decline;
- The reasons for the decline in value (credit event, currency or interest-rate related, including general credit spread widening);
- The financial condition of and near-term prospects of the issuer (including issuer's current credit rating and the probability of full recovery of principal based upon the issuer's financial strength);
- Current delinquencies and nonperforming assets of underlying collateral;
- Expected future default rates;
- Collateral value by vintage, geographic region, industry concentration or property type;
- Subordination levels or other credit enhancements as of the balance sheet date as compared to origination; and
- Contractual and regulatory cash obligations and the issuer's plans to meet such obligations.

The Company also recognizes OTTI on bonds, including loan-backed and structured securities, and preferred stocks in an unrealized loss position when one of the following circumstances exists:

- The Company does not expect full recovery of its amortized cost based on the present value of cash flows expected to be collected,
- The Company intends to sell a security, or
- It is more likely than not that the Company will be required to sell a security prior to recovery.

When assessing the Company's intent to sell a bond or preferred stock, or if it is more likely than not the Company will be required to sell a bond or preferred stock before recovery of its cost basis, the Company evaluates facts and circumstances at the individual security level based on facts and circumstances relevant to that security and also considers decisions to reposition the Company's security portfolio, sales of securities to meet cash flow needs and sales of securities to capitalize on favorable pricing.

The Company deems a loan-backed or structured security to be OTTI if the security is in default of principal and/or interest, is probable of default on contractual principal or interest payments, or if the Company has the intent to sell the security or does not have the intent and ability to retain the security until its amortized cost is recovered. Loan-backed and structured securities are also deemed OTTI if the discounted estimated future cash flows are less than amortized cost. OTTI losses on loan-backed and structured securities are bifurcated into interest and non-interest related portions. The non-interest portion is the difference between the present value of cash flows expected to be collected from the security and the amortized cost basis of the security. The interest portion is the difference between the present value of cash flows expected to be collected from the security and its fair value at the balance sheet date. If there is no intent to sell and the Company has the intent and ability to retain the investment to recovery, then only the non-interest loss is recognized in the Statement of Operations.

In periods subsequent to the recognition of an OTTI loss, the Company accounts for the security as if the security had been purchased on the measurement date of the OTTI. The fair value of the security on the measurement date becomes the new cost basis of the security and the new cost basis is not adjusted for subsequent recoveries in fair value. The discount or reduced premium recorded for the bond or redeemable preferred stock, based on the new cost basis, is amortized over the remaining life of the security in a prospective manner based on the amount and timing of future estimated cash flows. The security continues to be subject to impairment analysis for each subsequent reporting period. Future declines in fair value which are determined to be other-than-temporary are recorded as realized losses.

Anticipated prepayments for loan-backed bonds and structured securities are considered when determining the accretion of discount or amortization of premium for these securities. Significant changes in estimated cash flows from the original purchase assumptions are accounted for using the retrospective method with the exception of loaned-backed and structured securities where the yield has become negative. These securities are accounted for using the prospective method. Prepayment assumptions are obtained from dealer survey values and are consistent with the current interest rate and economic environment.

Common stocks of unaffiliated companies are reported at year-end fair value. Perpetual preferred stocks and common stocks are deemed to be OTTI if the Company does not have the ability and intent to hold the security for a sufficient period of time to allow for a recovery in value.
FGLICNY and Raven Reinsurance Company ("Raven Re"), the Company's insurance and reinsurance subsidiaries, respectively, are reported based upon the audited equity in the underlying statutory net assets with changes recorded as a component of Surplus.

Fidelity & Guaranty Mortgage Trust 2018-1 ("FGL Mortgage Trust"), a directly wholly owned non-insurance subsidiary, was formed to hold investments in residential real estate mortgages, is reported based upon the audited GAAP equity with changes recorded as a component of surplus. The Company's remaining non-insurance subsidiaries are reported based upon the unaudited GAAP equity and are non-admitted.

Securities Valuation Office ("SVO") approved exchange-traded funds ("ETFs") are measured at fair value, using net asset value ("NAV") as a practical expedient, with unrealized gains/losses reported directly in surplus. Money market mutual funds registered under the Investment Company Act of 1940 (the “Act”) and regulated under rule 2a-7 of the Act are accounted for and reported as cash equivalents and valued at fair value or NAV as a practical expedient with unrealized gains and losses reported directly in surplus.

Policy loans are reported at unpaid principal balances.

Surplus debentures with a designation equivalent to NAIC 1 or NAIC 2 are carried at amortized cost using the interest method. All other surplus debentures are reported at the lesser of amortized cost or fair value.

The Company’s mortgage loans on real estate are all commercial mortgage loans, which are reported at amortized cost less impairment write-downs. A mortgage loan is determined to be impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. A mortgage loan valuation allowance is established on a loan specific basis for the difference between the carrying value of the mortgage loan and the fair value of the underlying collateral, net of estimated costs to obtain and sell at the point of foreclosure, with a corresponding charge to unrealized losses. If the impairment is other than temporary or if the loan is modified in troubled debt restructuring, a realized loss is recognized and a new cost basis is established. This new cost basis is not changed for subsequent recoveries in value.

Mortgage loans are evaluated by the Company’s investment professionals, including an appraisal of loan-specific credit quality, property characteristics and market trends. Loan performance is continuously monitored on a loan-specific basis throughout the year. The Company’s review includes submitted appraisals, operating statements, rent revenues and annual inspection reports, among other items. This review evaluates whether the properties are performing at a consistent and acceptable level to secure the debt.

Mortgages are rated for the purpose of quantifying the level of risk. We evaluate and monitor loan-to-value ("LTV") ratios and debt service coverage ("DSC") ratios of our loans as indicators of potential risk of default in establishing our valuation allowance. Those loans with higher risk are placed on a watch list and are closely monitored for collateral deficiency or other credit events that may lead to a potential loss of principal or interest. The Company defines delinquent mortgage loans consistent with industry practice as 30 days past due.

Limited partnership investments are accounted for using the equity method and use NAV as a practical expedient to determine the statement value with unrealized gains/losses reported directly in unassigned surplus. The statement value of beneficial interests, limited liability companies and limited partnerships are evaluated and adjusted for any impairment in value that is determined to be other-than-temporary. The amount of such write-down is charged directly to operations. Beneficial interests are determined to be OTTI if the fair value of the beneficial interest is equal to or less than the carrying amount and there has been an unfavorable change in cash flows expected to be collected (considering both timing and amount). Limited liability companies and partnerships are determined to be OTTI if it is probable that the Company will be unable to recover the carrying amount of its investment or there is evidence indicating that the partnership will not be able to sustain earnings which justify the carrying amount of the investment. The Company did not recognize impairment losses on beneficial interests and limited partnerships for 2019 and 2018.

Equity call options which economically hedge the Company's FIA products are stated at amortized cost as described in Note 1(b) with amortization recognized as a reduction in net investment income on a straight line basis over the term of the call options.

Equity call options which economically hedge the Company's EIUL products are recorded at fair value. The fair value of equity call options is determined internally using market observable inputs, including interest rates, yield curve volatilities, and other factors and represent what the Company would expect to receive or pay at the balance sheet date if the Company cancelled the options, entered into offsetting option positions, or exercised the options. Changes in the fair value of call options hedging the EIUL products are recorded as unrealized gains and losses in surplus.

Futures contracts are valued at fair value with changes in fair value recorded as unrealized gains or losses in surplus. The fair value of futures contracts at the balance sheet date represents the cumulative unsettled variation margin. The Company provides cash collateral to the counterparties for the initial and variation margin requirements on the futures contracts which is included in "Cash and cash equivalents" of the Statement of Admitted Assets, Liabilities and Capital and Surplus.

Foreign currency forward contracts are valued at fair value with changes in fair value recorded as unrealized gains or losses in surplus. 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 is equal to the cumulative net unrealized gains or losses.

Investment income and realized capital gains and losses:

Interest on bonds and surplus debentures, except those in default, is recorded as investment income when it is earned and is adjusted for any amortization of premium or accretion of discount. Dividends on common and preferred stocks are recognized as income on ex-dividend dates for stock held on the day before the ex-dividend dates. Realized gains or losses on bonds and stocks are included in IMR and amortized into income over their respective remaining duration. Realized gains and losses are determined on the trade date using the specific identification method.

Interest on mortgage loans is recognized on an accrual basis at the applicable interest rate on the principal amount outstanding, except for impaired loans. Interest on impaired loans is recognized upon receipt. Loan origination fees and direct costs, as well as premiums and discounts, are amortized as level yield adjustments over the respective loan terms. Unamortized net fees or costs are recognized upon early repayment of the loans. Loan commitment fees are deferred and amortized on an effective yield basis over the term of the loan.

Realized gains and losses on the call options hedging the FIA products are recognized in net investment income. Realized gains and losses on the call options hedging the EIUL products are included in IMR and amortized into income over the remaining duration of the derivative contract. Realized gains and losses on futures contracts are also included in IMR and amortized into income over the remaining duration of the futures contract. Realized gains and losses on foreign exchange currency forward are triggered each quarter and included in IMR or AVR. IMR is amortized into income over the remaining duration of the underlying hedged limited partnership.

Interest on policy loans is recorded as investment income when earned.

Dividends on preferred interests classified as other invested assets are recognized when received. Investment income on subordinated notes classified as other invested assets is recognized over the life of the investment using the effective yield method. The accretable yield is based on the excess of estimated cash flows attributable to the subordinated notes at the acquisition date over the initial investment. The Company continues to update the estimated cash flows over the life of the subordinated notes and recalculates the amount of accretable yield which is recognized prospectively over the remaining life of the subordinated notes. Distributions received from limited partnerships are recognized in investment income when declared to the extent the distribution does not exceed the undistributed accumulated earnings attributable to the limited partnership. If distributions declared exceed the Company's share of undistributed accumulated earnings after the date of investment, the excess portion of the distribution is applied to reduce the carrying value of the limited partnership investment. Investment income recognized on low-income housing tax credit investments ("LIHTC") represents amortization of the initial cost of the investment using a constant effective yield method in proportion to the tax credits and other tax benefits, including federal tax benefits, allocated to the Company.

(d) Aggregate reserves

Life, annuity, and accident and health benefit reserves are developed by actuarial methods and are determined based on published tables using statutorily specified interest rates between 2.25% and 14.5%. The valuation methods provide, in the aggregate, reserves that are greater than or equal to the minimum or guaranteed policy cash values or the amounts required by the State of Iowa.

As described in Note 1(b), the Company elected to calculate the reserve liability for its FIA products based on Actuarial Guideline XXXV, assuming the market value of the eligible derivative assets associated with the current index term is zero, and reflect the interest credit in the reserve when realized (typically at the policy anniversary) based on the actual performance of the relevant external index or indices.

The Company waives deduction of deferred fractional premiums upon the death of life and annuity policy insureds and returns any portion of the premium beyond the date of death. Surrender values are not promised in excess of the legally computed reserves. Additional reserves are established when the results of cash flow testing under various interest rate scenarios indicate the need for such reserves or the net premiums exceed the gross premiums on any insurance in force.

The extra reserve liability for table rated extra premiums and for flat extra premiums is incorporated in the reserve calculation for Universal Life business. The extra reserves secured in this manner are approximately equivalent to the additional reserves needed for substandard mortality and are assumed to represent the increased mortality of the substandard risks. The extra reserve liability for table rated extra premiums on term insurance and for flat extra premiums on all insurance is taken as one-half of the extra annual premium for the insurance in force with these extra premiums. This is done on the assumption that the risks covered by the extra premium will have extra mortality that remains constant or decreases with increases in attained age.

At December 31, 2019 and 2018, the Company had insurance in force with a face amount of $2,068,503 and $2,530,032, respectively, for which the gross premiums are less than the net premiums according to the standard of valuation set by the IID. Reserves to cover the deficiency on the above insurance in force totaled $25,398 and $31,351 at December 31, 2019 and 2018, respectively.

The tabular interest, tabular less actual reserve released, and tabular cost for life insurance products have been determined by formula. These amounts for annuity products have been determined from the basic data for the calculation of policy reserves. The tabular interest on funds not involving life contingencies for each valuation rate of interest is approximated based on cash flow interest credits as well as valuation rate of interest held at the beginning and end of the year of valuation. The liabilities related to guaranteed investment contracts and policyholder funds left on deposit with the Company are generally equal to fund balances.

(e) Recognition of premium revenues and related expenses

All premium and annuity considerations are recognized as revenue over the premium paying period except amounts received on contracts that do not incorporate mortality or morbidity risk. These premiums are recorded directly to a liability account. Expenses, including commissions and other acquisition, maintenance, and settlement costs are charged to operations as incurred. Commissions and other acquisition costs, together with required additions to reserves, generally exceed the amount of premium in the year that a policy is written.

(DOLLARS IN THOUSANDS)

(f) Reinsurance

Reinsurance premiums, commissions, expense reimbursements, claims and claim adjustment expenses related to reinsured business are generally accounted for on a basis consistent with that used in accounting for the original policies issued and with the terms of the reinsurance contracts. Premiums and claims and claim adjustment expenses for the Company's insurance products are reported net of amounts ceded to other companies.

A liability is provided for unsecured policy reserves on reinsurance ceded to companies not authorized to assume business in the State of Iowa. Changes in this liability are reported directly in unassigned surplus.

(g) Policy and contract claims

The liability for claims represents the amount needed to provide for the estimated ultimate cost of settling claims relating to insured events that have occurred on or before the end of the respective reporting period. The liability includes a provision for claims that have been reported to the insurer and claims related to insured events that have occurred but that have not been reported to the insurer.

(h) Separate Accounts and Federal Home Loan Bank of Atlanta Funding Agreements

The separate account of the Company represents funds related to funding agreements that have been issued to the Federal Home Loan Bank of Atlanta ("FHLB"). The funding agreements issued to the FHLB (i.e., immediate annuity contracts without life contingencies) provide a guaranteed stream of payments. Single premiums are received at the initiation of the funding agreements and are in the form of advances from the FHLB. Payments under the funding agreements extend through 2024. Reserves are based on the present value of the income payments and are calculated in accordance with Actuarial Guideline IX. The valuation interest rate, in accordance with the Standard Valuation Law, is derived from the issue year method and guarantee duration equal to the number of years from issue to the date the first payment begins. The reserves for the funding agreement are reported in the separate account and totaled \$1,076,241 and \$864,796 at December 31, 2019 and 2018, respectively.

In accordance with the FHLB Separate Account Plan of Operation, the investments supporting the funding agreement liabilities are held in the FHLB Separate Account at amortized cost. A significant portion of the FHLB Separate Account investments are pledged as collateral to secure the FHLB funding agreement liabilities. The FHLB Separate Account investments which are pledged as collateral had a carrying value and a fair value of \$1,353,228 and \$1,446,231, respectively, at December 31, 2019 and a carrying value and a fair value of \$1,333,199 and \$1,395,165, respectively, at December 31, 2018. The maximum amount of collateral pledged during 2019 and 2018 were \$1,353,228 and \$1,333,199, respectively, with a corresponding fair value of \$1,446,231 and \$1,395,165, respectively. The amount borrowed at the time of maximum collateral was \$1,096,336 and \$871,982 for 2019 and 2018, respectively. The Company had a maximum borrowing capacity of \$1,560,766 and \$1,556,202 at December 31, 2019 and 2018, respectively. These amounts represent the credit available less advances at each period.

