



**Protective Life Corporation  
Financial Statements and Notes  
September 30, 2022**

**PROTECTIVE LIFE CORPORATION  
FINANCIAL STATEMENTS AND NOTES  
FOR QUARTERLY PERIOD ENDED SEPTEMBER 30, 2022**

**TABLE OF CONTENTS**

	<b>Page</b>
Financial Statements (unaudited):	
Consolidated Condensed Statements of Income For The Three and Nine Months Ended September 30, 2022 and 2021	2
Consolidated Condensed Statements of Comprehensive Income (Loss) For The Three and Nine Months Ended September 30, 2022 and 2021	3
Consolidated Condensed Balance Sheets as of September 30, 2022 and December 31, 2021	4
Consolidated Condensed Statements of Shareowner's Equity For The Three and Nine Months Ended September 30, 2022 and 2021	6
Consolidated Condensed Statements of Cash Flows For The Nine Months Ended September 30, 2022 and 2021	8
Notes to Consolidated Condensed Financial Statements	10
Independent Auditors' Review Report	

**PROTECTIVE LIFE CORPORATION**  
**CONSOLIDATED CONDENSED STATEMENTS OF INCOME**  
(Unaudited)

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2022	2021	2022	2021
(Dollars In Millions)				
<b>Revenues</b>				
Gross premiums and policy fees	\$ 1,104	\$ 1,086	\$ 3,333	\$ 3,275
Reinsurance ceded	(310)	(330)	(1,019)	(1,013)
Net premiums and policy fees	794	756	2,314	2,262
Net investment income	839	802	2,454	2,364
Net realized gains (losses)	(18)	68	(271)	152
Other income	142	136	426	415
Total revenues	1,757	1,762	4,923	5,193
<b>Benefits and expenses</b>				
Benefits and settlement expenses, net of reinsurance ceded: (three and nine months 2022 - \$288 and \$946; three and nine months 2021 - \$391 and \$1,068)	1,281	1,367	3,793	3,795
Amortization of deferred policy acquisition costs and value of business acquired	141	94	350	241
Other operating expenses, net of reinsurance ceded: (three and nine months 2022 - \$65 and \$182; three and nine months 2021 - \$56 and \$172)	260	221	755	715
Total benefits and expenses	1,682	1,682	4,898	4,751
<b>Income before income tax</b>	75	80	25	442
Income tax expense	17	17	5	81
<b>Net income</b>	\$ 58	\$ 63	\$ 20	\$ 361

**PROTECTIVE LIFE CORPORATION**  
**CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
(Unaudited)

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars In Millions)			
<b>Net income</b>	\$ 58	\$ 63	\$ 20	\$ 361
Other comprehensive income (loss):				
Change in net unrealized gains (losses) on investments, net of income tax: (three and nine months 2022 - \$(560) and \$(2,253); three and nine months 2021 - \$(70) and \$(258))	(2,106)	(263)	(8,475)	(971)
Reclassification adjustment for investment amounts included in net income (loss), net of income tax: (three and nine months 2022 - \$— and \$—; three and nine months 2021 - \$(1) and \$(10))	(2)	(5)	(2)	(39)
Change in net expected credit losses, net of income tax: (three and nine months 2022 - \$— and \$—; three and nine months 2021 - \$— and \$—)	(1)	(1)	(2)	(1)
Change in accumulated gain (loss) - derivatives, net of income tax: (three and nine months 2022 - \$— and \$1; three and nine months 2021 - \$— and \$—)	3	(2)	7	1
Reclassification adjustment for derivative amounts included in net income (loss), net of income tax: (three and nine months 2022 - \$— and \$—; three and nine months 2021 - \$— and \$—)	1	1	1	1
Change in postretirement benefits liability adjustment, net of income tax: (three and nine months 2022 - \$— and \$—; three and nine months 2021 - \$— and \$1)	—	1	1	3
Total other comprehensive income (loss)	(2,105)	(269)	(8,470)	(1,006)
<b>Total comprehensive income (loss)</b>	<u>\$ (2,047)</u>	<u>\$ (206)</u>	<u>\$ (8,450)</u>	<u>\$ (645)</u>

**PROTECTIVE LIFE CORPORATION**  
**CONSOLIDATED CONDENSED BALANCE SHEETS**

	As of	
	September 30, 2022 (Unaudited)	December 31, 2021
	(Dollars In Millions)	
<b>Assets</b>		
Fixed maturities, at fair value (amortized cost: 2022 - \$67,503; 2021 - \$68,207; allowance for credit losses: 2022 - \$1; 2021 - \$1)	\$ 56,841	\$ 73,205
Equity securities, at fair value (cost: 2022 - \$847; 2021 - \$844)	752	868
Commercial mortgage loans, net of allowance for credit losses (2022 - \$91; 2021 - \$103)	11,806	10,863
Policy loans	1,483	1,527
Other long-term investments	3,002	3,595
Short-term investments	1,292	971
Total investments	75,176	91,029
Cash	420	544
Accrued investment income	742	705
Accounts and premiums receivable	187	136
Reinsurance receivables, net of allowance for credit losses (2022 - \$83; 2021 - \$97)	4,205	4,208
Deferred acquisition costs and value of business acquired	5,560	3,906
Goodwill	986	752
Other intangibles, net of accumulated amortization (2022 - \$421; 2021 - \$374)	753	564
Property and equipment, net of accumulated depreciation (2022 - \$93; 2021 - \$87)	212	217
Other assets	396	344
Deferred income taxes, net	658	—
Assets related to separate accounts:		
Variable annuity	10,666	13,648
Variable universal life	2,349	1,982
Reinsurance assumed	9,896	12,685
<b>Total assets</b>	<b>\$ 112,206</b>	<b>\$ 130,720</b>

**PROTECTIVE LIFE CORPORATION**  
**CONSOLIDATED CONDENSED BALANCE SHEETS**  
(continued)

	As of	
	September 30, 2022	December 31, 2021
	(Unaudited)	
	(Dollars In Millions)	
<b>Liabilities</b>		
Future policy benefits and claims	\$ 51,522	\$ 54,067
Unearned premiums	1,420	1,102
Total policy liabilities and accruals	52,942	55,169
Stable value product account balances	10,202	8,526
Annuity account balances	15,359	15,846
Other policyholders' funds	1,414	1,820
Other liabilities	3,872	5,074
Deferred income taxes, net	—	1,531
Secured financing liabilities	1,350	1,572
Debt	1,913	1,935
Subordinated debt	606	606
Liabilities related to separate accounts:		
Variable annuity	10,666	13,648
Variable universal life	2,349	1,982
Reinsurance assumed	9,896	12,685
Total liabilities	110,569	120,394
<b>Commitments and contingencies - Note 12</b>		
<b>Shareowner's equity</b>		
Common Stock, 2022 and 2021 - \$0.01 par value; shares authorized: 5,000; shares issued: 1,000	—	—
Additional paid-in-capital	5,804	5,804
Retained earnings	1,921	2,140
Accumulated other comprehensive income (loss):		
Net unrealized gains (losses) on investments, net of income tax: (2022 - \$(1,611); 2021 - \$642)	(6,062)	2,416
Net unrealized gains (losses) on investments with an allowance for credit losses, net of income tax: (2022 - \$(1); 2021 - \$(1))	(4)	(3)
Accumulated loss - derivatives, net of income tax: (2022 - \$—; 2021 - \$(2))	1	(7)
Postretirement benefits liability adjustment, net of income tax: (2022 - \$(6); 2021 - \$(6))	(23)	(24)
Total shareowner's equity	1,637	10,326
<b>Total liabilities and shareowner's equity</b>	<b>\$ 112,206</b>	<b>\$ 130,720</b>

**PROTECTIVE LIFE CORPORATION**  
**CONSOLIDATED CONDENSED STATEMENTS OF SHAREOWNER'S EQUITY**  
(Unaudited)

	<u>Common Stock</u>	<u>Additional Paid-In- Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Shareowner's Equity</u>
	(Dollars In Millions)				
Balance, June 30, 2022	\$ —	\$ 5,804	\$ 1,863	\$ (3,983)	\$ 3,684
Net income			58		58
Other comprehensive loss				(2,105)	(2,105)
Comprehensive loss					(2,047)
Balance, September 30, 2022	<u>\$ —</u>	<u>\$ 5,804</u>	<u>\$ 1,921</u>	<u>\$ (6,088)</u>	<u>\$ 1,637</u>

  

	<u>Common Stock</u>	<u>Additional Paid-In- Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Shareowner's Equity</u>
	(Dollars In Millions)				
Balance, December 31, 2021	\$ —	\$ 5,804	\$ 2,140	\$ 2,382	\$ 10,326
Net income			20		20
Other comprehensive loss				(8,470)	(8,470)
Comprehensive loss					(8,450)
Dividends to parent			(239)		(239)
Balance, September 30, 2022	<u>\$ —</u>	<u>\$ 5,804</u>	<u>\$ 1,921</u>	<u>\$ (6,088)</u>	<u>\$ 1,637</u>

See Notes to Consolidated Condensed Financial Statements

**PROTECTIVE LIFE CORPORATION**  
**CONSOLIDATED CONDENSED STATEMENTS OF SHAREOWNER'S EQUITY**  
(Unaudited)  
(continued)

	<u>Common Stock</u>	<u>Additional Paid-In- Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Shareowner's Equity</u>
	(Dollars In Millions)				
Balance, June 30, 2021	\$ —	\$ 5,804	\$ 2,161	\$ 2,771	\$ 10,736
Net income			63		63
Other comprehensive loss				(269)	(269)
Comprehensive loss					(206)
Balance, September 30, 2021	<u>\$ —</u>	<u>\$ 5,804</u>	<u>\$ 2,224</u>	<u>\$ 2,502</u>	<u>\$ 10,530</u>

  

	<u>Common Stock</u>	<u>Additional Paid-In- Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Shareowner's Equity</u>
	(Dollars In Millions)				
Balance, December 31, 2020	\$ —	\$ 5,804	\$ 2,044	\$ 3,508	\$ 11,356
Net income			361		361
Other comprehensive loss				(1,006)	(1,006)
Comprehensive loss					(645)
Dividends to parent			(181)		(181)
Balance, September 30, 2021	<u>\$ —</u>	<u>\$ 5,804</u>	<u>\$ 2,224</u>	<u>\$ 2,502</u>	<u>\$ 10,530</u>



**PROTECTIVE LIFE CORPORATION**  
**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**  
(Unaudited)

	For The Nine Months Ended September 30,	
	2022	2021
	(Dollars In Millions)	
<b>Cash flows from operating activities</b>		
Net income	\$ 20	\$ 361
Adjustments to reconcile net income to net cash used in operating activities:		
Net realized (gains) losses	271	(152)
Amortization of deferred acquisition costs and value of business acquired	350	241
Capitalization of deferred acquisition costs	(452)	(417)
Depreciation and amortization expense	63	63
Deferred income tax	(10)	(30)
Accrued income tax	(26)	(101)
Interest credited to universal life and investment products	1,095	1,033
Trading securities purchases, sales, and maturities, net	10	(40)
Other	(38)	—
Change in:		
Policy fees assessed on universal life and investment products	(1,394)	(1,364)
Reinsurance receivables	3	(85)
Accrued investment income and other receivables	(49)	(71)
Policy liabilities and other policyholders' funds of traditional life and health products	(650)	(471)
Amortization of premiums and accretion of discounts on investments and commercial mortgage loans	135	191
Other liabilities	174	21
Other, net	67	205
<b>Net cash used in operating activities</b>	<b>\$ (431)</b>	<b>\$ (616)</b>

**PROTECTIVE LIFE CORPORATION**  
**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**  
(Unaudited)  
(continued)

	For The Nine Months Ended September 30,	
	2022	2021
	(Dollars In Millions)	
<b>Cash flows from investing activities</b>		
Maturities and principal reductions of investments, available-for-sale	\$ 2,030	\$ 4,921
Sale of investments, available-for-sale	1,505	2,646
Cost of investments acquired, available-for-sale	(3,345)	(10,467)
Commercial mortgage loans:		
New loan originations	(1,926)	(1,454)
Repayments	970	1,049
Change in policy loans, net	44	50
Change in other long-term investments, net	(402)	(187)
Change in short-term investments, net	(328)	(237)
Net unsettled security transactions	12	140
Purchase of property, equipment, and intangibles	(11)	(46)
Payment for business acquisition, net of cash acquired	(322)	23
<b>Net cash used in investing activities</b>	<b>(1,773)</b>	<b>(3,562)</b>
<b>Cash flows from financing activities</b>		
Borrowings under line of credit arrangement, debt, and subordinated debt	\$ 1,302	\$ 425
Principal payments on line of credit arrangement, debt, and subordinated debt	(1,324)	(310)
Change in secured financing liabilities	(222)	774
Dividends to shareowner	(239)	(181)
Deposits to universal life and investment contracts	7,076	6,563
Withdrawals from universal life and investment contracts	(4,505)	(3,229)
Other financing activities, net	(8)	(48)
<b>Net cash provided by financing activities</b>	<b>2,080</b>	<b>3,994</b>
<b>Change in cash</b>	<b>(124)</b>	<b>(184)</b>
<b>Cash at beginning of period</b>	<b>544</b>	<b>751</b>
<b>Cash at end of period</b>	<b>\$ 420</b>	<b>\$ 567</b>

**PROTECTIVE LIFE CORPORATION**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**  
(Unaudited)

**1. BASIS OF PRESENTATION**

**Basis of Presentation**

Protective Life Corporation (the “Company”) is a wholly owned subsidiary of Dai-ichi Life Holdings, Inc., a *kabushiki kaisha* organized under the laws of Japan (“Dai-ichi Life”). The Company is a holding company with subsidiaries that provide financial services through the production, distribution, and administration of insurance and investment products. The Company markets individual life insurance, guaranteed investment contracts, guaranteed funding agreements, fixed and variable annuities, and extended service contracts throughout the United States. The Company also maintains a separate segment devoted to the acquisition of insurance policies from other companies. Founded in 1907, Protective Life Insurance Company (“PLICO”) is the Company’s largest operating subsidiary.

These consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for the interim periods presented herein. In the opinion of management, the accompanying consolidated condensed financial statements reflect all adjustments (consisting only of normal recurring items) necessary for a fair presentation of the results for the interim periods presented. Operating results for the three and nine months ended September 30, 2022, are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2022. The year-end consolidated condensed financial data included herein was derived from audited financial statements but this report does not include all disclosures required by GAAP.

The operating results of companies in the insurance industry have historically been subject to significant fluctuations due to changing competition, economic conditions, interest rates, investment performance, insurance ratings, claims, persistency, and other factors.

During 2022, the Company identified \$67 million of certain cash flows that were misclassified, resulting in an overstatement of the *interest credited to universal life and investment products* and an understatement of the *withdrawals from universal life and investment contracts* lines in operating and financing activities, respectively, within the statement of cash flows. The Company determined that the reclassifications were not material to the financial statements for any period. These amounts have been corrected in the statements of cash flows for the nine months ended September 30, 2021.

During the second quarter of 2022, the Company identified certain adjustments needed to appropriately present *assets related to separate accounts: reinsurance assumed* and *liabilities related to separate accounts: reinsurance assumed*. The Company determined that the adjustments were not material to the financial statements for any periods. The consolidated condensed balance sheet as of December 31, 2021 has been corrected to reduce *assets related to separate accounts: reinsurance assumed* by \$1.2 billion and to reduce *liabilities related to separate accounts: reinsurance assumed* by \$1.2 billion.

Beginning in the first quarter of 2020, the outbreak of COVID-19 created significant economic and social disruption and impacted various operational and financial aspects of the Company’s business. The pandemic may continue to impact the Company’s earnings based on, amongst other factors, the volume and severity of claims related to COVID-19 and the financial disruption caused by the pandemic, which could impact the Company’s investment portfolio, however, during 2022 the pandemic impacts have subsided and we expect impacts to earnings to continue to decline.

**Entities Included**

The consolidated condensed financial statements in this report include the accounts of Protective Life Corporation and subsidiaries and its wholly owned subsidiaries and its affiliate companies in which the Company holds a majority voting or economic interest. Intercompany balances and transactions have been eliminated.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Significant Accounting Policies**

For a full description of the Company’s significant accounting policies, refer to Note 2 in the Company’s consolidated financial statements for the year ended December 31, 2021. There were no significant changes to the Company’s accounting policies during the nine months ended September 30, 2022.