At December 31, 2019 and 2018, the Company held in the general account 616,898 and 521,530 shares, respectively, of FHLB common stock not eligible for redemption. The stock had a carrying value of \$61,690 and \$52,153 at December 31, 2019 and 2018, respectively, which is equal to cost. The table below discloses the classification of the FHLB common stock.

As of December 31,	2019		2018	
	Number of shares	Statement Value	Number of shares	Statement Value
Membership stock - Class B	150,000	$ 15,000	150,000	$ 15,000
Activity stock	466,898	46,690	371,530	37,153
Total FHLB Stock owned in the General Account	616,898	$ 61,690	521,530	$ 52,153

Receivables from the separate account are classified as a reduction of the general account liabilities in accordance with SSAP No. 56 "Separate Accounts". There was no amount receivable from or payable to the separate account at December 31, 2019 or December 31, 2018. The separate account of the Company includes reserves for contracts that are calculated on a basis consistent with the general account reserves.

(i) Taxes

The Company has elected to file as part of a consolidated life insurance income tax return with its subsidiaries, FGLICNY and Raven Re. No limitations are placed on the utilization or the sharing of net operating losses, tax credits, or capital losses among the insurance companies as part of this filing election.

The Company is subject to a tax sharing agreement between the members of that filing. The agreement provides for an allocation of current expense based on separate return calculations and allows for reimbursement of Company tax benefits absorbed by another member. The New York Department of Financial Services ("NYDFS") requires the Company to hold an escrow for the benefit of FGLICNY under this tax sharing agreement should the Company be unable to reimburse FGLICNY. Cash and bonds held in the FGLICNY tax sharing agreement escrow account had a fair value of $6,143 and $5,899 and a carrying amount of $5,375 and $5,428 at December 31, 2019 and 2018, respectively.

Deferred income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Company assesses the recoverability of its deferred tax assets in each reporting period under the guidance outlined within SSAP No. 101, *"Income Taxes*". The guidance requires an assessment of both positive and negative evidence in determining the realizability of deferred tax assets. A valuation allowance is required to reduce the Company's deferred tax asset to an amount that is more likely than not to be realized. Furthermore, the guidance limits the amount of deferred tax assets that can be admitted and only assets that more likely than not to be realized can be considered in determining the admitted adjusted gross deferred tax assets. In determining the net deferred tax asset and valuation allowance, management is required to make judgments and estimates related to projections of future profitability. These judgments include the following: the timing and extent of the utilization of net operating loss carry-forwards, the reversals of temporary differences, and tax planning strategies.

(j) Adoption of accounting guidance

There were no substantive accounting changes during 2019 that applied to the Company.

(DOLLARS IN THOUSANDS)

NOTE 2: INVESTMENTS

(a) Components of net investment income are as follows:

For the years ended December 31,	2019	2018
Income:		
Interest on bonds	$ 1,033,000	$ 967,737
Preferred stock dividends	67,714	66,099
Common stock dividends	43,014	6,801
Surplus debentures	29,384	31,383
Interest on policy loans	1,178	935
Interest on cash and cash equivalents	15,395	13,391
Mortgage loan interest	2,913	24,286
Bank loans	2,330	2,163
Derivatives	(37,405)	146,073
Other, net	39,969	11,161
Gross investment income	1,197,492	1,270,029
Expenses	89,515	58,170
Net investment income	$ 1,107,977	$ 1,211,859

All investment income due and accrued over 90 days past due, with the exception of amounts related to mortgage loans in default, is excluded from surplus (nonadmitted). The total amount of investment income excluded from surplus at December 31, 2019 and 2018 was $1,485 and $3,766, respectively.

(b) Components of net realized capital gains (losses) are as follows:

For the years ended December 31,	2019	2018
Bonds	$ 85,057	$ 118,876
Preferred stocks	3,148	(1,386)
Cash and cash equivalents	—	(14)
Derivative financial instruments	25,224	29,037
Common stocks	264	361
Other invested assets	1,893	5,548
Net realized capital gains (losses) before taxes and transfers to IMR	115,586	152,422
Income tax (expense) benefit on realized capital gains and losses	(2,328)	3,603
Net realized capitals gains (losses) before transfers to IMR	113,258	156,025
Net (gains) losses transferred to IMR net of tax*	(136,189)	(207,858)
Net realized capital gains (losses)	$ (22,931)	$ (51,833)

** Amounts net of capital gains tax of $2,328 and $0 for the years ended December 31, 2019 and 2018, respectively.*

(DOLLARS IN THOUSANDS)

(c) Carrying amount and fair value of bonds, cash equivalents, preferred and common stock and surplus debentures are as follows:

		Gross Unrealized		
	Carrying Amount	Gains	Losses	Fair Value
At December 31, 2019				
U.S. government	$ 8,383	$ 847	$ 43	$ 9,187
Foreign government	127,766	19,256	—	147,022
States & political subdivisions	66,928	5,087	—	72,015
Special revenue & special assessment	753,207	76,032	5,158	824,081
Industrial and miscellaneous	17,157,795	1,038,262	126,060	18,069,997
Hybrid	909,725	70,816	3,178	977,363
Affiliated	1,294,111	57,546	2,524	1,349,133
Bank loans	40,275	—	1,964	38,311
Total bonds	$20,358,190	$ 1,267,846	$ 138,927	$21,487,109
Preferred stocks-unaffiliated	$ 949,416	$ 44,003	$ 12,324	$ 981,095
Common stocks (a)	$ 1,007,303	$ —	$ —	$ 1,007,303
Surplus debentures	$ 556,533	$ 79,028	$ 365	$ 635,196
Cash equivalents	$ 15,219	$ —	$ —	$ 15,219
At December 31, 2018				
U.S. government	$ 15,348	$ 593	$ 248	$ 15,693
Foreign government	119,622	84	4,652	115,054
States & political subdivisions	67,277	1,702	1,657	67,322
Special revenue & special assessment	600,887	26,459	8,298	619,048
Industrial and miscellaneous	16,120,210	189,400	691,723	15,617,887
Hybrid	809,791	11,916	57,811	763,896
Affiliated	1,169,909	8,827	9,150	1,169,586
Bank loans	44,737	—	198	44,539
Total bonds	$18,947,781	$ 238,981	$ 773,737	$18,413,025
Preferred stocks-unaffiliated	$ 1,370,487	$ 3,468	$ 99,754	$ 1,274,201
Common stocks (a)	$ 495,701	$ —	$ —	$ 495,701
Surplus debentures	$ 497,400	$ 33,082	$ 11,137	$ 519,345
Cash equivalents	$ 81,607	$ —	$ —	$ 81,607

(a) Includes investment in subsidiaries of $856,630 and $379,866 for 2019 and 2018, respectively.

(d) Securities in an unrealized loss position that could potentially be other-than-temporarily-impaired

The Company uses a committee of investment and accounting professionals to monitor securities in an unrealized loss position for potential impairments. See Note 1(c) for the Company's accounting policy for other-than-temporarily impaired investment assets.

(DOLLARS IN THOUSANDS)

The following tables present the Company's unrealized loss aging by investment type and length of time the security was in a continuous unrealized loss position at December 31, 2019 and 2018.

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
At December 31, 2019						
U.S. government	$ 514	$ 15	$ 13	$ 28	$ 527	$ 43
Special revenue & special assessment	63,918	1,126	30,793	4,032	94,711	5,158
Industrial and miscellaneous	697,643	17,259	493,653	37,734	1,191,296	54,993
Loan-backed and structured securities	901,813	14,709	2,143,872	56,358	3,045,685	71,067
Hybrid	—	—	27,219	3,178	27,219	3,178
Affiliated bonds	46,291	329	130,983	2,195	177,274	2,524
Bank loans	23,977	718	14,334	1,246	38,311	1,964
Total bonds	$ 1,734,156	$ 34,156	$2,840,867	$ 104,771	$ 4,575,023	$ 138,927
Preferred stocks - unaffiliated	$ 34,279	$ 711	$ 218,529	$ 11,613	$ 252,808	$ 12,324
Common stock - unaffiliated	$ 28,197	$ 349	$ 33,919	$ 1,055	$ 62,116	$ 1,404
Surplus debentures	$ 22,580	$ 365	$ —	$ —	$ 22,580	$ 365
Total	$ 1,819,212	$ 35,581	$3,093,315	$ 117,439	$ 4,912,527	$ 153,020

(DOLLARS IN THOUSANDS)

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
At December 31, 2018						
U.S. government	$ 3,666	$ 36	$ 5,842	$ 212	$ 9,508	$ 248
Foreign government	64,660	3,143	40,382	1,509	105,042	4,652
States & political subdivisions	19,053	1,097	16,552	560	35,605	1,657
Special revenue & special assessment	96,567	1,455	48,474	6,843	145,041	8,298
Industrial and miscellaneous	5,379,225	454,466	746,130	80,348	6,125,355	534,814
Loan-backed and structured securities	4,211,520	143,248	443,936	13,661	4,655,456	156,909
Hybrid	560,602	56,898	3,772	913	564,374	57,811
Affiliated bonds	282,290	9,148	19,558	2	301,848	9,150
Bank loans	19,602	198	—	—	19,602	198
Total bonds	$10,637,185	$ 669,689	$ 1,324,646	$ 104,048	$11,961,831	$ 773,737
Preferred stocks - unaffiliated	$ 1,120,206	$ 90,995	$ 45,900	$ 8,759	$ 1,166,106	$ 99,754
Common stock - unaffiliated	$ 40,100	$ 1,545	$ 144	$ 9	$ 40,244	$ 1,554
Surplus debentures	$ 191,667	$ 11,068	$ 10,340	$ 69	$ 202,007	$ 11,137
Total	$11,989,158	$ 773,297	$ 1,381,030	$ 112,885	$13,370,188	$ 886,182

At December 31, 2019 and 2018, securities in an unrealized loss position were primarily concentrated in loan backed and structured securities and investment grade corporate debt instruments, respectively. Total unrealized losses decreased by $733,162 between December 31, 2018 and 2019. The Company has determined these securities are not OTTI based upon the Company's current evaluation of these securities in accordance with its impairment policy and the Company's intent and ability to retain these investments for a period of time sufficient to allow for recovery in value. The unrealized losses are due primarily to decreases in interest rates across the yield curve and credit spreads tightened driving bond prices upward.

The following table presents the carrying amount and fair value of those securities with an unrealized loss greater than 20% of amortized cost, by length of time the security has been in a continuous unrealized loss position greater than 20% at December 31, 2019 and 2018.

	12/31/2019			12/31/2018		
Consecutive Months	Carrying Value	Fair Value	Unrealized Losses	Carrying Value	Fair Value	Unrealized Losses
Less than six months	$ 3,187	$ 2,291	$ 896	$ 60,939	$ 46,789	$ 14,150
Six to twelve months	267	201	66	37,439	28,968	8,471
Greater than 12 months	73,546	54,265	19,281	160,788	115,230	45,558
Total	$ 77,000	$ 56,757	$ 20,243	$ 259,166	$ 190,987	$ 68,179

(DOLLARS IN THOUSANDS)

Based upon the Company's analysis of these securities and current macroeconomic conditions, the Company expects these securities to pay in accordance with their contractual obligations and, therefore, has determined that these securities are not OTTI.

(e) Carrying amount and fair value by expected final maturity of bonds at December 31, 2019 are as follows:

	Carrying Amount	Fair Value
Maturing in:		
2020	$ 143,902	$ 144,700
2021 through 2024	2,820,160	2,892,039
2025 through 2029	7,585,047	7,759,264
After 2029	9,809,081	10,691,106
Total	$ 20,358,190	$ 21,487,109

Carrying amount and fair value by expected final maturity of surplus debentures at December 31, 2019 are as follows:

	Carrying Amount	Fair Value
Maturing in:		
2025 through 2029	45,036	50,438
After 2029	511,497	584,758
Total surplus debentures	$ 556,533	$ 635,196

Expected maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay their obligations with or without prepayment penalties. Loaned-backed and structured securities expected maturity result from estimated cash flows and incorporating appropriate prepayment assumptions.

(f) Proceeds from the sale of bonds

Proceeds from the sale of bonds totaled $2,520,699 in 2019 and $5,952,856 in 2018. Gross gains on the sale of bonds totaled $133,710 in 2019 and $237,338 in 2018; Gross losses on the sale of bonds totaled $25,695 in 2019 and $59,366 in 2018. Net realized gains after tax of $136,189 and $207,858, including gains on sales of derivatives, were transferred to the IMR in 2019 and 2018, respectively. The realized gains and losses transferred to the IMR are from disposal types (e.g. sales, paydowns, etc.) that generate realized gains and losses.

(g) Other-than-temporary impairments on bonds, excluding loan-backed and structured securities, and preferred stocks

For the years ended December 31, 2019 and 2018 the Company recognized losses totaling $28,235 and $52,766, respectively, related to bonds which experienced OTTI based upon a carrying value of $77,088 and $124,698 and a fair value of $48,853 and $71,932, respectively, at the time of impairment. The impairments on these bonds resulted from declines in the financial condition and short term prospects of the issuers. The Company did not recognize any OTTI on preferred stocks in 2019 or 2018.

(DOLLARS IN THOUSANDS)

(h) Other than temporary impairments on loan-backed and structured securities

For the years ended December 31, 2019 and 2018, the Company recognized the following OTTI losses on loan-backed and structured securities:

	For the years ended December 31, 2019	For the years ended December 31, 2018
Amortized cost before OTTI	$ 826	$ 4,379
Recognized interest related OTTI losses	—	1,429
Amortized cost after OTTI (equals fair value)	826	2,950

The Company recognized intent to sell impairment losses in net income of $0 and $1,429 during the years ended December 31, 2019 and 2018, respectively.

The Company recognized OTTI on two loan-backed and structured securities of $170 and $0 during the years ended December 31, 2019 and 2018, respectively, where the present value of cash flows expected to be collected were less than the amortized cost basis of the security.

(i) Bonds on deposit

Bonds on deposit with state insurance departments to satisfy regulatory requirements had a fair value of $8,285 and $8,091 and a carrying amount of $7,701 and $7,708 at December 31, 2019 and 2018, respectively.

(j) Concentration of credit risk

	Carrying Value	**Fair Value**	**Unrealized Gain (Loss)**	**OTTI**	**Percent of Cash & Invested Assets**
At December 31, 2019					
Securities exposed to subprime mortgage risk	$ 39,345	$ 43,268	$ 3,923	$ —	0.2%
Securities exposed to risk from monoline insurers	$ 209,097	$ 223,569	$ 14,472	$ —	0.8%
Securities not exposed to subprime mortgage risk:					
RMBS securities	$ 681,913	$ 725,498	$ 43,585	$ —	2.7%
CMBS securities	2,596,922	2,726,789	129,867	—	10.4%
Total RMBS & CMBS not exposed to subprime mortgage risk	$3,278,835	$3,452,287	$ 173,452	$ —	13.1%
Hybrid bonds and preferred stocks issued by financial service companies	$1,296,573	$1,383,965	$ 87,392	$ —	5.2%
Non-investment grade bonds	$1,484,981	$1,491,488	$ 6,507	$ 27,121	5.9%

(DOLLARS IN THOUSANDS)

	Carrying Value	Fair Value	Unrealized Gain (Loss)	OTTI	Percent of Cash & Invested Assets
At December 31, 2018					
Securities exposed to subprime mortgage risk	$ 54,429	$ 57,543	$ 3,114	$ —	0.2%
Securities exposed to risk from monoline insurers	$ 174,190	$ 177,207	$ 3,017	$ —	0.8%
Securities not exposed to subprime mortgage risk:					
RMBS securities	$ 725,778	$ 743,692	$ 17,914	$ —	3.3%
CMBS securities	2,299,904	2,274,760	(25,144)	—	10.3%
Total RMBS & CMBS not exposed to subprime mortgage risk	$3,025,682	$3,018,452	$ (7,230)	$ —	13.6%
Hybrid bonds and preferred stocks issued by financial service companies	$1,658,433	$1,563,280	$ (95,153)	$ —	7.4%
Non-investment grade bonds	$1,236,072	$1,122,492	$ (113,580)	$ 39,188	5.5%

Securities exposed to subprime mortgage risk:

The Company holds investments exposed to subprime mortgage risk through exposure to subprime RMBS securities. These subprime RMBS securities include non-investment grade securities and securities guaranteed by monoline insurers. The Company did not have any direct exposure to subprime mortgage loans during 2019 and 2018.

The Company defines exposure to subprime mortgage risk using market accepted guidelines on FICO scores and documentation. The evaluation of securities includes reviewing the quality of the servicer, pool specific statistics, the position of the security within the trust holding the mortgages and the credit enhancement available to protect the principal value of the security being evaluated. Risk exposure associated with subprime market fluctuation and cash flow deterioration is managed by actively monitoring these securities.

Securities exposed to risk from monoline insurer:

The Company holds investments exposed to risk from monoline insurers. The Company's exposure to risk from monoline insurers includes RMBS securities and investment grade securities.

RMBS and CMBS securities not exposed to subprime mortgage risk:

The Company holds investments in RMBS and CMBS securities that are not exposed to subprime mortgage risk. These RMBS and CMBS securities include non-investment grade securities and securities guaranteed by monoline insurers.

(DOLLARS IN THOUSANDS)

Hybrid bonds and preferred stocks issued by financial service companies:

The Company also holds investments in hybrid bonds and preferred stocks issued by financial service companies. These hybrid bonds and preferred stocks include non-investment grade securities.

Non-investment grade bonds:

The Company holds non-investment grade bonds which are widely diversified and include RMBS securities and hybrid bonds issued by financial service companies. Non-investment grade bonds did not have securities with an exposure to monoline insurers at December 31, 2019 and 2018.

(k) Mortgage loans

Commercial mortgage loans ("CMLs") represented approximately 0.2% and 0.3% of the Company's total investments as of December 31, 2019 and December 31, 2018, respectively. The Company primarily invests in mortgage loans on income producing properties including hotels, industrial properties, retail buildings, multifamily properties and office buildings. The maximum percentage of any one loan to the value of the underlying property at the time of the loan was 52%. Interest rates on these CMLs range from 3.81% to 9.25%. The Company diversifies its CML portfolio by geographic region and property type 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 by property type and geographic region is reflected in the following tables:

	December 31, 2019		December 31, 2018	
	Gross Carrying Value	**% of Total**	**Gross Carrying Value**	**% of Total**
Property Type:				
Funeral home	$ 301	0.47%	$ 393	0.60%
Industrial - General	34,055	53.63%	34,050	51.74%
Industrial - Warehouse	7,861	12.38%	8,226	12.50%
Office	8,768	13.81%	9,163	13.92%
Retail	12,518	19.71%	13,981	21.24%
Total commercial mortgage loans	$ 63,503	100.00%	$ 65,813	100.00%
U.S. Region:				
East North Central	$ 8,768	13.81%	$ 10,252	15.58%
East South Central	8,172	12.87%	8,408	12.78%
Pacific	33,600	52.91%	33,954	51.59%
West North Central	12,963	20.41%	13,199	20.05%
Total commercial mortgage loans	$ 63,503	100.00%	$ 65,813	100.00%

As of December 31, 2019, all CMLs are current and have not experienced credit or other events which would require the recording of a valuation allowance or OTTI loss. All CMLs in the Company's portfolio have a LTV ratio of less than 75% at December 31, 2019 and 2018.

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.

(DOLLARS IN THOUSANDS)

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 December 31, 2019 and December 31, 2018:

	Debt Service Coverage Ratios				Total Amount	% of Total	Estimated Fair Value	% of Total
	>1.25	1.00 - 1.25	<1.00	N/A(a)				
December 31, 2019								
LTV Ratios:								
Less than 50%	$ 55,031	$ —	$ —	$ 300	$ 55,331	87.13 %	$ 55,968	86.73 %
50% to 60%	8,172	—	—	—	8,172	12.87 %	8,566	13.27 %
Commercial mortgage loans	$ 63,203	$ —	$ —	$ 300	$ 63,503	100.00 %	$ 64,534	100.00 %
December 31, 2018								
LTV Ratios:								
Less than 50%	$ 55,922	$ —	$ —	$ 393	$ 56,315	85.57 %	$ 55,907	85.38 %
50% to 60%	9,498	—	—	—	9,498	14.43 %	9,571	14.62 %
Commercial mortgage loans	$ 65,420	$ —	$ —	$ 393	$ 65,813	100.00 %	$ 65,478	100.00 %

(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. The Company believes that the LTV ratio is an indicator of the principal recovery risk for loans that default. A higher LTV ratio will result in a higher allowance. The Company believes that the DSC ratio is an indicator of default risk on loans. A higher DSC ratio will result in a lower allowance.

The Company recognizes a mortgage loan as delinquent when payments on the loan are greater than 30 days past due. At December 31, 2019 and December 31, 2018, the Company had no CMLs that were delinquent in principal or interest payments.

(l) Derivative instruments

Information regarding the Company's call options and futures derivative instruments is presented in the following table:

	Carrying Amount	Fair Value	Measurement (Notional/ Contract)	Amount	Potential Exposure	Maximum Exposure to any Individual Counterparty	Collateral Held (Provided)
Call options owned at:							
December 31, 2019	$ 206,848	$531,381	Notional	$13,927,307	$ 48,835	$ 45,695	$ 486,709
December 31, 2018	$ 138,981	$ 87,380	Notional	$12,292,353	$ 28,957	$ 25,201	$ 58,423
Futures contracts outstanding at:							
December 31, 2019	$ 353	$ 353	Contract	879	$ 5,135	$ 4,108	$ (5,135)
December 31, 2018	$ 422	$ 422	Contract	664	$ 3,493	$ 2,832	$ (3,493)

At December 31, 2019 and December 31, 2018, counterparties posted $486,709 and $58,423 of collateral of which $443,773 and $58,423 is included as an admitted asset under "Cash and cash equivalents" with an associated payable for this collateral included in the Statutory Statement of Admitted Assets, Liabilities and Capital and Surplus under "Options collateral payable". The remaining $42,936 and $0 of non-cash collateral was held by a third-party custodian at December 31, 2019 and December 31, 2018, respectively. The Company had 879 and 664 open futures contracts with a potential exposure of $5,135 and $3,493 at December 31, 2019 and December 31, 2018, respectively. At December 31, 2019 and December 31, 2018, respectively, the Company had foreign currency forwards of $(314) and $(90) with a potential exposure of $191 and $183.

(DOLLARS IN THOUSANDS)

(m) Investments in excess of 10% of capital and surplus

There were no investments, aggregated by issuer, in excess of 10% of capital and surplus at December 31, 2019 and December 31, 2018.

(n) Commitments

The Company has unfunded investment commitments 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 as of December 31, 2019 and 2018 by invested asset class is included below:

	December 31, 2019	December 31, 2018
Bonds	$ 48,120	$ 37,716
Common stocks	5,992	25,331
Other invested assets - Affiliated	993,158	990,070
Other invested assets - Unaffiliated	279,373	149,318
Total	$ 1,326,643	$ 1,202.435

(o) Prepayment penalties and acceleration fees for securities sold, disposed or otherwise redeemed as a result of a callable feature

The number of CUSIPs sold, disposed or otherwise redeemed and the aggregate amount of investment income generated as a result of prepayment penalties and/or acceleration fees for the years ended December 31, 2019 and December 31, 2018 are presented in the table below:

	Number of CUSIPs	Aggregate amount of investment income
2019	16	$ 523
2018	20	$ 2,785

(DOLLARS IN THOUSANDS)

(p) 5GI Securities

Securities with NAIC 5GI Designations are deemed to possess the credit characteristics of securities assigned an NAIC 5 Designation. A security self-designated as NAIC 5GI incurs regulatory treatment associated with an NAIC 5 Designation. The table below lists the number of securities that have been self-designated and were held as 5GI Securities by the Company for the years ended December 31, 2019 and 2018:

December 31, 2019	Number of 5GI Securities	Aggregate Book Adjusted Carrying Value	Aggregate Fair Value
Bonds - Amortized Cost	$ 2	$ 20,046	$ 20,456
December 31, 2018			
Bonds - Amortized Cost	$ 3	$ 25,227	$ 25,241

(DOLLARS IN THOUSANDS)

NOTE 3: SUBSIDIARIES

The Company owns 100% of the outstanding common stock of all its insurance subsidiaries.

Statutory financial information of the Company's insurance subsidiaries, FGLICNY and Raven Re, are summarized as follows:

At or for the years ended December 31,	2019	2018
Total admitted assets:		
FGLICNY	$ 534,596	$ 532,074
Raven Re	157,837	185,409
Total capital and surplus:		
FGLICNY	94,890	85,091
Raven Re	87,153	107,903
Net income (loss):		
FGLICNY	(854)	(2,650)
Raven Re	9,204	10,605

As disclosed in Note 1(c), FGL Mortgage Trust, a noninsurance subsidiary, was formed in 2018 to hold the Company's residential mortgage loans ("RMLs") in trust. There is no other type of assets held in the trust. In 2019, the Company pledged RMLs held in the trust with the FHLB to be used as collateral to secure the FHLB funding agreement liabilities. The Company owns 100% of the trust through the general and separate account. The carrying value and fair value of the pledged RMLs as of December 31, 2019 was $174,924 and $178,738, respectively. The GAAP financial information of FGL Mortgage Trust is summarized as follows:

At or for the years ended December 31,	2019	2018
Assets	$ 852,893	$ 186,996
Equity	850,224	186,872
Net income (loss)	15,786	562

The operations and net worth of the Company's remaining non-insurance subsidiaries are not material.

The Company's wholly-owned insurance subsidiary, Raven Re, is a special purpose captive reinsurance company domiciled in the State of Vermont. The statutory surplus of Raven Re reflects departures from NAIC statutory accounting practices and procedures. Raven Re has a permitted practice approved by the Commissioner of the Vermont Department to include as an admitted asset the value of a letter of credit ("LOC") secured by Raven Re to finance the statutory reserves resulting from the Raven Re waiver surrender charge ("WSC") reinsurance treaty ("the Raven Reinsurance Agreement") entered into with the Company. The amount of the LOC at December 31, 2019 and 2018 was $100,000 and $110,000, respectively. Raven Re also has a permitted practice approved by the Commissioner of the Vermont Department to calculate assumed reserves under IAC Insurance 191, chapter 97. In accordance with the Raven Reinsurance Agreement, the Company determines the reserve credit for the WSC risk ceded to Raven Re, and Raven Re determines its assumed reserves, under statutory accounting principles for the state of domicile of the Company ("Iowa SAP").

(DOLLARS IN THOUSANDS)

If Raven Re had not been permitted to calculate assumed reserves under Iowa's alternative prescribed practice 191 IAC, chapter 97 or include the value of the LOC as an admitted asset, Raven Re's audited statutory surplus would have decreased by $105,766 and $111,101 as of December 31, 2019 and 2018, respectively. Additionally, Raven Re's net income would have decreased by $4,665 in 2019 and net loss would have increased by $3,516 in 2018, respectively. Without such permitted statutory accounting practices Raven Re's audited statutory surplus would be negative and its risk-based capital would fall below the minimum regulatory requirements. If Raven Re had completed its statutory financial statements in accordance with NAIC statutory accounting practices and procedures, the Company would have reported its investment in Raven Re at $0 at December 31, 2019 and 2018, as Raven Re' statutory surplus would have been in a net deficit position.

NOTE 4: TRANSACTIONS WITH AFFILIATES

The Company periodically reimburses Fidelity & Guaranty Life Business Services, Inc. ("FGLBS"), an affiliate, for costs incurred on its behalf subject to an expense sharing agreement that has been approved by the IID. These costs include routine operating expenses incurred in the normal conduct of business such as shared home office facilities, information technology, finance, legal, actuarial, human resources services and general overhead costs, including salaries and benefits. These costs are generally determined on the basis of use and are included in expenses as incurred. In 2019 and 2018, amounts incurred by the Company were $173,363 and $129,656, respectively.

FGLBS's employees participate in a stock-based incentive plan sponsored by FGL Holdings 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. In 2019 and 2018, costs incurred under the expense sharing agreement between the Company and FGLBS include $5,674 and $4,275, respectively, of share-based compensation expense related to the participation of FGLBS's employees in this plan. The Company is not directly liable for obligations under the FGL Holdings stock-based incentive plans.

The Company has guaranteed the performance of obligations under non-cancelable office space lease agreements on behalf of FGLBS, which will expire in January 2031. At December 31, 2019, FGLBS was current on all of its obligations under the lease agreements. The Company shares these facilities with other affiliates and reimburses FGLBS for its use of these facilities. During the years ended December 31, 2019 and 2018, rent expense allocated to the Company by FGLBS for its shared facilities was $2,936 and $2,552, respectively.

As of January 1, 2020, the minimum aggregate rental commitments under the guaranteed lease agreements are as follows:

2020	$ 1,639
2021	1,775
2022	1,235
2022	1,260
2023	1,285
Thereafter	8,271
Total	$ 15,465

The Company entered into an investment management agreement with Blackstone ISG-I Advisors LLC ("BISGA"), a wholly-owned subsidiary of Blackstone on December 1, 2017. On December 31, 2019, to be effective as of October 31, 2019, the Company entered into an amended and restated IMA (the "Restated IMA") with BISGA, pursuant to which BISGA was appointed as investment manager of the Company's general accounts. Pursuant to the terms of the IMAs, BISGA may delegate any or all of its discretionary investment, advisory and other rights, powers, functions and obligations under the Restated IMAs to one or more sub-managers, including its affiliates. BISGA delegated certain investment services to its affiliates, Blackstone Real Estate Special Situations Advisors L.L.C. ("BRESSA") and GSO Capital Advisors II LLC ("GSO Capital Advisors"), pursuant to sub-management agreements executed between BISGA and each of BRESSA and GSO Capital Advisors. In 2019 and 2018, the Company incurred $72,357 and $49,652, respectively, in investment management fees pursuant to these agreements.

(DOLLARS IN THOUSANDS)

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.

The carrying value of these affiliated investments as of December 31, 2019 and 2018 is disclosed in the table below:

Type	Balance Sheet Classification	Statement Value for the year ended	
		2019	2018
Issuer obligations	Bonds	$ 179,274	$ 94,659
Other loan-backed and structured securities	Bonds	592,082	547,521
Residential mortgage-backed securities	Bonds	522,755	527,729
Limited partnerships with underlying characteristics of real estate	Investment in limited partnerships	181,613	173,439
Limited partnerships with underlying characteristics of common stock	Investment in limited partnerships	437,730	32,131
Any other class of assets	Investment in limited partnerships	20,389	24,233
Total Affiliated Investments		$ 1,933,843	$ 1,399,712

As of December 31, 2019 and 2018, the Company had unfunded commitments relating to affiliated investments of $993,158 and $990,070, respectively.