## Income Taxes

On August 16, 2022, H.R. 5376, the Inflation Reduction Act of 2022 (“IRA”) was signed into law. In general, beginning in 2023, it imposes a 15% alternative minimum tax on U.S. corporations if their average annual financial statement pre-tax income exceeds \$1 billion. When applicable, this criterion includes such income of a U.S. corporation’s foreign parent. The Company is required to recognize the effect on its consolidated financial statements in the period ended September 30, 2022. The Company expects to meet this criterion and may sometime in the future be liable for this new tax. The income tax related impacts of the IRA are not material to the Company’s consolidated financial statements for the period ended September 30, 2022.

## Accounting Pronouncements Not Yet Adopted

**Accounting Standards Update (“ASU”) No. 2022-22 - Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures.** The amendments in this Update eliminate the classification and measurement guidance for Troubled Debt Restructurings (“TDRs”) and require expanded disclosures for loan modifications to borrowers experiencing financial difficulty. In addition, the amendments require disclosure of current year write-offs by origination year. The Update is effective for the Company’s fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company will adopt the amendments on a prospective basis. The update will not have a material impact on its operations and financial results.

**ASU No. 2018-12 - Financial Services - Insurance (Topic 944): Targeted Improvements to Accounting for Long-Duration Contracts.** The amendments in this Update are designed to make improvements to the existing recognition, measurement, presentation, and disclosure requirements for certain long-duration contracts issued by an insurance company. The new amendments require insurance entities to provide a more current measure of the liability for future policy benefits for traditional and limited-payment contracts by regularly refining the liability for actual past experience and updated future assumptions. This differs from current requirements where assumptions are locked-in at contract issuance for these contract types. In addition, the updated liability will be discounted using an upper-medium grade (low-credit-risk) fixed income instrument yield that reflects the characteristics of the liability which differs from currently used rates based on the invested assets supporting the liability. In addition, the amendments introduce new requirements to assess market-based insurance contract options and guarantees for Market Risk Benefits and measure them at fair value. This Update also requires insurance entities to amortize deferred acquisition costs on a constant-level basis over the expected life of the contract. Finally, this Update requires new disclosures including liability rollforwards and information about significant inputs, judgments, assumptions, and methods used in the measurement. In November 2020, FASB issued ASU No. 2020-11 - *Financial Services - Insurance (Topic 944); Effective Date and Early Application* which deferred the effective date until the year ending December 31, 2025. The Company is currently reviewing its policies, processes, and applicable systems to determine the impact this standard will have on its operations and financial results.

## 3. RECENT TRANSACTIONS

### AUL Corp

On May 2, 2022, PLICO completed the acquisition of leading automotive finance and insurance provider, AUL Corp (“AUL”). AUL offers a variety of finance and insurance products, including warranties, vehicle service contracts, and a suite of ancillary products. The aggregate purchase price was \$347 million and is subject to adjustments.

The following table details the preliminary allocation of assets acquired and liabilities assumed from the AUL transaction as of the date of the closing. The Company has not completed the process of determining the fair value of assets acquired and liabilities assumed, but will do so in the twelve-month measurement period subsequent to the date of closing. These estimates are provisional and subject to adjustment. Any adjustments to these fair value estimates will be reflected, retroactively, as of the date of the acquisition.

	Fair Value as of May 2, 2022
	(Dollars In Millions)
<b>ASSETS</b>	
Fixed maturities	\$ 253
Cash	25
Goodwill	227
VOBA	11
Other intangibles	236
Other assets	49
Total assets	801
<b>LIABILITIES</b>	
Unearned premiums	\$ 333
Accrued expenses and other liabilities	121
Total liabilities	454
<b>NET ASSETS ACQUIRED</b>	<b>\$ 347</b>

The amount of revenue and income (loss) before income tax of AUL included in the consolidated condensed statements of income for the three and nine months ended September 30, 2022, amounted to \$49 million and \$78 million and \$2 million and \$1 million respectively. The Company incurred approximately \$3 million of non-recurring costs associated with the transaction during the nine months ended September 30, 2022.

Intangible assets recognized by the Company included the following (excluding goodwill):

	Estimated Fair Value on Acquisition Date	Estimated Useful Life
	(Dollars In Millions)	(in Years)
Distribution relationships	\$ 226	18
Trade name	6	7
Technology	4	4
Total intangible assets	<u>\$ 236</u>	

#### 4. INVESTMENT OPERATIONS

Net realized gains (losses) are summarized as follows:

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2022	2021	2022	2021
(Dollars In Millions)				
Fixed maturities	\$ 2	\$ 5	\$ 2	\$ 44
Equity securities	(17)	1	(147)	3
Modco trading portfolios	(149)	(25)	(618)	(69)
Change in net expected credit losses - fixed maturities	—	—	—	5
Commercial mortgage loans	(15)	37	(1)	129
Corporate-owned life insurance <sup>(1)</sup>	(20)	—	(85)	—
Other investments	(2)	(2)	—	(2)
Net realized gains (losses) - investments	(201)	16	(849)	110
Net realized gains (losses) - derivatives <sup>(2)</sup>	183	52	578	42
Net realized gains (losses)	\$ (18)	\$ 68	\$ (271)	\$ 152

(1) In 2022, the Company began recording the change in fair value of COLI, exclusive of the long-term expected return of the underlying assets, in net realized gains and losses which were previously recorded in net investment income.

(2) See Note 6, *Derivative Financial Instruments*

The chart below summarizes the sales proceeds and gains (losses) realized on securities classified as available-for-sale (“AFS”).

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2022	2021	2022	2021
(Dollars In Millions)				
<b>Securities in an unrealized gain position:</b>				
Sales proceeds	\$ 226	\$ 236	\$ 516	\$ 1,449
Realized gains	\$ 4	\$ 5	\$ 10	\$ 45
<b>Securities in an unrealized loss position:</b>				
Sales proceeds	\$ 198	\$ 8	\$ 353	\$ 31
Realized losses	\$ (2)	\$ —	\$ (8)	\$ (1)

The net gains (losses) from equity securities still held at period end were \$(17) million and \$(3) million for the three months ended September 30, 2022 and 2021, respectively, and \$(149) million and \$(1) million for the nine months ended September 30, 2022 and 2021, respectively. The Company did not recognize material gains on disposals of equity securities for the three months ended September 30, 2022 and recognized gains of \$2 million on disposals of equity securities for the nine months ended September 30, 2022. The Company recognized gains of \$4 million on disposals of equity securities for the three and nine months ended September 30, 2021.

The amortized cost, gross unrealized gains, gross unrealized losses, allowance for expected credit losses, and fair value of the Company's investments classified as AFS are as follows:

As of September 30, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Expected Credit Losses	Fair Value
(Dollars In Millions)					
Fixed maturities:					
Residential mortgage-backed securities	\$ 6,851	\$ —	\$ (1,512)	\$ —	\$ 5,339
Commercial mortgage-backed securities	1,881	—	(172)	—	1,709
Other asset-backed securities	1,679	13	(85)	—	1,607
U.S. government-related securities	1,005	—	(162)	—	843
Other government-related securities	151	—	(18)	—	133
States, municipalities, and political subdivisions	3,684	1	(436)	—	3,249
Corporate securities	49,773	18	(8,240)	(1)	41,550
Redeemable preferred stocks	297	—	(68)	—	229
	65,321	32	(10,693)	(1)	54,659
Short-term investments	1,217	—	—	—	1,217
	<u>\$ 66,538</u>	<u>\$ 32</u>	<u>\$ (10,693)</u>	<u>\$ (1)</u>	<u>\$ 55,876</u>

As of December 31, 2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Expected Credit Losses	Fair Value
(Dollars In Millions)					
Fixed maturities:					
Residential mortgage-backed securities	\$ 6,876	\$ 31	\$ (102)	\$ —	\$ 6,805
Commercial mortgage-backed securities	2,239	75	(7)	—	2,307
Other asset-backed securities	1,391	31	(2)	—	1,420
U.S. government-related securities	826	12	(25)	—	813
Other government-related securities	685	75	(2)	—	758
States, municipalities, and political subdivisions	3,750	410	(1)	—	4,159
Corporate securities	49,350	4,651	(157)	(1)	53,843
Redeemable preferred stocks	297	10	—	—	307
	65,414	5,295	(296)	(1)	70,412
Short-term investments	889	—	—	—	889
	<u>\$ 66,303</u>	<u>\$ 5,295</u>	<u>\$ (296)</u>	<u>\$ (1)</u>	<u>\$ 71,301</u>

The Company holds certain investments pursuant to certain modified coinsurance (“Modco”) arrangements. The fixed maturities, equity securities, and short-term investments held as part of these arrangements are classified as trading securities. The fair value of the investments held pursuant to these Modco arrangements are as follows:

	As of	
	September 30, 2022	December 31, 2021
	(Dollars In Millions)	
Fixed maturities:		
Residential mortgage-backed securities	\$ 105	\$ 133
Commercial mortgage-backed securities	170	209
Other asset-backed securities	183	185
U.S. government-related securities	28	33
Other government-related securities	33	64
States, municipalities, and political subdivisions	198	286
Corporate securities	1,459	1,875
Redeemable preferred stocks	6	8
	2,182	2,793
Equity securities	12	13
Short-term investments	75	82
	<u>\$ 2,269</u>	<u>\$ 2,888</u>

The amortized cost and fair value of AFS fixed maturities as of September 30, 2022, by expected maturity, are shown below. Expected maturities of securities without a single maturity date are allocated based on estimated rates of prepayment that may differ from actual rates of prepayment.