The Company did not recognize impairment losses on its affiliated investments during 2019 or 2018.

Amounts due from and due to the Company's parent and/or affiliates resulting from affiliate transactions, other than reinsurance transactions and federal income tax sharing transactions, are classified as receivable from or payable to affiliates in the Statutory Statements of Admitted Assets, Liabilities, and Capital and Surplus. The terms of the settlement of the current balances require that the amounts be settled within 30 days.

See Note 5f for a description of income tax transactions with affiliated entities, Note 8 for further discussion of reinsurance transactions with affiliated entities, Note 10 for information regarding surplus note transactions with FGLH and Note 11 for a capital contribution transaction from FGLH.

(DOLLARS IN THOUSANDS)

NOTE 5: FEDERAL INCOME TAXES

(a) Net deferred tax asset/(liability)

Tax laws and statutory accounting principles differ in their recognition and measurement of assets and liabilities, giving rise to differences between the tax bases of assets or liabilities and their reported amounts in the statutory financial statements. Those differences create deferred tax assets (“DTAs” or "DTA") and deferred tax liabilities (“DTLs” or "DTL") related to the estimated future tax consequences of those differences. If, based on the weight of available evidence, it is more likely than not (a likelihood of greater than 50 percent) that some portion or all of the gross DTAs will not be realized, the DTAs are reduced by a statutory valuation allowance adjustment. In the event that the gross DTA after consideration of a valuation allowance is greater than the gross DTL, an entity is subject to admissibility testing under SSAP No. 101 to determine the amount of deferred tax assets that can be admitted. Under the guidance provided in SSAP No. 101, the Company is permitted to admit the lesser of the amount of deferred tax assets projected to offset taxable income during a three-year lookout period or 15% of its adjusted capital and surplus.

1. The components of the net deferred tax asset/(liability) are as follows:

	December 31, 2019		
	Ordinary	Capital	Total
Gross DTA	$ 261,630	$ 6,215	$ 267,845
Statutory valuation allowance	—	—	—
Adjusted gross DTA	261,630	6,215	267,845
Deferred tax liabilities	(153,899)	(33,405)	(187,304)
Net DTA (DTL)	107,731	(27,190)	80,541
DTA nonadmitted	—	—	—
Net admitted DTA (DTL)	$ 107,731	$ (27,190)	$ 80,541

	December 31, 2018		
	Ordinary	Capital	Total
Gross DTA	$ 318,633	$ 10,413	$ 329,046
Statutory valuation allowance	—	—	—
Adjusted gross DTA	318,633	10,413	329,046
Deferred tax liabilities	(174,104)	(25,884)	(199,988)
Net DTA (DTL)	144,529	(15,471)	129,058
DTA nonadmitted	—	—	—
Net admitted DTA (DTL)	$ 144,529	$ (15,471)	$ 129,058

(DOLLARS IN THOUSANDS)

	Change		
	Ordinary	Capital	Total
Gross DTA	$ (57,003)	$ (4,198)	$ (61,201)
Statutory valuation allowance	—	—	—
Adjusted gross DTA	(57,003)	(4,198)	(61,201)
Deferred tax liabilities	20,205	(7,521)	12,684
Net DTA (DTL)	(36,798)	(11,719)	(48,517)
DTA nonadmitted	—	—	—
Net admitted DTA (DTL)	$ (36,798)	$ (11,719)	$ (48,517)

The Company believes it is more likely than not that all other deferred tax assets are realizable; therefore, no valuation allowance was recognized as of December 31, 2019 and December 31, 2018.

The change in net deferred income tax is as follows:

	2019	2018	Change
Adjusted gross deferred tax assets	$ 267,845	$ 329,046	$ (61,201)
Total deferred tax liabilities	(187,304)	(199,988)	12,684
Net deferred tax assets	$ 80,541	$ 129,058	(48,517)
Tax effect of unrealized gains and losses			3,306
Change in net deferred income tax			$ (45,211)

	2018	2017	Change
Adjusted gross deferred tax assets	$ 329,046	$ 311,680	$ 17,366
Total deferred tax liabilities	(199,988)	(229,395)	29,407
Net deferred tax assets	$ 129,058	$ 82,285	46,773
Tax effect of unrealized gains and losses			4,593
Change in net deferred income tax			$ 51,366

(DOLLARS IN THOUSANDS)

2. SSAP No. 101 admission calculation components:

	2019		
	Ordinary	Capital	Total
Admission Calculation Components SSAP No. 101			
(a) Federal Income Taxes Paid in Prior Years Recoverable Through Loss Carrybacks	$ —	$ —	$ —
(b) Adjusted Gross Deferred Tax Assets Expected to be Realized (Excluding the Amount of Deferred Tax Assets from 2(a) above) After Application of the Threshold Limitation (The Lesser of 2(b)1 and 2(b)2 Below)	97,855	—	97,855
1 Adjusted Gross Deferred Tax Assets Expected to be Realized Following the Balance Sheet Date	97,855	—	97,855
2 Adjusted Gross Deferred Tax Assets Allowed Per Limitation Threshold	XXX	XXX	215,390
(c) Adjusted Gross Deferred Tax Assets (Excluding the amount of Deferred Tax Assets from 2(a) and 2 (b) above) offset by Gross Deferred Tax Liabilities	163,775	6,215	169,990
(d) Deferred Tax Assets Admitted as the result of application of SSAP No. 101 Total (2(a)+2(b)+2(c))	$ 261,630	$ 6,215	$ 267,845

	2018		
	Ordinary	Capital	Total
Admission Calculation Components SSAP No. 101			
(a) Federal Income Taxes Paid in Prior Years Recoverable Through Loss Carrybacks	$ —	$ —	$ —
(b) Adjusted Gross Deferred Tax Assets Expected to be Realized (Excluding the Amount of Deferred Tax Assets from 2(a) above) After Application of the Threshold Limitation (The Lesser of 2(b)1 and 2(b)2 Below)	167,263	—	167,263
1 Adjusted Gross Deferred Tax Assets Expected to be Realized Following the Balance Sheet Date	167,263	—	167,263
2 Adjusted Gross Deferred Tax Assets Allowed Per Limitation Threshold	XXX	XXX	212,456
(c) Adjusted Gross Deferred Tax Assets (Excluding the amount of Deferred Tax Assets from 2(a) and 2 (b) above) offset by Gross Deferred Tax Liabilities	151,370	10,413	161,783
(d) Deferred Tax Assets Admitted as the result of application of SSAP No. 101 Total (2(a)+2(b)+2(c))	$ 318,633	$ 10,413	$ 329,046

(DOLLARS IN THOUSANDS)

	Change		
	Ordinary	Capital	Total
Admission Calculation Components SSAP No. 101			
(a) Federal Income Taxes Paid in Prior Years Recoverable Through Loss Carrybacks	$ —	$ —	$ —
(b) Adjusted Gross Deferred Tax Assets Expected to be Realized (Excluding the Amount of Deferred Tax Assets from 2(a) above) After Application of the Threshold Limitation (The Lesser of 2(b)1 and 2(b)2 Below)	(69,408)	—	(69,408)
1 Adjusted Gross Deferred Tax Assets Expected to be Realized Following the Balance Sheet Date	(69,408)	—	(69,408)
2 Adjusted Gross Deferred Tax Assets Allowed Per Limitation Threshold	XXX	XXX	2,934
(c) Adjusted Gross Deferred Tax Assets (Excluding the amount of Deferred Tax Assets from 2(a) and 2 (b) above) offset by Gross Deferred Tax Liabilities	12,405	(4,198)	8,207
(d) Deferred Tax Assets Admitted as the result of application of SSAP No. 101 Total (2(a)+2(b)+2(c))	$ (57,003)	$ (4,198)	$ (61,201)

Under SSAP No. 101, there are three prescribed methods for calculating the admissibility of the net deferred tax asset. The method utilized is based on the Authorized Control Level Risk Capital ("ACL RBC") of the entity. The Company's ACL RBC at December 31, 2019 and 2018, as shown below, is greater than 300%. As a result, the Company can admit deferred tax assets that are expected to reverse over a three-year lookout period, not to exceed 15% of the adjusted capital and surplus.

Realization Threshold Data:	2019	2018
(a) Ratio Percentage Used To Determine Recovery Period And Threshold Limitation Amount - Ex DTA ACL RBC	863%	827%
(b) Amount of Adjusted Capital and Surplus Used To Determine Recovery Period And The Threshold Limitation in 2(b)2 Above.	$1,695,718	$1,571,428

The Company does not have any tax planning strategies at either December 31, 2019 or 2018.

The Company has no significant deferred tax liabilities that have not been recorded.

Tax Reform Enacted

The Tax Cut and Jobs Act ("TCJA") was enacted on December 22, 2017, and it amended many provisions of the Internal Revenue Code that had effect on the Company. Because the TCJA reduced the statutory tax rate from 35% to 21%, the Company was required to remeasure its DTA's and DTL's using the lower rate at the December 22, 2017, date of enactment, resulting in a reduction to the Company's net DTA of $54,856. The only provisional amount utilized in the preparation of the Company's financial statements for the period ended December 31, 2017 was tax reserves. The Company was not able to update its reserving system for the impact of the TCJA in time to include those calculations in its December 31, 2017. A reasonable estimate was used in its December 31, 2017 financial statements. The estimated transition reserves were $397,863 at December 31, 2017. December 22, 2018 marked the end of the measurement period for purposes of SAB 118. We completed our analysis for the year ended December 31, 2018 based on the legislative updates relating to the TCJA and the final calculation of the transition reserves was $327,377. There are no provisional amounts utilized in the preparation of the Company's financial statements for the years ended December 31, 2019 and 2018.

(DOLLARS IN THOUSANDS)

(b) Current income taxes

Current income taxes incurred consist of the following major components:

For the years ended December 31,	2019	2018
Current income tax expense (benefit)	$ (9,831)	$ 38,986
Tax return true up and tax on amended returns	747	(2,478)
Subtotal	(9,084)	36,508
Current year capital gains tax expense (benefit)	2,328	(3,603)
Federal income tax expense (benefit) incurred	$ (6,756)	$ 32,905

(c) Deferred income taxes

The December 31, 2019 and 2018 balances and related disclosures are calculated and presented as provided pursuant to SSAP No. 101.

(DOLLARS IN THOUSANDS)

The tax effects of significant temporary differences giving rise to deferred tax assets and liabilities as of December 31, 2019 and 2018 are as follows:

	December 31, 2019		
	Ordinary	Capital	Total
Deferred tax assets:			
Property and equipment	$ 640	$ —	$ 640
Accrued expenses	7,103	—	7,103
Investment basis differences	71,546	6,215	77,761
Policyholder reserves	92,044	—	92,044
Deferred policyholder acquisition expenses	32,533	—	32,533
Receivable from agents	5,808	—	5,808
Net operating loss carryforward	23,639	—	23,639
Options used for hedging	27,807	—	27,807
Prepaid expenses	62	—	62
Other	448	—	448
Total gross DTA	261,630	6,215	267,845
Statutory valuation allowance	—	—	—
Nonadmitted DTA	—	—	—
Admitted DTA	261,630	6,215	267,845
Deferred tax liabilities:			
Investment basis differences	97,959	33,405	131,364
Policyholders reserves	50,397	—	50,397
Separate Accounts	5,187	—	5,187
Unrealized options	356	—	356
Total deferred tax liabilities	153,899	33,405	187,304
Net admitted DTA (DTL)	$ 107,731	$ (27,190)	$ 80,541

(DOLLARS IN THOUSANDS)

	December 31, 2018		
	Ordinary	Capital	Total
Deferred tax assets:			
Property and equipment	$ 319	$ —	$ 319
Accrued expenses	6,285	—	6,285
Investment basis differences	83,151	10,413	93,564
Policyholder reserves	95,556	—	95,556
Deferred policyholder acquisition expenses	19,127	—	19,127
Receivable from agents	5,926	—	5,926
Tax credits	2,516	—	2,516
Net operating loss carryforward	76,071	—	76,071
Options used for hedging	28,547	—	28,547
Prepaid expenses	140	—	140
Other	995	—	995
Total gross DTA	318,633	10,413	329,046
Statutory valuation allowance	—	—	—
Nonadmitted DTA	—	—	—
Admitted DTA	318,633	10,413	329,046
Deferred tax liabilities:			
Investment basis differences	106,889	25,884	132,773
Policyholders reserves	60,156	—	60,156
Separate Accounts	2,136	—	2,136
Unrealized options	4,727	—	4,727
Other	196	—	196
Total deferred tax liabilities	174,104	25,884	199,988
Net admitted DTA	$ 144,529	$ (15,471)	$ 129,058

(DOLLARS IN THOUSANDS)

(d) Permanent and temporary differences

The Company's income tax incurred and change in deferred income tax differ from the amount obtained by applying the federal statutory rate of 21% to the net gain (loss) before income tax as follows:

For the years ended December 31,	2019	2018
Net gain (loss) from operations before income taxes	$ 165,529	$ (78,246)
Net realized capital gain (loss)	115,586	152,422
	281,115	74,176
Income tax incurred at 21% statutory rate	59,034	15,577
Increase (decrease) resulting from:		
Dividends received deduction	(3,465)	(3,367)
Nondeductible expenses for meals, penalties, and lobbying	100	55
IMR amortization	(21,529)	(40,950)
Income from subsidiary	(3,753)	118
Tax credits utilized in current year	(5,945)	(3,677)
Amortization of deferred gains	(2,395)	(7,450)
Deferred reinsurance gain	1,372	—
Deductible management fees	(1,539)	—
Transfer pricing adjustments	(1,542)	(1,197)
Prior year tax adjustment	(4)	(2,007)
Change in statutory valuation allowance adjustment	—	(345)
Change in Surplus Adjustments	8,990	(7,737)
Change in Non-admitted (assets)	8,954	(7,854)
Change in tax rate on deferred tax assets	—	(1,406)
Change in reserve on account of change in valuation basis	—	(2,358)
Base Erosion and Anti-Abuse Tax ("BEAT")	—	44,353
Tax exempt interest	(382)	(301)
Other	559	85
Total income tax expense (benefit) incurred	$ 38,455	$ (18,461)
Current income tax expense (benefit) incurred *	$ (6,756)	$ 32,905
Change in deferred income tax	45,211	(51,366)
Total income tax expense (benefit) incurred	$ 38,455	$ (18,461)

* Includes capital gains (losses) taxes of $2,328 and $(3,603) for the years ended December 31, 2019 and 2018, respectively.

(e) Net operating losses and other carry-forwards

The Company files a consolidated federal income tax return with its subsidiaries, FGLICNY and Raven Re ("the life companies" or "the life group"). As of December 31, 2019, the life companies have consolidated operating loss of \$112,568 with unlimited carryforwards. The life companies have an 80% limit on offset of future taxable income for NOLs originating after December 31, 2017. The life companies do not currently have any Low-Income Housing Tax Credits or Capital Losses available to be carried forward. On a stand-alone basis, all of the NOL described above belong to the Company.