	Available-for-Sale	
	Amortized Cost	Fair Value
	(Dollars In Millions)	
Due in one year or less	\$ 1,805	\$ 1,786
Due after one year through five years	9,708	9,108
Due after five years through ten years	13,501	11,694
Due after ten years	40,307	32,071
	<u>\$ 65,321</u>	<u>\$ 54,659</u>



The following chart is a rollforward of the allowance for expected credit losses on fixed maturities classified as AFS:

	For The Three Months Ended September 30, 2022				For The Nine Months Ended September 30, 2022			
	Corporate Securities	CMBS	ABS	Total	Corporate Securities	CMBS	ABS	Total
	(Dollars In Millions)							
Beginning Balance	\$ (1)	\$ —	\$ —	\$ (1)	\$ (1)	\$ —	\$ —	\$ (1)
Additions for securities for which an allowance was not previously recorded	—	—	—	—	—	—	—	—
Adjustments on previously recorded allowances due to change in expected cash flows	—	—	—	—	—	—	—	—
Reductions on previously recorded allowances due to disposal of security in the current period	—	—	—	—	—	—	—	—
Write-offs of previously recorded allowances due to intent or requirement to sell	—	—	—	—	—	—	—	—
Ending Balance	\$ (1)	\$ —	\$ —	\$ (1)	\$ (1)	\$ —	\$ —	\$ (1)

  

	For The Three Months Ended September 30, 2021				For The Nine Months Ended September 30, 2021			
	Corporate Securities	CMBS	ABS	Total	Corporate Securities	CMBS	ABS	Total
	(Dollars In Millions)							
Beginning Balance	\$ 1	\$ 1	\$ —	\$ 2	\$ 18	\$ 4	\$ 1	\$ 23
Additions for securities for which an allowance was not previously recorded	—	—	—	—	—	—	—	—
Adjustments on previously recorded allowances due to change in expected cash flows	—	—	—	—	(1)	(3)	—	(4)
Reductions on previously recorded allowances due to disposal of security in the current period	—	—	—	—	—	—	(1)	(1)
Write-offs of previously recorded allowances due to intent or requirement to sell	—	—	—	—	(16)	—	—	(16)
Ending Balance	\$ 1	\$ 1	\$ —	\$ 2	\$ 1	\$ 1	\$ —	\$ 2

The following table includes the gross unrealized losses and fair value of the Company's AFS fixed maturities, for which an allowance for credit losses has not been recorded, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of September 30, 2022:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
(Dollars In Millions)						
Residential mortgage-backed securities	\$ 3,846	\$ (1,021)	\$ 1,485	\$ (491)	\$ 5,331	\$ (1,512)
Commercial mortgage-backed securities	1,634	(161)	73	(11)	1,707	(172)
Other asset-backed securities	1,077	(76)	104	(9)	1,181	(85)
U.S. government-related securities	439	(18)	330	(144)	769	(162)
Other government-related securities	133	(18)	—	—	133	(18)
States, municipalities, and political subdivisions	3,162	(432)	9	(4)	3,171	(436)
Corporate securities	39,227	(7,544)	1,884	(696)	41,111	(8,240)
Redeemable preferred stocks	209	(68)	—	—	209	(68)
	<u>\$ 49,727</u>	<u>\$ (9,338)</u>	<u>\$ 3,885</u>	<u>\$ (1,355)</u>	<u>\$ 53,612</u>	<u>\$ (10,693)</u>

Residential mortgage-backed securities ("RMBS") had gross unrealized losses greater than twelve months of \$491 million as of September 30, 2022. Factors such as credit enhancements within the deal structures, the average lives of the securities, and the performance of the underlying collateral support the recoverability of these investments.

U.S. government-related securities had gross unrealized losses greater than twelve months of \$144 million as of September 30, 2022. These declines were related to changes in interest rates.

Corporate securities had gross unrealized losses greater than twelve months of \$696 million as of September 30, 2022, excluding losses of \$1 million that were considered credit-related. These losses are deemed temporary due to positive factors supporting the recoverability of the respective investments. Positive factors considered include credit ratings, the financial health of the issuers, the continued access of the issuers to capital markets, interest rate movement, and other pertinent information.

As of September 30, 2022, the Company had a total of 5,346 positions that were in an unrealized loss position, including 4 positions for which an allowance for credit losses was established. For unrealized losses for which an allowance for credit losses was not established, the Company does not consider these unrealized loss positions to be credit-related. This is based on the aggregate factors discussed previously and because the Company has the ability and intent to hold these investments until the fair values recover. The Company does not intend to sell or expect to be required to sell the securities before recovering the Company's amortized cost of the securities.

The following table includes the gross unrealized losses and fair value of the Company's AFS fixed maturities, for which an allowance for credit losses has not been recorded, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2021:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
(Dollars In Millions)						
Residential mortgage-backed securities	\$ 4,614	\$ (102)	\$ 15	\$ —	\$ 4,629	\$ (102)
Commercial mortgage-backed securities	129	(1)	88	(6)	217	(7)
Other asset-backed securities	249	(1)	47	(1)	296	(2)
U.S. government-related securities	307	(14)	158	(11)	465	(25)
Other government-related securities	78	(2)	—	—	78	(2)
States, municipals, and political subdivisions	39	(1)	4	—	43	(1)
Corporate securities	4,895	(120)	515	(37)	5,410	(157)
Redeemable preferred stocks	20	—	—	—	20	—
	<u>\$ 10,331</u>	<u>\$ (241)</u>	<u>\$ 827</u>	<u>\$ (55)</u>	<u>\$ 11,158</u>	<u>\$ (296)</u>

As of September 30, 2022, the Company had securities in its AFS portfolio which were rated below investment grade of \$1.6 billion and had an amortized cost of \$2.0 billion. Included in the Company's trading portfolio, the Company held \$90 million of securities which were rated below investment grade. Within the Company's AFS and trading portfolios, the Company had securities which were below investment grade and were not publicly traded of \$435 million and had an amortized cost of \$536 million.

The change in unrealized gains (losses), net of the allowance for expected credit losses and income taxes on fixed maturities, classified as AFS is summarized as follows:

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2022	2021	2022	2021
(Dollars In Millions)				
Fixed maturities	\$ (3,030)	\$ (326)	\$ (12,371)	\$ (1,288)

## 5. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company determined the fair value of its financial instruments based on the fair value hierarchy established in FASB guidance referenced in the Fair Value Measurements and Disclosures Topic which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Company has adopted the provisions from the FASB guidance that is referenced in the Fair Value Measurements and Disclosures Topic for non-financial assets and liabilities (such as property and equipment, goodwill, and other intangible assets) that are required to be measured at fair value on a periodic basis. The effect on the Company's periodic fair value measurements for non-financial assets and liabilities was not material.

The Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded at fair value on the consolidated balance sheets are categorized as follows:

- **Level 1:** Unadjusted quoted prices for identical assets or liabilities in an active market.
- **Level 2:** Quoted prices in markets that are not active or significant inputs that are observable either directly or indirectly. Level 2 inputs include the following:
  - a) Quoted prices for similar assets or liabilities in active markets;
  - b) Quoted prices for identical or similar assets or liabilities in non-active markets;
  - c) Inputs other than quoted market prices that are observable; and
  - d) Inputs that are derived principally from or corroborated by observable market data through correlation or other means.
- **Level 3:** Prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. They reflect management's own estimates about the assumptions a market participant would use in pricing the asset or liability.