The life group incurred federal income taxes of \$6,635 in the current year. Of the \$6,635 federal income taxes, \$4,626 are considered capital gains taxes which are available for recoupment in the event of future net capital losses. On a stand-alone basis, \$3,215 of the capital gains taxes described above belong to the Company.

The Company did not have any deposits reported as admitted assets under Section 6603 of the Internal Revenue Service ("IRS") Code as of December 31, 2019.

The Company has no repatriation transition tax liability or AMT credits carryforward.

(f) Intercompany income tax balances

At December 31, 2019, the Company had income tax receivable balances of \$628 and \$704 due from FGLICNY and Raven Re, respectively. At December 31, 2018, the Company had income tax payable and receivable balances of \$240 and \$828 due to/from FGLICNY and Raven Re, respectively.

NOTE 6: **FAIR VALUE OF FINANCIAL INSTRUMENTS**

Certain financial instruments are carried at fair value in the Statement of Admitted Assets, Liabilities, and Capital and Surplus. Other financial instruments are periodically measured at fair value, such as when impaired or for certain bonds and preferred stocks when carried at the lower of cost or market.

While certain financial instruments and all nonfinancial instruments, including many insurance-related liabilities are not carried at fair value, it is the Company's asset/liability matching strategy to take into consideration the future cash requirements of its insurance-related liabilities.

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 may rely upon a pricing model or valuation technique to determine fair value. Inputs to the pricing model or valuation technique may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources. Unobservable inputs are inputs that reflect the Company's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. Valuation techniques used by the Company to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs.

For investments measured at fair value for which NAV is used as a practical expedient for fair value, the Company does not have any significant restrictions in their ability to liquidate their positions in these investments, other than obtaining general partner approval, nor does the Company believe it is probable that a price less than NAV would be received in the event of a liquidation.

The Company classifies its assets carried at fair value into three broad levels 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; and
>
> 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, Level 3 fair value investments may include observable components, which are components that are actively quoted or can be validated to market-based sources.

Cash: The carrying amounts reported approximate their fair values.

Cash equivalents: The Company's investment in cash equivalents is in the form of SVO-identified exempt and other money market mutual funds and their fair value represents their cost.

Bonds and preferred stocks: Fair values for bonds and preferred stocks are based on valuations obtained from an independent pricing service or broker quotes. The independent pricing service's valuations are based on market data and utilize pricing models that vary by asset class and incorporate available trade, bid and other market information and, for structured securities, cash flow and loan performance data when available. The primary inputs are observable and include benchmark yields, reported trades, broker/dealer quotes, issuer spread, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. The independent pricing service also evaluates new issue data, monthly payment information and collateral performance. The independent pricing service uses spreads and other information solicited from Wall Street buy and sell side sources, including primary and secondary dealers, portfolio managers and research analysts. The Company uses the valuations provided by the independent pricing service as the estimated fair value of the security when available. If the independent pricing service is not able to provide a valuation, the Company obtains a broker quote and uses the broker quote as an estimate of fair value.

Common stocks - unaffiliated: The Company's investment in unaffiliated common stocks is comprised of FHLB common stock, mutual funds and an investment in a private business development company. Based upon the level of transactions with the FHLB, the Company is required to maintain an investment in FHLB common stock. The fair value of the FHLB common stock is equal to its cost, which represents the price at which the FHLB will repurchase the stock. The mutual funds in which the Company invests are actively-traded institutional and retail mutual fund investments. The fair value for the mutual fund investments is based on the values provided by the respective mutual fund companies and represents the value the Company would have received if it withdrew its investment on the balance sheet date. The fair value of the investment in a private business development company is based upon the estimated NAV information provided by the investee.

Commercial mortgage loans on real estate: Fair value of mortgage loans on real estate is established using a discounted cash flow method based on credit rating, maturity and contractual cash flows. This yield-based approach was sourced from the Company's 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. The carrying value for impaired mortgage loans 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.

Derivative instruments: The fair value of equity options is based upon valuation pricing models and represents what the Company would expect to receive or pay at the balance sheet date if the Company cancelled the options, entered into offsetting positions, or exercised the options. Fair values for these instruments were determined internally based on industry accepted valuation pricing models using market observable inputs, including interest rates, yield curve volatilities, and other factors. Credit risk related to the counterparty is considered when estimating the fair values of the options.

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.

Surplus debentures: The fair values of surplus debentures are based on valuations obtained from independent pricing services or broker quotes.

Other invested assets: Fair values for the Company's investments in CLO subordinated debentures and preferred interests is determined using a discounted cash flow method based on yields for comparable securities, maturity and future income. Fair value of the Company's investment in limited partnerships, private equity funds, is based upon estimated net asset value information. Fair value of the Company's investment in LIHTC vehicles was set equal to the amortized cost of these investments as it approximates the present value of the future tax benefits discounted at a risk-free rate of return.

Policy loans: Fair values for policy loans are estimated using 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.

Separate account invested assets: FHLB separate account invested assets are comprised of bonds, commercial mortgage loans and cash. The fair value of the bonds held in the FHLB separate account are based on valuations obtained from an independent pricing service or broker quotes using the same methods and inputs described above for "bonds and preferred stocks". The fair value of commercial mortgage loans is established using a discounted cash flow method based on credit rating, maturity and contractual cash flows. The carrying amounts for cash approximate its fair value.

Deposit-type contracts: Fair values for the Company's liabilities under deposit-type contracts are estimated using discounted cash flow calculations based on interest rates currently being offered for like contracts with similar maturities.

Option collateral liability: Option collateral liability is cash maintained as collateral for the Company's derivative options and their fair value represents cost.

Foreign exchange forwards: Fair values of foreign exchange forwards represent the cumulative net unrealized gains or losses.

(DOLLARS IN THOUSANDS)

The aggregate fair values and admitted asset carrying amounts at December 31, 2019 and 2018 for financial instruments are as follows:

	For the year ended December 31, 2019					
Type of Financial Instruments	Aggregate Fair Value	Admitted Value	(Level 1)	(Level 2)	(Level 3)	NAV
Assets:						
U.S. Government	$ 9,187	$ 8,383	$ 9,152	$ 35	$ —	$ —
Foreign government	147,022	127,766	—	129,004	18,018	—
State & political subdivisions	72,015	66,928	—	72,015	—	—
Special revenue & special assessment	824,081	753,207	—	782,365	41,716	—
Industrial and miscellaneous	18,069,997	17,157,795	—	16,251,178	1,818,819	—
Hybrid	977,363	909,725	291,510	685,853	—	—
Affiliated	1,349,133	1,294,111	—	535,886	813,247	—
Bank Loans	38,311	40,275	—	—	38,311	—
Total Bonds	$21,487,109	$20,358,190	$ 300,662	$ 18,456,336	$ 2,730,111	$ —
Common stocks - unaffiliated	150,673	150,673	21,001	61,690	67,982	—
Preferred stocks	981,095	949,416	384,387	586,236	10,472	—
Mortgage loans on real estate	64,534	63,503	—	—	64,534	—
Derivative instruments	531,381	206,848	—	531,381	—	—
Surplus debentures	635,196	556,533	—	569,862	65,334	—
Other long term invested assets	68,197	68,057	—	65,892	2,305	—
Investment in limited partnerships	1,005,193	1,005,193	—	—	—	1,005,193
Policy loans	12,609	26,620	—	—	12,609	—
Cash equivalents	15,219	15,219	15,219	—	—	—
Futures (Due from Futures Brokers)	353	353	353	—	—	—
Separate account invested assets	1,359,455	1,227,726	3,715	985,691	370,049	—
Total Assets	$26,311,014	$24,628,331	$ 725,337	$ 21,257,088	$ 3,323,396	$1,005,193
Liabilities:						
Deposit-type contracts general account - Payout annuities without life contingency	$ 336,472	$ 295,315	$ —	$ 336,472	$ —	$ —
Dividend accumulations	4,590	4,590	—	4,590	—	—
Total general account deposit-type contracts	341,062	299,905	—	341,062	—	—
Deposit-type contracts-separate account - FHLB	1,074,115	1,076,241	—	1,074,115	—	—
Foreign exchange forwards	314	314	—	314	—	—
Total Liabilities	$ 1,415,491	$ 1,376,460	$ —	$ 1,415,491	$ —	$ —

(DOLLARS IN THOUSANDS)

	For the year ended December 31, 2018					
Type of Financial Instruments	Aggregate Fair Value	Admitted Value	(Level 1)	(Level 2)	(Level 3)	NAV
Assets:						
U.S. Government	$ 15,693	$ 15,348	$ 15,633	$ 60	$ —	$ —
Foreign government	115,054	119,622	—	99,281	15,773	—
State & political subdivisions	67,322	67,277	—	67,322	—	—
Special revenue & special assessment	619,048	600,887	—	582,171	36,877	—
Industrial and miscellaneous	15,617,887	16,120,210	—	14,158,797	1,459,090	—
Hybrid	763,896	809,791	250,188	513,708	—	—
Affiliated	1,169,586	1,169,909	—	397,346	772,240	—
Bank Loans	44,539	44,737	—	—	44,539	—
Total Bonds	$18,413,025	$18,947,781	$265,821	$15,818,685	$2,328,519	$ —
Common stocks - unaffiliated	115,836	115,836	13,584	52,153	50,099	—
Preferred stocks	1,274,201	1,370,487	441,714	822,827	9,660	—
Mortgage loans on real estate	65,478	65,813	—	—	65,478	—
Derivative instruments	87,290	138,891	—	87,290	—	—
Surplus debentures	519,345	497,400	—	466,337	53,008	—
Other long term invested assets	52,068	50,523	—	24,094	27,974	—
Investment in limited partnerships	505,811	505,811	—	—	—	505,811
Policy loans	9,931	20,419	—	—	9,931	—
Cash equivalents	81,607	81,607	81,607	—	—	—
Futures (Due from Futures Brokers)	422	422	422	—	—	—
Separate account invested assets	1,415,892	1,346,345	13,146	984,858	417,888	—
Total Assets	$22,540,906	$23,141,335	$816,294	$18,256,244	$2,962,557	$ 505,811
Liabilities:						
Deposit-type contracts general account - Payout annuities without life contingency	$ 351,900	$ 336,890	$ —	$ 351,900	$ —	$ —
Dividend accumulations	4,701	4,701	—	4,701	—	—
Total general account deposit-type contracts	356,601	341,591	—	356,601	—	—
Deposit-type contracts-separate account - FHLB	851,173	864,796	—	851,173	—	—
Total Liabilities	$ 1,207,774	$ 1,206,387	$ —	$ 1,207,774	$ —	$ —

There were no financial instruments for which it was not practical to determine a fair value as of December 31, 2019 and 2018, respectively.

For investments measured at fair value for which NAV is used as a practical expedient for fair value, the Company does not have any significant restrictions in their ability to liquidate their positions in these investments, other than obtaining general partner approval, nor does the Company believe it is probable that a price less than NAV would be received in the event of a liquidation.

(DOLLARS IN THOUSANDS)

Additional data with respect to fair values of the Company's investments is disclosed in Note 2.

The following table provides information as of December 31, 2019 and 2018 about the Company’s financial assets measured and carried at fair value.

	Level 1	Level 2	Level 3	Total
At December 31, 2019:				
Common stocks - unaffiliated	21,001	61,690	67,982	150,673
Derivative instruments - EIUL equity options	—	63,782	—	63,782
Cash Equivalents	15,219	—	—	15,219
Futures (Due from Futures Broker)	353	—	—	353
Total assets at fair value	$ 36,573	$125,472	$ 67,982	$ 230,027
Foreign exchange forwards	—	314	—	314
Total liabilities at fair value	$ —	$ 314	$ —	$ 314
At December 31, 2018:				
Bonds	$ —	$ 1,011	$ —	$ 1,011
Common stocks - unaffiliated	13,584	52,153	50,099	115,836
Derivative instruments - EIUL equity options	—	8,989	—	8,989
Foreign exchange forwards	—	(90)	—	(90)
Cash Equivalents	20,601	—	—	20,601
Futures (Due from Futures Broker)	422	—	—	422
Total assets at fair value	$ 34,607	$ 62,063	$ 50,099	$ 146,769

Common stocks - unaffiliated - The Company’s investments in mutual funds are classified as Level 1 since the fair value for the mutual fund investments is based on the net asset value published by the respective mutual fund companies and represents the value the Company would have received if it withdrew its investment on the balance sheet date. The Company’s investment in FHLB common stock is classified as Level 2 since the fair value of this stock is equal to its cost, which represents the price at which the FHLB will repurchase the stock. The Company's investment in a private business development company is classified as Level 3 since its fair value is based upon the estimated net asset value provided by the investee.

Derivative Instruments - The fair value of EIUL option contracts is based upon valuation pricing models and represents what the Company would expect to receive or pay at the balance sheet date if the Company canceled the contracts, entered into offsetting positions, or exercised the options. Fair values for these instruments were determined internally based on industry accepted valuation pricing models using market observable inputs, including interest rates and yield curve volatilities and the assets are classified as Level 2. Credit risk related to the counterparty is considered when estimating the fair values of these option contracts.

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. Future contracts are classified as Level 1. Foreign currency forward contracts are classified as Level 2 and their fair value is equal to the cumulative net unrealized gains or losses.

(DOLLARS IN THOUSANDS)

Cash Equivalents - The Company's investment in cash equivalents are classified as Level 1 and their fair value represents their cost.

The following table summarizes changes to the Company's financial instruments carried at fair value and classified within Level 3 of the fair value hierarchy for the year ended December 31, 2019. 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.

Description	Beginning Balance at 12/31/2018	Transfers into Level 3	Transfers out of Level 3	Total gains (losses) included in Net Income	Total gains (losses) included in Surplus	Purchases	Sales	Ending Balance at 12/31/2019
Common Stock - unaffiliated	$ 50,099	$ —	$ —	$ —	$ (1,455)	$ 19,338	$ —	$ 67,982
Total Assets	$ 50,099	$ —	$ —	$ —	$ (1,455)	$ 19,338	$ —	$ 67,982

The Company's policy is to recognize transfers in and transfers out of the fair value hierarchy levels as of the beginning of the year of the event or change in circumstances that caused the transfer.