The following table presents the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis as of September 30, 2022:

	Measurement Category	Level 1	Level 2	Level 3	Total
(Dollars In Millions)					
<b>Assets:</b>					
Fixed maturities - AFS					
Residential mortgage-backed securities	4	\$ —	\$ 5,339	\$ —	\$ 5,339
Commercial mortgage-backed securities	4	—	1,570	139	1,709
Other asset-backed securities	4	—	1,096	511	1,607
U.S. government-related securities	4	553	290	—	843
Other government-related securities	4	—	133	—	133
States, municipalities, and political subdivisions	4	—	3,249	—	3,249
Corporate securities	4	—	40,219	1,331	41,550
Redeemable preferred stocks	4	229	—	—	229
Total fixed maturities - AFS		782	51,896	1,981	54,659
Fixed maturities - trading					
Residential mortgage-backed securities	3	—	105	—	105
Commercial mortgage-backed securities	3	—	170	—	170
Other asset-backed securities	3	—	88	95	183
U.S. government-related securities	3	22	6	—	28
Other government-related securities	3	—	17	16	33
States, municipalities, and political subdivisions	3	—	198	—	198
Corporate securities	3	—	1,454	5	1,459
Redeemable preferred stocks	3	6	—	—	6
Total fixed maturities - trading		28	2,038	116	2,182
Total fixed maturities		810	53,934	2,097	56,841
Equity securities	3	542	28	182	752
Other long-term investments <sup>(1)</sup>	3 & 4	80	296	535	911
Short-term investments	3	1,142	150	—	1,292
Total investments		2,574	54,408	2,814	59,796
Cash	3	420	—	—	420
Other assets	3	41	—	—	41
Assets related to separate accounts					
Variable annuity	3	10,666	—	—	10,666
Variable universal life	3	2,349	—	—	2,349
Total assets measured at fair value on a recurring basis		\$ 16,050	\$ 54,408	\$ 2,814	\$ 73,272
<b>Liabilities:</b>					
Annuity account balances <sup>(2)</sup>	3	\$ —	\$ —	\$ 58	\$ 58
Other liabilities <sup>(1)</sup>	3 & 4	40	174	1,091	1,305
Total liabilities measured at fair value on a recurring basis		\$ 40	\$ 174	\$ 1,149	\$ 1,363

Measurement category 3 represents fair value through net income and 4 represents fair value through other comprehensive income (loss).

(1) Includes certain freestanding and embedded derivatives.

(2) Represents liabilities related to fixed indexed annuities.

The following table presents the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis as of December 31, 2021:

	Measurement Category	Level 1	Level 2	Level 3	Total
(Dollars In Millions)					
<b>Assets:</b>					
Fixed maturities - AFS					
Residential mortgage-backed securities	4	\$ —	\$ 6,765	\$ 40	\$ 6,805
Commercial mortgage-backed securities	4	—	2,127	180	2,307
Other asset-backed securities	4	—	905	515	1,420
U.S. government-related securities	4	416	397	—	813
Other government-related securities	4	—	758	—	758
States, municipals, and political subdivisions	4	—	4,159	—	4,159
Corporate securities	4	—	52,261	1,582	53,843
Redeemable preferred stocks	4	307	—	—	307
Total fixed maturities - AFS		723	67,372	2,317	70,412
Fixed maturities - trading					
Residential mortgage-backed securities	3	—	133	—	133
Commercial mortgage-backed securities	3	—	209	—	209
Other asset-backed securities	3	—	92	93	185
U.S. government-related securities	3	27	6	—	33
Other government-related securities	3	—	48	16	64
States, municipals, and political subdivisions	3	—	286	—	286
Corporate securities	3	—	1,867	8	1,875
Redeemable preferred stocks	3	8	—	—	8
Total fixed maturities - trading		35	2,641	117	2,793
Total fixed maturities		758	70,013	2,434	73,205
Equity securities	3	673	40	155	868
Other long-term investments <sup>(1)</sup>	3&4	59	1,093	243	1,395
Short-term investments	3	792	179	—	971
Total investments		2,282	71,325	2,832	76,439
Cash	3	544	—	—	544
Other assets	3	46	—	—	46
Assets related to separate accounts					
Variable annuity	3	13,648	—	—	13,648
Variable universal life	3	1,982	—	—	1,982
Total assets measured at fair value on a recurring basis		\$ 18,502	\$ 71,325	\$ 2,832	\$ 92,659
<b>Liabilities:</b>					
Annuity account balances <sup>(2)</sup>	3	\$ —	\$ —	\$ 63	\$ 63
Other liabilities <sup>(1)</sup>	3&4	20	810	1,907	2,737
Total liabilities measured at fair value on a recurring basis		\$ 20	\$ 810	\$ 1,970	\$ 2,800

Measurement category 3 represents fair value through net income and 4 represents fair value through other comprehensive income (loss).

(1) Includes certain freestanding and embedded derivatives.

(2) Represents liabilities related to fixed indexed annuities.

## Determination of Fair Values

The valuation methodologies used to determine the fair values of assets and liabilities reflect market participant assumptions and are based on the application of the fair value hierarchy that prioritizes observable market inputs over unobservable inputs. The Company determines the fair values of certain financial assets and financial liabilities based on quoted market prices, where available. The Company also determines certain fair values based on future cash flows discounted at the appropriate current market rate. Fair values reflect adjustments for counterparty credit quality, the Company's credit standing, liquidity, and where appropriate, risk margins on unobservable parameters.

For a full description of the Company's fair value calculations and accounting policies, refer to Note 5 in the Company's consolidated financial statements for the year ended December 31, 2021.

### Valuation of Level 3 Financial Instruments

The following tables present the valuation method for material fixed maturities and embedded derivative financial instruments included in Level 3, as well as the unobservable inputs used in the valuation of those financial instruments as of September 30, 2022 and December 31, 2021:

September 30, 2022	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
(Dollars In Millions)				
<b>Assets:</b>				
Commercial mortgage-backed securities	\$ 139	Discounted cash flow	Spread over treasury	1.79% - 2.90% (2.52%)
Other asset-backed securities	405	Liquidation	Liquidation value	\$96.00 - \$100.00 (\$97.32)
		Discounted cash flow	Liquidity premium	0.60% - 1.95% (1.49%)
			Paydown rate	14.06% - 16.52% (14.55%)
		Discounted cash flow	Spread over treasury	1.08% - 4.75% (3.73%)
Corporate securities	1,243	Discounted cash flow	Spread over treasury	0.42% - 5.15% (2.23%)
<b>Liabilities:<sup>(1)</sup></b>				
Embedded derivatives - GLWB <sup>(2)</sup>	\$ 82	Actuarial cash flow model	Mortality	88% to 100% of Ruark 2015 ALB table
			Lapse	PL-RBA Predictive Model
			Utilization	PL-RBA Predictive Model
			Nonperformance risk	0.36% - 1.62%
Embedded derivative - FIA	456	Actuarial cash flow model	Expenses	\$226 per policy
			Withdrawal rate	0.4% - 2.4% prior to age 72, RMD for ages 70+ or WB withdrawal rate. Assume underutilized RMD for non-WB policies ages 72-88
			Mortality	88% to 100% of Ruark 2015 ALB table
			Lapse	0.2% - 50%, depending on duration/surrender charge period. Dynamically adjusted for WB moneyness and projected market rates vs credited rates.
			Nonperformance risk	0.36% - 1.62%
Embedded derivative - IUL	176	Actuarial cash flow model	Mortality	42% - 110% of base table (90% of 2015 VBT Primary Tables adjusted for 5.5 years of 2020 SOA HMI)
				94% - 248% of duration 8 point in scale 2015 VBT Primary Tables, depending on type of business
			Lapse	0.375% - 7.5%, depending on issue age and duration, smoking class, and level of funding
			Nonperformance risk	0.36% - 1.62%

(1) Excludes modified coinsurance arrangements.

(2) Fair value is presented as a net liability.

December 31, 2021	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
(Dollars In Millions)				
<b>Assets:</b>				
Residential mortgage-backed securities	\$ 40	Trade Price	Spread	1.03% - 1.10% (1.07%)
Commercial mortgage-backed securities	180	Discounted cash flow	Spread over treasury	1.04% - 2.47% (1.30%)
Other asset-backed securities	436	Liquidation Discounted cash flow	Liquidation value	\$98.63 - \$99.75 (\$99.07)
			Liquidity premium	0.11% - 2.14% (1.54%)
			Paydown rate	11.20% - 13.41% (12.30%)
Corporate securities	1,588	Discounted cash flow	Spread over treasury	0.00% - 4.00% (1.50%)
<b>Liabilities:<sup>(1)</sup></b>				
Embedded derivatives - GLWB <sup>(2)</sup>	\$ 475	Actuarial cash flow model	Mortality	88% to 100% of Ruark 2015 ALB table
			Lapse	PL-RBA Predictive Model
			Utilization	PL-RBA Predictive Model
			Nonperformance risk	0.19% - 0.82%
Embedded derivative - FIA	647	Actuarial cash flow model	Expenses	\$214 per policy
			Withdrawal rate	0.4% - 2.4% prior to age 72 RMD for ages 70+ or WB withdrawal rate Assume underutilized RMD for non-WB policies ages 72-88
			Mortality	88% to 100% of Ruark 2015 ALB table
			Lapse	0.2% - 50.0%, depending on duration/surrender charge period. Dynamically adjusted for WB moneyness and projected market rates vs credited rates.
			Nonperformance risk	0.19% - 0.82%
Embedded derivative - IUL	269	Actuarial cash flow model	Mortality	43% - 110% of base table (90% of 2015 VBT Primary Tables 94% - 248% of duration 8 point in scale 2015 VBT primary tables, depending on type of business
			Lapse	0.375% - 7.5%, depending on duration/distribution channel and smoking class
			Nonperformance risk	0.19% - 0.82%

(1) Excludes modified coinsurance arrangements.

(2) The fair value is presented as a net liability.

The charts above exclude Level 3 financial instruments that are valued using broker quotes and those for which book value approximates fair value.

The Company has considered all reasonably available quantitative inputs as of September 30, 2022 and December 31, 2021, but the valuation techniques and inputs used by some brokers in pricing certain financial instruments are not shared with the Company. As of September 30, 2022 and December 31, 2021, \$316 million and \$197 million of financial instruments classified as Level 3, respectively, were valued by brokers. Of these securities, \$201 million and \$172 million were classified as other asset-backed securities and \$93 million and \$3 million were classified as corporate securities, respectively. As of September 30, 2022 and December 31, 2021, \$6 million of equity securities and \$16 million of government securities were included in Level 3.

In certain cases, the Company has determined that book value materially approximates fair value. As of September 30, 2022 and December 31, 2021, the Company held FHLB capital stock of \$176 million and \$148 million, respectively, for which



book value approximates fair value.

The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the three months ended September 30, 2022, for which the Company has used significant unobservable inputs (Level 3):

	Total Realized and Unrealized Gains			Total Realized and Unrealized Losses			Purchases	Sales	Issuances	Settlements	Transfers in/out of Level 3	Other	Ending Balance	Total Gains (losses) included in Operations related to Instruments still held at the Reporting Date	
	Beginning Balance	Included in Operations	Included in Other Comprehensive Income (Loss)	Included in Operations	Included in Other Comprehensive Income (Loss)										
(Dollars In Millions)															
Assets:															
Fixed maturities															
AFS															
Commercial mortgage-backed securities	\$ 150	\$ —	\$ —	\$ —	\$ (10)	\$ —	\$ (1)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 139	\$ —	
Other asset-backed securities	528	—	1	—	(5)	15	(17)	—	—	(13)	2	511	—		
Corporate securities	1,321	—	—	—	(63)	100	(13)	—	—	(14)	—	1,331	—		
Total fixed maturities - AFS	1,999	—	1	—	(78)	115	(31)	—	—	(27)	2	1,981	—		
Fixed maturities - trading															
Other asset-backed securities	99	—	—	—	(2)	4	(6)	—	—	—	—	95	—		
Other government-related securities	16	—	—	—	—	—	—	—	—	—	—	16	—		
Corporate securities	6	—	—	—	—	—	(1)	—	—	—	—	5	—		
Total fixed maturities - trading	121	—	—	—	(2)	4	(7)	—	—	—	—	116	—		
Total fixed maturities	2,120	—	1	—	(80)	119	(38)	—	—	(27)	2	2,097	—		
Equity securities	179	—	—	—	—	11	(8)	—	—	—	—	182	—		
Other long-term investments <sup>(1)</sup>															
	360	257	—	(82)	—	—	—	—	—	—	—	535	175		
Total investments	2,659	257	1	(82)	(80)	130	(46)	—	—	(27)	2	2,814	175		
Total assets measured at fair value on a recurring basis	\$ 2,659	\$ 257	\$ 1	\$ (82)	\$ (80)	\$ 130	\$ (46)	\$ —	\$ —	\$ (27)	\$ 2	\$ 2,814	\$ 175		
Liabilities:															
Annuity account balances <sup>(2)</sup>	\$ 60	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2	\$ —	\$ —	\$ 58	\$ —		
Other liabilities <sup>(1)</sup>	1,242	224	—	(73)	—	—	—	—	—	—	—	1,091	151		
Total liabilities measured at fair value on a recurring basis	\$ 1,302	\$ 224	\$ —	\$ (73)	\$ —	\$ —	\$ —	\$ —	\$ 2	\$ —	\$ —	\$ 1,149	\$ 151		

(1) Represents certain freestanding and embedded derivatives.

(2) Represents liabilities related to fixed indexed annuities.

For the three months ended September 30, 2022, \$6 million of securities were transferred into Level 3 from Level 2. These transfers resulted from securities that were priced by independent pricing services or brokers in previous periods but were priced internally using significant unobservable inputs where market observable inputs were not available as of September 30, 2022.

For the three months ended September 30, 2022, \$33 million of securities were transferred into Level 2 from Level 3. These transfers resulted from securities that were priced internally using significant unobservable inputs where market observable inputs were not available in previous periods but that were priced by independent pricing services or brokers as of September 30, 2022.

The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the nine months ended September 30, 2022, for which the Company has used significant unobservable inputs (Level 3):

	Total Realized and Unrealized Gains			Total Realized and Unrealized Losses										Total Gains (losses) included in Operations related to Instruments still held at the Reporting Date
	Beginning Balance	Included in Operations	Included in Other Comprehensive Income (Loss)	Included in Operations	Included in Other Comprehensive Income (Loss)	Purchases	Sales	Issuances	Settlements	Transfers in/out of Level 3	Other	Ending Balance		
(Dollars In Millions)														
Assets:														
Fixed maturities AFS														
Residential mortgage-backed securities	\$ 40	\$ —	\$ —	\$ —	\$ (13)	\$ —	\$ —	\$ —	\$ —	\$ (26)	\$ (1)	\$ —	\$ —	
Commercial mortgage-backed securities	180	—	—	—	(39)	—	(2)	—	—	—	—	139	—	
Other asset-backed securities	515	—	2	—	(11)	115	(84)	—	—	(29)	3	511	—	
Corporate securities	1,582	—	—	—	(238)	275	(244)	—	—	(43)	(1)	1,331	—	
Total fixed maturities - AFS	2,317	—	2	—	(301)	390	(330)	—	—	(98)	1	1,981	—	
Fixed maturities - trading														
Other asset-backed securities	93	—	—	—	(5)	14	(10)	—	—	3	—	95	—	
Other government- related securities	16	—	—	—	—	—	—	—	—	—	—	16	—	
Corporate securities	8	—	—	—	(2)	—	—	—	—	(1)	—	5	—	
Total fixed maturities - trading	117	—	—	—	(7)	14	(10)	—	—	2	—	116	—	
Total fixed maturities	2,434	—	2	—	(308)	404	(340)	—	—	(96)	1	2,097	—	
Equity securities	155	—	—	—	—	35	(8)	—	—	—	—	182	—	
Other long-term investments <sup>(1)</sup>	243	473		(181)								535	292	
Total investments	2,832	473	2	(181)	(308)	439	(348)	—	—	(96)	1	2,814	292	
Total assets measured at fair value on a recurring basis	\$ 2,832	\$ 473	\$ 2	\$ (181)	\$ (308)	\$ 439	\$ (348)	\$ —	\$ —	\$ (96)	\$ 1	\$ 2,814	\$ 292	
Liabilities:														
Annuity account balances <sup>(2)</sup>	\$ 63	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 5	\$ —	\$ —	58	\$ —	
Other liabilities <sup>(1)</sup>	1,907	1,008		(192)								1,091	816	
Total liabilities measured at fair value on a recurring basis	\$ 1,970	\$ 1,008	\$ —	\$ (192)	\$ —	\$ —	\$ —	\$ —	\$ 5	\$ —	\$ —	\$ 1,149	\$ 816	

(1) Represents certain freestanding and embedded derivatives.