(DOLLARS IN THOUSANDS)

NOTE 7: RESERVES

At December 31, 2019 the Company's annuity reserves and deposit-type liabilities that are subject to (a) discretionary withdrawal with adjustment, (b) subject to discretionary withdrawal without adjustment, and (c) not subject to discretionary withdrawal provisions are as follows:

A. INDIVIDUAL ANNUITIES	General Account	Separate Account with Guarantees	Total	% of Total
a. Subject to discretionary withdrawal				
i. with market value adjustment	$11,780,035	$ —	$11,780,035	53.6%
ii. at book value less current surrender charge of 5% or more	5,240,028	—	5,240,028	23.9
iii. at fair value	—	—	—	—
iv. Total with market value adjustment or at fair value	17,020,063	—	17,020,063	77.5
v. At book value without adjustment (minimal or no charge or adjustment)	3,634,864	—	3,634,864	16.6
b. Not subject to discretionary withdrawal	1,298,749	—	1,298,749	5.9
c. Total (gross: direct + assumed)	21,953,676	—	21,953,676	100.0%
d. Reinsurance ceded	6,738,468	—	6,738,468	
e. Total (net)	$15,215,208	$ —	$15,215,208	
f. Amount with current surrender charge of 5% or more included in a.ii above that will have less than a 5% surrender charge that will move to a.v in the year after the statement date	$ 700,760	$ —	$ 700,760	

B. GROUP ANNUITIES	General Account	Separate Account with Guarantees	Total	% of Total
a. Subject to discretionary withdrawal				
i. with market value adjustment	$ 82	$ —	$ 82	—%
ii. at book value less current surrender charge of 5% or more	—	—	—	—
iii. at fair value	—	—	—	—
iv. Total with market value adjustment or at fair value	82	—	82	—
v. At book value without adjustment (minimal or no charge or adjustment)	192,821	—	192,821	98.5
b. Not subject to discretionary withdrawal	2,957	—	2,957	1.5
c. Total (gross: direct + assumed)	195,860	—	195,860	100.0%
d. Reinsurance ceded	140,713	—	140,713	
e. Total (net)	$ 55,147	$ —	$ 55,147	
f. Amount with current surrender charge of 5% or more included in a.ii above that will have less than a 5% surrender charge that will move to a.v in the year after the statement date	$ —	$ —	$ —	

(DOLLARS IN THOUSANDS)

C. DEPOSIT-TYPE CONTRACTS (no life contingencies)	General Account	Separate Account with Guarantees	Total	% of Total
a. Subject to discretionary withdrawal				
i. with market value adjustment	$ —	$ —	$ —	—%
ii. at book value less current surrender charge of 5% or more	—	—	—	—
iii. at fair value	—	—	—	—
iv. Total with market value adjustment or at fair value	—	—	—	—
v. At book value without adjustment (minimal or no charge or adjustment)	4,590	—	4,590	0.3
b. Not subject to discretionary withdrawal	364,686	1,076,241	1,440,927	99.7
c. Total (gross: direct + assumed)	369,276	1,076,241	1,445,517	100.0%
d. Reinsurance ceded	69,371	—	69,371	
e. Total (net)	$ 299,905	$ 1,076,241	$ 1,376,146	
f. Amount with current surrender charge of 5% or more included in a.ii above that will have less than a 5% surrender charge that will move to a.v in the year after the statement date	$ —	$ —	$ —	
Total net annuity actuarial reserves	$15,270,355	$ —	$15,270,355	
Total net deposit-type reserves	299,905	1,076,241	1,376,146	
Total net annuity and deposit-type reserves	$15,570,260	$ 1,076,241	$16,646,501	

D. Life & Accident & Health Annual Statement:	
Exhibit 5, Annuities section, total (net)	$ 15,182,998
Exhibit 5, Supplementary Contracts with Life Contingencies Section, total (net)	87,357
Exhibit 7, Deposit Type Contracts, Line 14, Column 1	299,905
Subtotal	15,570,260
Separate Accounts Annual Statement:	
Exhibit 4, Deposit-type contracts - line 9, Column 1	1,076,241
Combined Total	$ 16,646,501

(DOLLARS IN THOUSANDS)

At December 31, 2019 the Company's life reserves by withdrawal characteristics are as follows:

	General Account		
	Account Value	Cash Value	Reserve
a. Subject to discretionary withdrawal, surrender values, or policy loans:			
Term Policies with Cash Value	$ —	$ 511,632	$1,138,556
Universal Life	306,655	309,333	318,243
Universal Life with Secondary Guarantees	1,259,706	989,811	1,283,500
Other Permanent Cash Value Life Insurance	—	48,551	50,989
b. Not subject to discretionary withdrawal or no cash values:			
Term Policies without Cash Value	XXX	XXX	442,169
Accidental Death Benefits	XXX	XXX	6,923
Disability – Active Lives	XXX	XXX	13,179
Disability – Disabled Lives	XXX	XXX	5,181
Miscellaneous Reserves	XXX	XXX	42,970
Total (gross: direct + assumed)	1,566,361	1,859,327	3,301,710
Reinsurance ceded	979,302	965,428	2,260,205
Total (net)*	$ 587,059	$ 893,899	$1,041,505

* Reconciliation of total life actuarial reserves with the Life & Accident & Health Annual Statement (Exhibit 5):

Exhibit 5, Life Insurance Section, Total (net)	$1,035,700
Exhibit 5, Accidental Death Benefits Section, Total (net)	82
Exhibit 5, Disability – Active Lives Section, Total (net)	2,206
Exhibit 5, Disability – Disabled Lives Section, Total (net)	3,275
Exhibit 5, Miscellaneous Reserves Section, Total (net)	242
Total life insurance reserves for life policies and contracts Exhibit	$1,041,505

The Company elected to calculate the reserve liability for its FIA products based on Actuarial Guideline XXXV, assuming the market value of the eligible derivative assets associated with the current interest crediting period is zero, and reflect the interest credit in the reserve when realized based on the actual performance of the relevant external index or indices. See Note 1(b) for further details.

NOTE 8: REINSURANCE

The Company reinsures portions of its policy risks with other insurance companies. The use of 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 Company also assumes policy risks from other insurance companies.

(DOLLARS IN THOUSANDS)

The effect of reinsurance on premiums earned and benefits incurred for the years ended December 31, 2019 and 2018 were as follows:

	Premiums Earned		Benefits Incurred	
	2019	2018	2019	2018
Direct	$ 4,001,916	$ 3,451,543	$ 2,918,146	$ 2,438,681
Assumed	(51,819)	436	4,963	11,484
Ceded	(1,375,132)	(5,043,836)	(1,260,045)	(1,298,624)
Net	$ 2,574,965	$ (1,591,857)	$ 1,663,064	$ 1,151,541

The Company assumes insurance that is in excess of FGLICNY's retention limits. Reinsurance assumed premiums received under these contracts were $433 and $388 in 2019 and 2018, respectively. Related reinsurance assumed benefits incurred in 2019 and 2018 were $281 and $329, respectively. Reinsurance amounts payable to FGLICNY on paid and unpaid losses were $66 and $68 at December 31, 2019 and 2018, respectively. Policy reserves included $302 and $327 of reinsurance assumed at December 31, 2019 and 2018, respectively.

Concentration of Reinsurance Risk:

The Company has a significant concentration of reinsurance risk with third party reinsurers, Wilton Reassurance Company ("Wilton Re") and Kubera Insurance (SAC) Ltd. ("Kubera") that could have a material impact on the Company's financial position in the event that either Wilton Re or Kubera fail 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 a AAA issuer credit rating from Standard & Poor's Ratings Services ("S&P") as of December 31, 2019. Kubera is not rated, however, management has attempted to mitigate the risk of non-performance through the funds withheld arrangement. The Company believes that all amounts due from Wilton Re and Kubera for periodic treaty settlements are collectible as of December 31, 2019. At December 31, 2019 and 2018, the reserves ceded to Wilton Re totaled $1,549,671 and $1,623,953, respectively. The Company monitors both the financial condition of individual reinsurers and risk concentration arising from similar activities and economic characteristics of reinsurers to attempt to reduce the risk of default by such reinsurers.

The Company entered into a coinsurance agreement with Front Street (Cayman) Ltd ("FSR"), an affiliate and an unauthorized reinsurer in Iowa, on December 31, 2012 to reinsure a 10% quota share of certain annuity liabilities. This coinsurance agreement is collateralized on a funds withheld basis. Under the terms of this reinsurance agreement, reserves are calculated in accordance with statutory accounting practices prescribed or permitted by the Maryland Insurance Administration ("MIA"). The IID grandfathered the accounting practices for this reinsurance agreement upon re-domestication to Iowa. Therefore, the Company will continue to record the ceded reserve credit under this reinsurance agreement in accordance with MIA accounting practices and continue to record the net hedge settlement at fair value, rather than amortized cost. The statutory reserves ceded to FSR under this agreement were $682,572 and $766,678 as of December 31, 2019 and 2018, respectively. Under the agreement terms, the Company holds bonds and other fixed income securities in a separate custodial account over which the Company retains control and has title to all assets held in this account. As of December 31, 2019 and 2018, cash and invested assets held in the funds withheld account, including other associated assets and liabilities, had a statutory statement value of $676,204 and $762,932, respectively.

Effective September 17, 2014, the Company entered into a second coinsurance agreement with FSR, whereby the Company ceded to FSR 30% of any new business of its multi-year guaranteed annuity block of business ("MYGA"). This treaty was subsequently terminated as to new business effective April 30, 2015, but remains in effect for policies ceded to FSR with an effective date between September 17, 2014 and April 30, 2015. The statutory reserves ceded to FSR under this agreement were $13,895 and $89,322 as of December 31, 2019 and 2018, respectively. The FSR coinsurance agreement is on a funds withheld basis and the statutory reserves are fully collateralized by a funds withheld account. Under the agreement terms, the Company holds bonds and other fixed income securities in a separate custodial account over which the Company retains control and has title to all assets held in this account. As of December 31, 2019 and 2018, cash and invested assets held in the funds withheld account had a statutory statement value of $15,909 and $89,087, respectively.

In March 2017, the Company entered into an indemnity reinsurance agreement with Hannover Re, an unaffiliated reinsurer, effective January 1, 2017, to reinsure 70% quota share of certain guaranteed minimum withdrawal benefit ("GMWB") riders and guaranteed minimum deaths benefit ("GMDB") riders. Under the reinsurance agreement, Hannover reimburses the Company for a quota share of the GMWB and GMDB benefits (i.e., income payments when the contract value is zero or death benefits in excess of the total account value). The indemnity agreement was amended on September 28, 2017 to include additional inforce and new business issued through December 31, 2017. The Company recorded a deferred reinsurance gain of $214,988 upon the initial cession of GMWB and GMDB business to Hannover Re. The Company recognized amortization of the deferred reinsurance gain in income in the amount of $3,729 and $17,303 at December 31, 2019 and 2018, respectively. The deferral and amortization of the reinsurance gain has no net impact on the Company's surplus. The unamortized deferred reinsurance gain at December 31, 2019 and 2018 of $165,216 and $168,945, respectively, is reflected in the Statement of Admitted Assets, Liabilities, and Capital and Surplus under caption "Segregated surplus" with the related amortization being reflected in the Statutory Statement of Operations, under caption "Commissions and expense allowances on reinsurance ceded". The statutory reserves ceded to Hannover Re under this agreement were $726,215 and $505,843 as of December 31, 2019 and 2018, respectively.

Effective October 1, 2012, the Company entered into a yearly renewable term indemnity reinsurance agreement with its wholly owned subsidiary, Raven Re, pursuant to which the Company ceded a 100% quota share of its CARVM liability for annuity benefits where surrender charges are waived (the "Raven Reinsurance Agreement"). To collateralize its obligation under the Raven Reinsurance Agreement, Raven Re entered into a reimbursement agreement with Nomura Bank International plc ("NBI"), an affiliate of Nomura Securities International, Inc. and the Company (the "Reimbursement Agreement") whereby a subsidiary of NBI issued trust notes and NBI issued a $295,000 letter of credit that, in each case, were deposited into a reinsurance trust as collateral for Raven Re's obligations under the Raven Reinsurance Agreement (the "NBI Facility"). Pursuant to the NBI Facility, the Company takes full credit for the CARVM reserve ceded to Raven Re.

Effective April 1, 2017, the Company and Raven Re amended the Raven Reinsurance Agreement and associated Reimbursement Agreement. The primary agreement amendments were to extend the maturity date of the letter of credit to October 1, 2022, reduce the letter of credit to $115,000 and increase premium rates from 8% to 10% due to increasing historical claim costs. Under the terms of the amendment, $40,600 of additional inforce business (fixed indexed annuities without guaranteed minimum withdrawal benefits and multi-year guarantee annuities issued between January 1, 2001 and December 31, 2016) was ceded to Raven Re with no ceding commission being paid or received. The cession of this additional business resulted in a net after-tax gain of $26,390 which was deferred and is being amortized into income as earnings emerge from the associated business. Effective April 1, 2019, the Company, Raven Re and NBI executed the third amended and restated Reinsurance Agreement. The amendment allowed Raven Re to declare and pay to the Company a one-time dividend of up to $30,000 and the Company agreed to pay Raven Re 220bp as a risk charge, an increase from 195bp as stipulated on the pre-amended agreement. The Company recognized amortization of the deferred reinsurance gain in income of $6,951 and $2,639 at December 31, 2019 and 2018, respectively. The unamortized deferred reinsurance gain of $11,944 and $18,895 at December 31, 2019 and 2018, respectively, is reflected in the Statement of Admitted Assets, Liabilities, and Capital and Surplus under caption "Segregated surplus" with the related amortization being reflected in the Statutory Statement of Operations, under caption "Commissions and expense allowances on reinsurance ceded". The statutory reserves ceded to Raven Re under this agreement were $66,744 and $71,843 as of December 31, 2019 and 2018, respectively. The amended letter of credit facility was reduced by $10,000 and $0 during 2019 and 2018, respectively. As of December 31, 2019 and 2018, there was $100,000 and $110,000, respectively, available under the letter of credit facility.

Effective October 1, 2018, the Company and F&G Life Re mutually agreed to terminate the indemnity modified coinsurance agreement which had an effective date of December 1, 2017. The Company recaptured all of the reinsured policies and reassumed all insurance liabilities ceded to F&G Life Re pursuant to the Termination and Recapture Amendment (the "Recapture Amendment"). Pursuant to the Recapture Amendment, the Company paid F&G Life Re $107,000 ceding commission in consideration for the termination of the treaty.

Effective December 31, 2018, the Company ceded a portion of the business recaptured (from F&G Life Re) to Kubera through two separate reinsurance treaties, a quota share of select deferred fixed annuity business ("DA treaty") and a combination of fixed indexed annuity and select deferred fixed annuity business ("FIA treaty"). Both treaties are on a coinsurance funds withheld basis. Additionally, the Reinsurer entered a stop loss reinsurance agreement ("Stop Loss", "XOL") with Hannover Life Reassurance Company of America (Bermuda) Ltd. ("HLRAB") with respect to the business related to the FIA treaty. The Company and HLRAB entered into a Ceding Company Letter Agreement ("Letter Agreement") outlining certain representations, warranties and covenants to HLRAB. The reinsurance agreements and letter agreement were executed on December 28, 2018. Effective June 30, 2019, the Company and Kubera executed a letter of intent to amend the Kubera treaties to cede additional DA and FIA in force block of business on a coinsurance funds withheld basis. The amendments to the Kubera treaties were executed on July 31, 2019. The cession of this additional business resulted in a net after-tax deferred gain of $6,533. The Company recognized amortization of the deferred reinsurance gain in income of $726 during 2019. The unamortized deferred reinsurance gain of $5,807 at December 31, 2019 is reflected in the Statement of Admitted Assets, Liabilities, and Capital and Surplus under caption "Segregated surplus" with the related amortization being reflected in the Statutory Statement of Operations, under caption "Commissions and expense allowances on reinsurance ceded". Under the terms of the agreements, the Company holds bonds and other fixed income securities in a separate custodial account over which the Company retains control and has title to all assets held in this account. As of December 31, 2019 and 2018, the statutory reserves ceded to Kubera under these agreements were $5,311,425 and $4,686,566, respectively.