(2) Represents liabilities related to fixed indexed annuities.

For the nine months ended September 30, 2022, \$9 million of securities were transferred into Level 3 from Level 2. These transfers resulted from securities that were priced by independent pricing services or brokers in previous periods but were priced internally using significant unobservable inputs where market observable inputs were not available as of September 30, 2022.

For the nine months ended September 30, 2022, \$105 million of securities were transferred into Level 2 from Level 3. These transfers resulted from securities that were priced internally using significant unobservable inputs where market observable inputs were not available in previous periods but that were priced by independent pricing services or brokers as of September 30, 2022.

The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the three months ended September 30, 2021, for which the Company has used significant unobservable inputs (Level 3):

	Total Realized and Unrealized Gains				Total Realized and Unrealized Losses												Total Gains (losses) included in Operations related to Instruments still held at the Reporting Date
	Beginning Balance	Included in Operations	Included in Other Comprehensive Income (Loss)	Included in Operations	Included in Other Comprehensive Income (Loss)	Purchases	Sales	Issuances	Settlements	Transfers in/out of Level 3	Other	Ending Balance					
(Dollars In Millions)																	
Assets:																	
Fixed maturities AFS																	
Commercial mortgage-backed securities	\$ 32	\$ —	\$ —	\$ —	\$ (1)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 31	\$ —				
Other asset-backed securities	451	—	—	—	(2)	6	—	—	—	3	—	458	—				
Corporate securities	1,553	—	8	—	(7)	79	(35)	—	—	37	—	1,635	—				
Total fixed maturities - AFS	2,036	—	8	—	(10)	85	(35)	—	—	40	—	2,124	—				
Fixed maturities - trading																	
Other asset-backed securities	97	—	—	—	—	3	(6)	—	—	—	—	94	—				
Other government- related securities	16	—	—	—	(1)	—	—	—	—	—	1	16	—				
Corporate securities	11	—	—	—	—	4	—	—	—	—	—	15	—				
Total fixed maturities - trading	124	—	—	—	(1)	7	(6)	—	—	—	1	125	—				
Total fixed maturities	2,160	—	8	—	(11)	92	(41)	—	—	40	1	2,249	—				
Equity securities	112	—	—	—	—	54	(8)	—	—	—	—	158	—				
Other long-term investments <sup>(1)</sup>	252	98	—	(102)	—	—	—	—	—	—	—	248	(4)				
Total investments	2,524	98	8	(102)	(11)	146	(49)	—	—	40	1	2,655	(4)				
Total assets measured at fair value on a recurring basis	\$ 2,524	\$ 98	\$ 8	\$ (102)	\$ (11)	\$ 146	\$ (49)	\$ —	\$ —	\$ 40	\$ 1	\$ 2,655	\$ (4)				
Liabilities:																	
Annuity account balances <sup>(2)</sup>	\$ 65	\$ —	\$ —	\$ (1)	\$ —	\$ —	\$ —	\$ —	\$ 2	\$ —	\$ —	\$ 64	\$ —				
Other liabilities <sup>(1)</sup>	1,977	194	—	(129)	—	—	—	—	—	—	—	1,912	65				
Total liabilities measured at fair value on a recurring basis	\$ 2,042	\$ 194	\$ —	\$ (130)	\$ —	\$ —	\$ —	\$ —	\$ 2	\$ —	\$ —	\$ 1,976	\$ 65				

(1) Represents certain freestanding and embedded derivatives.

(2) Represents liabilities related to fixed indexed annuities.

For the three months ended September 30, 2021, \$59 million of securities were transferred into Level 3 from Level 2. These transfers resulted from securities that were priced by independent pricing services or brokers in previous periods but were priced internally using significant unobservable inputs where market observable inputs were not available as of September 30, 2021.

For the three months ended September 30, 2021, \$19 million of securities were transferred into Level 2 from Level 3.

The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the nine months ended September 30, 2021, for which the Company has used significant unobservable inputs (Level 3):

	Total Realized and Unrealized Gains				Total Realized and Unrealized Losses												Total Gains (losses) included in Operations related to Instruments still held at the Reporting Date
	Beginning Balance	Included in Operations	Included in Other Comprehensive Income (Loss)		Included in Operations	Included in Other Comprehensive Income (Loss)			Purchases	Sales	Issuances	Settlements	Transfers in/out of Level 3	Other	Ending Balance		
(Dollars In Millions)																	
Assets:																	
Fixed maturities																	
AFS																	
Commercial mortgage-backed securities	\$ 32	\$ —	\$ —	\$ —	\$ —	\$ (1)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 31	\$ —	
Other asset-backed securities	435	—	5	—	(1)	6	(2)	—	—	14	1	458	—				
Corporate securities	1,432	—	7	—	(21)	240	(168)	—	—	146	(1)	1,635	—				
Total fixed maturities - AFS	1,899	—	12	—	(23)	246	(170)	—	—	160	—	2,124	—				
Fixed maturities - trading																	
Other asset-backed securities	71	—	2	—	1	14	(10)	—	—	16	—	94	—				
Other government-related securities	—	—	—	—	—	—	—	—	—	16	—	16	—				
Corporate securities	18	—	—	—	(1)	4	(1)	—	—	(5)	—	15	—				
Total fixed maturities - trading	89	—	2	—	—	18	(11)	—	—	27	—	125	—				
Total fixed maturities	1,988	—	14	—	(23)	264	(181)	—	—	187	—	2,249	—				
Equity securities	101	—	—	—	—	94	(32)	—	—	(5)	—	158	—				
Other long-term investments <sup>(1)</sup>	245	167	—	(164)	—	—	—	—	—	—	—	248	3				
Total investments	2,334	167	14	(164)	(23)	358	(213)	—	—	182	—	2,655	3				
Total assets measured at fair value on a recurring basis																	
	\$ 2,334	\$ 167	\$ 14	\$ (164)	\$ (23)	\$ 358	\$ (213)	\$ —	\$ —	\$ 182	\$ —	\$ 2,655	\$ 3				
Liabilities:																	
Annuity account balances <sup>(2)</sup>																	
	\$ 67	\$ —	\$ —	\$ (2)	\$ —	\$ —	\$ —	\$ —	\$ 5	\$ —	\$ —	\$ 64	\$ —				
Other liabilities <sup>(1)</sup>	2,190	756	—	(478)	—	—	—	—	—	—	—	1,912	278				
Total liabilities measured at fair value on a recurring basis																	
	\$ 2,257	\$ 756	\$ —	\$ (480)	\$ —	\$ —	\$ —	\$ —	\$ 5	\$ —	\$ —	\$ 1,976	\$ 278				

(1) Represents certain freestanding and embedded derivatives.

(2) Represents liabilities related to fixed indexed annuities.

For the nine months ended September 30, 2021, \$199 million of securities were transferred into Level 3 from Level 2. These transfers resulted from securities that were priced by independent pricing services or brokers in previous periods but were priced internally using significant unobservable inputs where market observable inputs were not available as of September 30, 2021.

For the nine months ended September 30, 2021, \$17 million of securities were transferred into Level 2 from Level 3.

Total realized and unrealized gains (losses) on Level 3 assets and liabilities are reported in either *net realized gains (losses)* within the consolidated condensed statements of income or other comprehensive income (loss) within shareowner's equity based on the appropriate accounting treatment for the item.

Purchases, sales, issuances, and settlements, net, represent the activity that occurred during the period that results in a change of the asset or liability but does not represent changes in fair value for the instruments held at the beginning of the period. Such activity primarily relates to purchases and sales of fixed maturities and issuances and settlements of fixed indexed annuities.