On March 6, 2019, Scottish Re (U.S.), Inc. ("SRUS"), a Delaware domestic life and health reinsurer of the Company, was ordered into receivership for purposes of rehabilitation. As of December 31, 2019, the net reserve credit taken from SRUS was $46,184 as the IID has allowed reinsurance credits for contracts inforce as of May 16, 2019, which applies to the Company's treaties, until further notice. The financial exposure related to these ceded reserves are substantially mitigated via a reinsurance agreement whereby Wilton Re assumes treaty non-performance including credit risk for this business.

On July 9, 2019, the Michigan Department of Insurance and Financial Services ("DIFS") placed Pavonia Life Insurance Company of Michigan ("Pavonia"), a reinsurer of the Company, in rehabilitation. The DIFS considers Pavonia as financially stable. Additionally, Pavonia is current on all amounts due to the Company. As of December 31, 2019, the credit taken from Pavonia was $58,974. The financial exposure related to these ceded reserves are substantially mitigated via a reinsurance agreement whereby Wilton Re assumes treaty non-performance including credit risk for this business.

On August 30, 2019, the Company and Ohio National Life ("ONL") signed an amendment to recapture and terminate the reinsurance agreement in which the Company had assumed 33.33% of the liability for benefits under certain deferred annuity policies issued by ONL. The amendment was effective July 1, 2019. Pursuant to the terminal settlement under the amendment, the Company paid ONL a premium of $52,305.

Amounts payable or recoverable for reinsurance on paid and unpaid claims are not subject to periodic or maximum limits.

During 2019 and 2018, the Company did not write off any significant reinsurance balances or commute any ceded reinsurance.

No policies issued by the Company have been reinsured with a 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 nonpayment of premiums or other similar credits.

NOTE 9: DIVIDEND RESTRICTIONS

Dividends on the Company's stock are paid as declared by its Board of Directors. Under the laws of the State of Iowa, any proposed payment of a dividend is classified as an "extraordinary dividend" if it, together with the aggregate fair market value of other dividends or distributions made during the preceding twelve months, exceeds the greater of 10% of capital and surplus as of the preceding December 31 or net gain from operations before realized capital gains or losses for the preceding year. No extraordinary dividends may be paid without prior approval of the IID. In addition, no ordinary dividends may be paid except from the earned profits arising from the Company's business, which does not include contributed capital or contributed surplus. Per an IID order signed November 28, 2017, the Company is prevented from paying dividends during 2020 without the prior approval of the IID. There are no other restrictions placed on the portion of the Company's profits that may be paid as ordinary dividends to stockholders. The IID approved a $100,490 return of capital payment in December 2019 and $60,000 of extraordinary dividends paid by the Company to FGLH during 2018.

The Company's maximum ordinary dividend capacity for 2020 is $174,613.

NOTE 10: SURPLUS NOTES

On December 31, 2009, the Company issued a surplus note (the "2009 Surplus Note") to its parent, FGLH in the principal amount of $30,000. Principal and interest payments are payable out of the surplus of the Company and require the prior written approval of the IID. Interest accrues on the 2009 Surplus Note at the rate of 6% per annum, with interest payments made quarterly. The interest payments are subject to the Company having sufficient surplus and obtaining the approval of the IID. The 2009 Surplus Note may be prepaid in whole or in part at any time, plus accrued interest to the date of prepayment, without premium or penalty subject to the Company having sufficient surplus and obtaining the approval of the IID. The unpaid principal balance matures on September 30, 2046 and will be automatically extended from year to year if the Company has insufficient surplus or does not obtain the approval of the IID to effect the repayment. Upon liquidation and dissolution of the Company, to the extent the principal of and the interest on this Surplus Note have not been paid in full, the Holder shall share, after all liabilities to policyholders, claimants, beneficiaries and other creditors of the Company have been paid, in the distributable assets of the Company pro rata with the holders of all other surplus notes, if any, of the Company until the unpaid balance of principal and accrued interest upon all such surplus notes shall have been fully paid, before there is any distribution of assets to the holders of the then outstanding equity securities of the Company. The Company paid interest totaling $1,800 on the 2009 Surplus Note in both 2019 and 2018. Total interest paid during the life of the 2009 Surplus Note through December 31, 2019 was $18,000.

On March 31, 2013, the Company issued an additional surplus note to its parent, FGLH, in the principal amount of $195,000 (the "2013 Surplus Note"). Principal and interest payments are payable out of the Company's surplus, subject to sufficiency requirements and also require the prior written approval of the IID. Interest accrues on the 2013 Surplus Note at the rate of 6.5% per annum, with interest payments made quarterly. The interest payments are subject to the Company having sufficient surplus and obtaining the approval of the IID. The 2013 Surplus Note may be prepaid in whole or in part at any time, plus accrued interest to the date of prepayment, without premium or penalty subject to the previously noted requirements. The unpaid principal balance matures on September 30, 2046. The 2013 Surplus Note will automatically extend from year to year if the Company has insufficient surplus or does not obtain the approval of the IID to effect the repayment. Upon liquidation and dissolution of the Company, to the extent the principal of and the interest on this Surplus Note have not been paid in full, the Holder shall share, after all liabilities to policyholders, claimants, beneficiaries and other creditors of the Company have been paid, in the distributable assets of the Company pro rata with the holders of all other surplus notes, if any, of the Company until the unpaid balance of principal and accrued interest upon all such surplus notes shall have been fully paid, before there is any distribution of assets to the holders of the then outstanding equity securities of the Company. The Company paid interest totaling $12,675 on the 2013 Surplus Note in both 2019 and 2018. Total interest paid during the life of the 2013 Surplus Note through December 31, 2019 was $85,556.

NOTE 11: CAPITAL AND SURPLUS

Life insurance companies are subject to certain RBC requirements as specified by the NAIC. The RBC is used to evaluate the adequacy of capital and surplus maintained by an insurance company in relation to: (i) asset risk, (ii) insurance risk, (iii) interest rate risk and (iv) business risk. The Company monitors the level of its RBC and has exceeded all of the NAIC's minimum requirements as of December 31, 2019 and 2018. The Company received capital contributions from FGLH of $0 and $955,400 during 2019 and 2018, respectively. The Company received approval from the IID to pay a dividend of up to $200,000 to FGLH in 2019. In fourth quarter 2019, the Company paid a dividend to FGLH of $100,490 that was treated as a return of capital. See Note 9 "Dividend Restrictions".

NOTE 12: CONTINGENCIES

The Company is assessed amounts by the 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 tax credits in certain states. The Company utilizes information related to these assessments from the National Organization of Life & Health Insurance Guaranty Associations ("NOLHGA"). At December 31, 2019 and 2018, the Company has recorded a potential liability related to its share of the estimated guaranty fund assessments as provided by NOLHGA in the amount of $1,916 and $1,950, respectively. The data provided by NOLHGA utilizes estimates and does not reflect the actual timing of future assessments. This liability could change should any new insolvency arise. Management reviews open insolvencies annually to determine if the guaranty fund accrual is sufficient. At December 31, 2019 the Company has established a guaranty fund asset of $1,588 which consists of future premium tax deductions related to the NOLHGA liability in the amount of $1,268 and net assets paid in the amount of $320. At December 31, 2018, the Company established a guaranty fund asset of $1,677 which consisted of future premium tax deduction related to the NOLHGA liability in the amount of $1,289 and net assets paid in the amount of $388.

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 has received inquiries from a number of state regulatory authorities regarding our use of the U.S. Social Security Administration's Death Master File ("Death Master File") and compliance with state claims practices regulations and unclaimed property or escheatment laws. We have established procedures to periodically compare our in-force life insurance and annuity policies against the Death Master File or similar databases; investigate any identified potential matches to confirm the death of the insured; determine whether benefits are due; and attempt to locate the beneficiaries of any benefits due or, if no beneficiary can be located, escheat the benefit to the state as unclaimed property. We believe we have established sufficient reserves with respect to these matters; however, it is possible that third parties could dispute these amounts and additional payments or additional unreported claims or liabilities could be identified which could be significant and could have a material adverse effect on our results of operations.

On June 30, 2017, a putative class action complaint was filed against the Company 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 the Company 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 the Company 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, the Company 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, the Company 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, the Company filed its Answer to BIP's Amended Complaint. Also on that date, the Company filed its Answer to Amended Complaint, Affirmative Defenses, and Counterclaim, Filed Pursuant to Fed. R. Civ. P. 12(a)(4)(A).

On October 15, 2019, BIP filed with the Court an Unopposed Motion for Preliminary Approval of Settlement and Class Certification, along with a copy of the Class Action Settlement Agreement signed by all parties. A Fairness Hearing on Plaintiff's Motion for Preliminary Approval of Class Settlement was held on Monday, January 13, 2020.

On January 15, 2020, the Court issued the Modified Findings and Order Preliminarily Approving Class Settlement Between Plaintiff and Defendants, Granting Conditional Certification of Settlement Class, Directing Issuance of Notice to the Class, and Setting of Final Approval Hearing. In preliminarily approving the Class Settlement, the Court also approved the Settlement Schedule that had been filed by Class Counsel on January 10, 2020.

Final settlement is subject to, among other requirements, satisfactory completion of confirmatory discovery by the Defendants and the Class Representative and final approval by the Court after Court-approved Notice has been provided to the absent members of the putative class.

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.

(DOLLARS IN THOUSANDS)

NOTE 13: SEPARATE ACCOUNTS

Information regarding the separate accounts of the Company as of and for the years ended December 31, 2019 and 2018 is as follows:

	2019			2018		
	Non-indexed Guarantee Less than / equal to 4%	Non-indexed Guarantee More than 4%	Total	Non-indexed Guarantee Less than / equal to 4%	Non-indexed Guarantee More than 4%	Total
Premiums, considerations or deposits received	$ 590,000	$ —	$ 590,000	$ 798,000	$ —	$ 798,000
Reserves for separate accounts with assets at amortized cost	882,915	193,326	1,076,241	600,191	264,605	864,796
Total Reserves	$ 882,915	$ 193,326	$1,076,241	$ 600,191	$ 264,605	$ 864,796
Reserves for separate accounts by withdrawal characteristics:						
Not subject to discretionary withdrawal	$ 882,915	193,326	1,076,241	$ 600,191	264,605	864,796
Total Reserves	$ 882,915	$ 193,326	$1,076,241	$ 600,191	$ 264,605	$ 864,796

NOTE 14: SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the date the financial statements were made available to be issued. On February 7, 2020, F&G, the Company's indirect parent, and Fidelity National Financial, Inc. ("FNF") entered into a merger agreement pursuant to which FNF will acquire F&G and subsidiaries, including the Company, for announced value of $12.50 per ordinary share, representing an announced equity value of approximately $2.7 billion for F&G's ordinary shares. The transaction was approved by a Special Committee of F&G Directors, a Special Committee of FNF Directors and the FNF Board of Directors. FNF currently owns approximately 7.6% of F&G's outstanding ordinary shares and all of F&G's Series B Preferred shares. In connection with and immediately prior to the closing of the proposed acquisition, FNF will acquire all outstanding F&G Series A preferred shares, with a liquidation value of approximately $321 million as of December 31, 2019, and assume F&G's $550 million of senior notes due 2025.

Under the terms of the merger agreement, holders of F&G's ordinary shares (other than FNF and its subsidiaries) may elect to receive either (i) $12.50 per share in cash or (ii) 0.2558 of a share of FNF common stock for each ordinary share of F&G they own. This is subject to an election and proration mechanism such that the aggregate consideration paid to such holders of F&G's ordinary shares will consist of approximately 60% cash and 40% FNF common stock.

The transaction is expected to close in the second or third quarter of 2020, subject to the satisfaction of customary closing conditions, including the receipt of regulatory clearances and approval by F&G shareholders.

Subsequent to December 31, 2019, the U.S. and many countries around the world have experienced an outbreak of the COVID-19 virus. Management continues to evaluate the impact of the COVID-19 pandemic on the Company's business, results of operations, financial condition and liquidity as a result of the sudden slowdown of economic activity. The extent to which the COVID-19 pandemic impacts our business, results of operations, financial condition, liquidity or prospects will depend on future developments which are highly uncertain and cannot be predicted. Based on the limited information the Company has at this time, there has been no material impact on its results from operations or financial condition due to COVID-19.

Subsequent to December 31, 2019, on March 27, 2020, H.R. 748, the Coronavirus Aid, Relief, and Economic Security Act, ("the CARES ACT"), was signed into legislation which includes tax provisions relevant to businesses that during 2020 will impact taxes related to 2018 and 2019. Some of the significant changes are reducing the interest expense disallowance for 2019 and 2020, allowing the five year carryback of net operating losses for 2018-2020, suspension of the 80% limitation of taxable income for net operating loss carryforwards for 2018-2020, and the acceleration of depreciation expense from 2018 and forward on qualified improvement property. The Company is required to recognize the effect on the consolidated financial statements in the period the law was enacted, which is 2020. At this time, for 2018 and 2019, the Company does not expect the impact of the CARES ACT on the Company's financial position or results of operations to be material.

As of May 28, 2020, and other than the events described above, no events have occurred subsequent to the balance sheet date and through the date of evaluation that would require adjustment or disclosure.

FIDELITY & GUARANTY LIFE INSURANCE COMPANY

SUPPLEMENTAL SCHEDULE OF SELECTED STATUTORY FINANCIAL DATA

DECEMBER 31, 2019

(DOLLARS IN THOUSANDS)

	December 31, 2019
Investment income earned:	
U.S. Government bonds	$ 359
Other bonds (unaffiliated)	970,967
Bonds of affiliates	64,004
Preferred stocks (unaffiliated)	67,714
Preferred stocks of affiliates	—
Common stocks (unaffiliated)	9,242
Common stocks of affiliates	33,772
Mortgage loans	2,913
Real estate	—
Premium notes, policy loans and liens	1,178
Cash on hand and on deposit	15,395
Short-term investments	—
Other invested assets	68,863
Derivative instruments	(37,405)
Aggregate write-ins for investment income	490
Gross investment income	$ 1,197,492
Real estate owned (statement value less encumbrances)	$ —
Mortgage loans (statement value):	
Farm mortgages	$ —
Residential mortgages	—
Commercial mortgages	63,503
Total mortgage loans	$ 63,503
Mortgage loans by standing (statement value):	
Good standing	$ 63,503
Good standing with restructured terms	$ —
Interest overdue more than 90 days, not in foreclosure	$ —
Foreclosure in process	$ —
Other long-term assets (statement value)	$ 1,629,782
Collateral loans	$ —
Bonds and stocks of parents, subsidiaries and affiliates (statement value):	
Bonds	$ 1,294,111
Preferred stocks	$ —
Common stocks	$ 856,667

FIDELITY & GUARANTY LIFE INSURANCE COMPANY

SUPPLEMENTAL SCHEDULE OF SELECTED STATUTORY FINANCIAL DATA (CONTINUED)

DECEMBER 31, 2019

(DOLLARS IN THOUSANDS)

	December 31, 2019
Bonds and short-term investments by class and maturity:	
Bonds and short-term investments by maturity (statement value):	
Due within one year or less	$ 143,902
Over 1 year through 5 years	2,820,160
Over 5 years through 10 years	7,585,047
Over 10 years through 20 years	4,146,539
Over 20 years	5,662,542
Total by maturity	$ 20,358,190
Bonds and short-term investments by class (statement value):	
Class 1	$ 10,543,421
Class 2	8,329,787
Class 3	1,081,292
Class 4	269,560
Class 5	133,737
Class 6	393
Total by class	$ 20,358,190
Total bonds and short-term investments publicly traded	$ 8,546,503
Total bonds and short-term investments privately placed	$ 11,811,687
Preferred stocks (statement value)	$ 949,416
Common stocks (statement value)	$ 1,007,340
Short-term investments (statement value)	$ —
Options, caps and floors owned (statement value)	$ 206,848
Options, caps and floors written and in force (statement value)	
Collar, swap and forward agreements open (statement value)	$ —
Futures contracts open (current value)	$ 139,954
Cash on deposit	$ 783,559
Life insurance in force:	
Industrial	
Ordinary	$ 71,414,099
Credit life	$ —
Group life	$ 445
Amount of accidental death insurance in force under ordinary policies	$ 4,305,999
Life insurance policies with disability provisions in force:	
Industrial	
Ordinary	$ 45,908
Credit life	$ —
Group life	$ —

FIDELITY & GUARANTY LIFE INSURANCE COMPANY

SUPPLEMENTAL SCHEDULE OF SELECTED STATUTORY FINANCIAL DATA (CONTINUED)

DECEMBER 31, 2019

(DOLLARS IN THOUSANDS)

	December 31, 2019
Supplementary contracts in force:	
Ordinary - not involving life contingencies:	
Amount on deposit	$ 106,442
Income payable	$ 39,045
Ordinary - involving life contingencies:	$ —
Income payable	$ 13,761
Group - not involving life contingencies:	$ —
Amount on deposit	$ —
Income payable	$ —
Group - involving life contingencies:	$ —
Income payable	$ —
Annuities in force:	
Ordinary:	
Immediate - amount of income payable	$ 166,251
Deferred - fully paid - account balance	$ 20,627,772
Deferred - not fully paid - account balance	$ 194,196
Group:	$ —
Amount of income payable	$ 414
Fully paid - account balance	$ 143,912
Not fully paid - account balance	$ 41,050
Accident and health insurance - premiums in force:	
Ordinary	—
Group	—
Credit	—
Deposit funds and dividend accumulations:	
Deposit funds - account balance	$ —
Dividend accumulations - account balance	$ 4,590
Claim Payments 2019	
Group Accident and Health	
2019	$ —
2018	$ —
2017	$ —
2016	$ —
2015	$ —
Prior	$ 223

FIDELITY & GUARANTY LIFE INSURANCE COMPANY

SUPPLEMENTAL SCHEDULE OF SELECTED STATUTORY FINANCIAL DATA (CONTINUED)

DECEMBER 31, 2019

(DOLLARS IN THOUSANDS)

	December 31, 2019
Other Accident and Health	
2019	$ —
2018	$ —
2017	$ —
2016	$ —
2015	$ 27
Prior	$ 86
Other coverages that use development methods to calculate claims reserves	
2019	$ —
2018	$ —
2017	$ —
2016	$ —
2015	$ —
Prior	$ —

See accompanying independent auditors' report.

FIDELITY & GUARANTY LIFE INSURANCE COMPANY

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

DECEMBER 31, 2019

(DOLLARS IN THOUSANDS)

1. Total admitted assets excluding separate account assets at December 31, 2019: $25,563,463

2. State by investment category the 10 largest exposures by first, aggregating investments from all investment categories (except the excluded categories) by issuer/borrower/investment, excluding (i) U.S. government securities, U.S. government agency securities, and those U.S. government money market funds listed in the Appendix to the *SVO Purposes and Procedures Manual* as exempt, (ii) property occupied by the Company, and (iii) policy loans.

Issuer	Investment category	Amount	Percentage of total admitted assets
HSBC Holdings PLC	Other Debt/Unaffiliated Domestic	$ 114,477	0.4%
HP Enterprise Co	Other Debt/Unaffiliated Domestic	112,479	0.4%
Beach Point Securitized Credit	Other Invested Assets	107,462	0.4%
Breit Operating Partnership LP	Other Invested Assets	106,012	0.4%
CVI CVF III Master Fund II LL	Other Debt/Unaffiliated Domestic	105,000	0.4%
Prudential Financial Inc	Other Debt/Unaffiliated Domestic	104,903	0.4%
Blackstone Property PRN LP	Other Invested Assets	101,194	0.4%
Blackstone Div Alt Issr	Other Debt/Affiliated Domestic	96,030	0.4%
Viacom Inc	Other Debt/Unaffiliated Domestic	91,394	0.4%
JPMorgan Chase & Co	Other Debt/Unaffiliated Domestic	89,243	0.3%

3. State the amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

Bonds	Amount	Percentage
NAIC-1	$ 10,543,421	41.2%
NAIC-2	8,329,787	32.6%
NAIC-3	1,081,292	4.2%
NAIC-4	269,560	1.1%
NAIC-5	133,736	0.5%
NAIC-6	394	—%
Total	$ 20,358,190	

Preferred Stocks	Amount	Percentage
P/RP-1	$ 61,737	0.2%
P/RP-2	779,405	3.0%
P/RP-3	108,274	0.4%
Total	$ 949,416	

FIDELITY & GUARANTY LIFE INSURANCE COMPANY

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (CONTINUED)

DECEMBER 31, 2019

(DOLLARS IN THOUSANDS)

4. Assets held in foreign investments:

		Amount	Percentage
i.	Assets held in foreign investments are more than 2.5% of the reporting entity's total admitted assets.		
ii.	Total admitted assets held in foreign investments	$2,977,699	11.6%
iii.	Foreign-currency denominated investments	0	0.0%
iv.	Insurance liabilities denominated in that same foreign currency	0	0.0%

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating:

		Amount	Percentage
i.	Countries rated NAIC-1	$ 2,313,639	9.1%
ii.	Countries rated NAIC-2	630,442	2.5%
iii.	Countries rated NAIC-3 or below	33,617	0.1%

6. Two largest foreign investment exposures to a single country, categorized by the country's NAIC sovereign rating:

		Amount	Percentage
i.	Countries rated NAIC-1:		
	Cayman Islands	$ 603,424	2.4%
	United Kingdom	346,750	1.4%
ii.	Countries rated NAIC-2:		
	Mexico	$ 272,352	1.1%
	Indonesia	98,203	0.4%
iii.	Countries rated NAIC-3 or below:		
	Marshall Islands	$ 18,121	0.1%
	Coast of Ivory	8,196	—%

7. Aggregate unhedged foreign currency exposure: None

8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign rating: None

9. Two largest unhedged foreign currency exposures to a single country, categorized by the country's NAIC sovereign rating: None

FIDELITY & GUARANTY LIFE INSURANCE COMPANY

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (CONTINUED)

DECEMBER 31, 2019

(DOLLARS IN THOUSANDS)

10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:

		Amount	Percentage	NAIC Designation
i.	HSBC Holdings PLC	$ 99,837	0.4%	1
ii.	Electricite De France	87,356	0.3%	1
iii.	Blackstone Property Partners Europe, L.P.	79,056	0.3%	LP
iv.	Pine Brook PD (Cayman) Interemediate, L.P.	72,288	0.3%	2
v.	AXA SA	65,638	0.3%	2
vi.	Axis Capital Holdings Ltd	59,359	0.2%	2
vii.	Petroleos Mexicanos	57,338	0.2%	2
viii.	Centaur Funding	56,502	0.2%	2
ix.	Lloyds Banking Group PLC	54,229	0.2%	2
x.	Ecopetrol SA	48,664	0.2%	2

11. Assets held in Canadian investments and unhedged Canadian currency exposure are less than 2.5% of the reporting entity's total admitted assets.

12. Assets held with contractual sales restrictions are less than 2.5% of the reporting entity's total admitted assets.

13. Assets held in equity interests are more than 2.5% of the reporting entity's total admitted assets.

    a. List the ten largest equity interest exposures to single issuer/borrower investment:

	Issuer	Amount	Percentage
i.	Beach Point Securitied Credit Master Fund, L.P.	$ 107,462	0.4%
ii.	Breit Operating Partnership, L.P.	106,012	0.4
iii.	Blackstone Property Partners, L.P.	101,194	0.4
iv.	BISA Co-Invest Fund, L.P.	82,501	0.3
v.	Blackstone Property Partners Europe	79,056	0.3
vi.	Wells Fargo & Company	78,954	0.3
vii.	Bank of New York Mellon Corporation	72,604	0.3
viii.	Pine Brook PD (Cayman) Interemediate, L.P.	72,288	0.3
ix.	Crescent Capital BDC, Inc.	67,982	0.3
x.	FHLB Atlanta Common Stock	61,690	0.2
	Total	$ 829,743	3.2%

FIDELITY & GUARANTY LIFE INSURANCE COMPANY

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (CONTINUED)

DECEMBER 31, 2019

(DOLLARS IN THOUSANDS)

14. Assets held in nonaffiliated, privately placed equity securities are less than 2.5% of the reporting entity's total admitted assets.

15. The Company does not hold any general partnership interests.

16. and 17. Assets held in mortgage loans are less than 2.5% of the reporting entity's total admitted assets.

18. The Company does not hold any real estate.

19. The Company does not hold any mezzanine real estate loans.

20. The Company does not have any of the following types of agreements: securities lending, repurchase agreements, reverse repurchase agreements, dollar repurchase agreements, or dollar reverse repurchase agreements.

21. State the amounts and percentages of the reporting entity's total admitted assets held in warrants not attached to other financial instruments, options, caps, and floors.

		Owned Amount		Written Amount	
i.	Hedging	$ 206,848	0.8%	$ —	—%
ii.	Income generation	—	—	—	—
iii.	Other	—	—%	—	—

22. State the amounts and percentages of the reporting entity's total admitted assets for potential exposure for collars, swaps, and forward contracts:

				At the end of each quarter		
		At year-end		1st	2nd	3rd
i.	Hedging	$ 191	0.001%	$ 183	$ 190	$ 184
ii.	Income generation	—	—%	—	—	—
iii.	Replications	—	—%	—	—	—
iv.	Other	—	—%	—	—	—

23. State the amounts and percentages of the reporting entity's total admitted assets for potential exposure for future contracts:

				At the end of each quarter		
		At year-end		1st	2nd	3rd
i.	Hedging	$ 5,135	0.02%	$ 3,906	$ 4,728	$ 4,348
ii.	Income generation	—	—%	—	—	—
iii.	Replications	—	—%	—	—	—
iv.	Other	—	—%	—	—	—

See accompanying independent auditors' report.

FIDELITY & GUARANTY LIFE INSURANCE COMPANY

SUMMARY INVESTMENT SCHEDULE

DECEMBER 31, 2019

(DOLLARS IN THOUSANDS)

	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
Investment categories	Amount	Percentage	Amount	Securities Lending Reinvested Collateral Amount	Total Amount	Percentage
Long-Term Bonds						
U.S. Governments	$ 8,383	—%	$ 8,383	$ —	$ 8,383	—%
All Other Governments	127,766	0.5	127,766	—	127,766	0.5
U.S. States, Territories and Possessions, etc., Guaranteed	15,945	0.1	15,945	—	15,945	0.1
U.S. Political Subdivisions of States, Territories and Possessions, Guaranteed	50,983	0.2	50,983	—	50,983	0.2
U.S. Special Revenue and Special Assessment Obligations etc., Non-Guaranteed	753,207	3.0	753,207	—	753,207	3.0
Industrial and Miscellaneous	17,157,795	68.5	17,157,795	—	17,157,795	68.5
Hybrid Securities	909,725	3.6	909,725	—	909,725	3.6
Parent, Subsidiaries and Affiliates	1,294,111	5.2	1,294,111	—	1,294,111	5.2
SVO Identified Funds	—	—	—	—	—	—
Unaffiliated Bank Loans	40,275	0.2	40,275	—	40,275	0.2
Total Long-Term Bonds	20,358,190	81.3	20,358,190	—	20,358,190	81.3
Preferred Stocks:						
Industrial and Misc. (Unaffiliated)	949,416	3.8	949,416	—	949,416	3.8
Parent, Subsidiaries and Affiliates	—	—	—	—	—	—
Total Preferred Stock	949,416	3.8	949,416	—	949,416	3.8
Common Stocks:						
Industrial and Miscellaneous Publicly Traded (Unaffiliated)	—	—	—	—	—	—
Industrial and Miscellaneous Other (Unaffiliated)	129,672	0.5	129,672	—	129,672	0.5
Parent, Subsidiaries and Affiliates Publicly Traded	—	—	—	—	—	—
Parent, Subsidiaries and Affiliates Other	856,667	3.4	856,630	—	856,630	3.4
Mutual Funds	21,001	0.1	21,001	—	21,001	0.1
Unit Investment Trusts	—	—	—	—	—	—

FIDELITY & GUARANTY LIFE INSURANCE COMPANY

SUMMARY INVESTMENT SCHEDULE (CONTINUED)

DECEMBER 31, 2019

(DOLLARS IN THOUSANDS)

Closed-End Funds	—	—	—	—	—	—
Total Common Stocks	1,007,340	4.0	1,007,303	—	1,007,303	4.0
Mortgage Loans:						
Farm Mortgages	—	—	—	—	—	—
Residential Mortgages	—	—	—	—	—	—
Commercial Mortgages	63,503	0.3	63,503	—	63,503	0.3
Mezzanine Real Estate Loans	—	—	—	—	—	—
Total Mortgage Loans	63,503	0.3	63,503	—	63,503	0.3
Real Estate:						
Properties Occupied by Company	—	—	—	—	—	—
Properties Held for Production of Income	—	—	—	—	—	—
Properties Held for Sale	—	—	—	—	—	—
Total Real Estate	—	—	—	—	—	—
Cash, Cash Equivalents, and Short-Term Investments:						
Cash	783,559	3.1	783,559	—	783,559	3.1
Cash Equivalents	15,219	0.1	15,219	—	15,219	0.1
Short-Term Investments	—	—	—	—	—	—
Total Cash, Cash Equivalents, and Short-Term Investments	798,778	3.2	798,778	—	798,778	3.2
Contract Loans	26,630	0.1	26,620	—	26,620	0.1
Derivatives	206,848	0.8	206,848	—	206,848	0.8
Other Invested Assets	1,629,783	6.5	1,629,783	—	1,629,783	6.5
Receivables for Securities	11,249	—	9,764	—	9,764	—
Securities Lending	—	—	—	—	—	—
Other Invested Assets	353	—	353	—	353	—
Total invested assets	$ 25,052,090	100.0%	$25,050,558	$ —	$ 25,050,558	100.0%

See accompanying independent auditors’ report.

NOTE - BASIS OF PRESENTATION

The accompanying Schedule 1 presents the Supplemental Schedule of Selected Statutory Financial Data as of December 31, 2019 and for the year then ended for purposes of complying with paragraph 9 of the Annual Audited Financial Reports in the General section of the National Association of Insurance Commissioners' Annual Statement Instructions. This Schedule 1 agrees to or is included in the amounts reported in the Company's 2019 Statutory Annual Statement as filed with the Iowa Insurance Division.

The accompanying Schedules 2 and 3 present the Supplemental Investment Risks Interrogatories and Summary Investment Schedule (the “Schedules”) as of December 31, 2019 for purposes of complying with the NAIC’s Accounting Practices and Procedures Manual, Appendix A-001, *Investments of Reporting Entities*. The Schedules agree to or are included in the amounts reported in the Company’s 2019 Statutory Annual Statement as filed with the Iowa Insurance Division.