### ***Estimated Fair Value of Financial Instruments***

The carrying amounts and estimated fair values of the Company's financial instruments that are not reported at fair value as of the periods shown below are as follows:

	Fair Value Level	As of			
		September 30, 2022		December 31, 2021	
		Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
		(Dollars In Millions)			
Assets:					
Commercial mortgage loans <sup>(1)</sup>	3	\$ 11,806	\$ 10,952	\$ 10,863	\$ 11,386
Policy loans	3	1,483	1,483	1,527	1,527
Other long-term investments <sup>(2)</sup>	2 & 3	1,889	1,752	1,930	1,990
Liabilities:					
Stable value product account balances	3	\$ 10,202	\$ 9,562	\$ 8,526	\$ 8,598
Future policy benefits and claims <sup>(3)</sup>	3	1,370	1,404	1,457	1,504
Other policyholders’ funds <sup>(4)</sup>	3	101	103	102	108
Debt: <sup>(5)</sup>					
Bank borrowings <sup>(6)</sup>	3	\$ 600	\$ 600	\$ 875	\$ 875
Senior Notes	2	1,058	929	1,060	1,163
Subordinated debentures	2	496	447	496	509
Commercial paper	3	255	255	—	—
Subordinated funding obligations	3	110	83	110	116

Except as noted below, fair values were estimated using quoted market prices.

(1) The carrying amount is net of allowance for credit losses.

(2) Other long-term investments is comprised of a Modco receivable and the cash surrender value of the Company's COLI policy. The Modco receivable is related to invested assets such as fixed income and structured securities, which are legally owned by the ceding company, the fair value of which is predominately measured at Level 2. The fair value is determined in a manner consistent with other similar invested assets held by the Company. The fair value of the cash surrender value of the Company's COLI policy is measured at Level 3.

(3) Single premium immediate annuity and structured annuities without life contingencies.

(4) Supplementary contracts without life contingencies.

(5) Excludes immaterial capital lease obligations.

(6) Includes the Term Loan Credit Agreement.

## **6. DERIVATIVE FINANCIAL INSTRUMENTS**

### **Types of Derivative Instruments and Derivative Strategies**

The Company utilizes a risk management strategy that incorporates the use of derivative financial instruments to reduce exposure to certain risks, including but not limited to, interest rate risk, currency exchange risk, volatility risk, and equity market risk. These strategies are developed through the Company's analysis of data from financial simulation models and other internal and industry sources, and are then incorporated into the Company's risk management program.

Derivative instruments expose the Company to credit and market risk and could result in material changes from period to period. The Company attempts to minimize its credit risk in connection with its overall asset/liability management programs and risk management strategies. In addition, all derivative programs are monitored by our risk management department.

For a full description of the Company's derivative accounting policies, refer to Note 6 in the Company's consolidated financial statements for the year ended December 31, 2021.

### **Derivative Instruments Designated and Qualifying as Hedging Instruments**

#### **Cash-Flow Hedges**

- To hedge a fixed rate note denominated in a foreign currency, the Company entered into a fixed-to-fixed foreign currency swap in order to hedge the foreign currency exchange risk associated with the note. The cash flows received on the swap are identical to the cash flows paid on the note.

### **Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments**

The Company uses various other derivative instruments for risk management purposes that do not qualify for hedge accounting treatment. Changes in the fair value of these derivatives are recognized in *net realized gains (losses)* during the period of change.

The following table sets forth net realized gains (losses) - derivatives for the periods shown:

**Net realized gains (losses) - derivative financial instruments**

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2022	2021	2022	2021
(Dollars In Millions)				
<b>Derivatives related to VA contracts:</b>				
Interest rate forwards	\$ (27)	\$ —	\$ (25)	\$ —
Interest rate futures	24	—	55	8
Equity futures	(1)	2	(38)	(10)
Currency futures	12	4	31	9
Equity options	—	1	58	(81)
Interest rate swaps	(131)	(24)	(530)	(167)
Total return swaps	24	6	150	(119)
Embedded derivative - GLWB	213	(15)	394	287
Total derivatives related to VA contracts	114	(26)	95	(73)
<b>Derivatives related to FIA contracts:</b>				
Embedded derivative	25	64	187	26
Equity futures	(1)	—	(5)	3
Equity options	(29)	(3)	(141)	45
Other derivatives	2	—	5	(2)
Total derivatives related to FIA contracts	(3)	61	46	72
<b>Derivatives related to IUL contracts:</b>				
Embedded derivative	(12)	(3)	76	(15)
Equity options	(5)	1	(28)	9
Total derivatives related to IUL contracts	(17)	(2)	48	(6)
Embedded derivative - Modco reinsurance treaties	87	17	376	52
Other derivatives	2	2	13	(3)
Total net realized gains (losses) - derivatives	\$ 183	\$ 52	\$ 578	\$ 42

Based on expected cash flows of the underlying hedged items, the Company expects to reclassify \$1 million out of accumulated other comprehensive income (loss) into *net realized gains (losses)* during the next twelve months.

The table below presents information about the nature and accounting treatment of the Company's primary derivative financial instruments and the location in and effect on the consolidated condensed financial statements for the periods presented below:

	As of			
	September 30, 2022		December 31, 2021	
	Notional Amount	Fair Value	Notional Amount	Fair Value
	(Dollars In Millions)			
Other long-term investments				
Derivatives not designated as hedging instruments:				
Interest rate forwards	\$ 45	\$ —	\$ —	\$ —
Interest rate swaps	—	—	1,478	72
Total return swaps	574	49	239	8
Embedded derivative - Modco reinsurance treaties	2,456	331	1,268	62
Embedded derivative - GLWB	4,615	180	3,066	169
Embedded derivative - FIA	273	24	159	12
Interest rate futures	500	23	561	5
Equity futures	38	4	312	6
Currency futures	158	3	27	—
Equity options	8,908	297	8,852	1,061
	<u>\$ 17,567</u>	<u>\$ 911</u>	<u>\$ 15,962</u>	<u>\$ 1,395</u>
Other liabilities				
Cash flow hedges:				
Foreign currency swaps	\$ 117	\$ 25	\$ 117	\$ 13
Derivatives not designated as hedging instruments:				
Interest rate forwards	886	25	—	—
Interest rate swaps	1,007	8	1,354	—
Total return swaps	235	15	1,168	39
Embedded derivative - Modco reinsurance treaties	1,284	135	2,465	248
Embedded derivative - GLWB	5,253	262	6,833	644
Embedded derivative - FIA	4,464	480	4,372	659
Embedded derivative - IUL	510	176	459	269
Interest rate futures	113	7	729	4
Equity futures	493	34	42	1
Currency futures	—	—	158	2
Equity options	7,151	100	7,044	771
Other	604	38	448	87
	<u>\$ 22,117</u>	<u>\$ 1,305</u>	<u>\$ 25,189</u>	<u>\$ 2,737</u>

## 7. OFFSETTING OF ASSETS AND LIABILITIES

Certain of the Company's derivative instruments are subject to enforceable master netting arrangements that provide for the net settlement of all derivative contracts between the Company and a counterparty in the event of default or upon the occurrence of certain termination events. Collateral support agreements associated with each master netting arrangement provide that the Company will receive or pledge financial collateral in the event either minimum thresholds, or in certain cases ratings levels, have been reached. Additionally, certain of the Company's repurchase agreements provide for net settlement on termination of the agreement. Refer to Note 11, *Debt and Other Obligations* for details of the Company's repurchase agreement programs.



Collateral received includes both cash and non-cash collateral. Cash collateral received by the Company is recorded on the consolidated condensed balance sheet as “cash”, with a corresponding amount recorded in “other liabilities” to represent the Company’s obligation to return the collateral. Non-cash collateral received by the Company is not recognized on the consolidated condensed balance sheet unless the Company exercises its right to sell or re-pledge the underlying asset. As of September 30, 2022, the fair value of non-cash collateral received was \$12 million. As of December 31, 2021, there was no non-cash collateral received.

The tables below present the derivative instruments by assets and liabilities for the Company as of September 30, 2022:

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheets	Net Amounts of Assets Presented in the Balance Sheets	Gross Amounts Not Offset in the Balance Sheets		Net Amount
				Financial Instruments	Collateral Received	
(Dollars In Millions)						
<b>Offsetting of Assets</b>						
Derivatives:						
Free-Standing derivatives	\$ 376	\$ —	\$ 376	\$ 141	\$ 143	\$ 92
Total derivatives, subject to a master netting arrangement or similar arrangement	376	—	376	141	143	92
Derivatives not subject to a master netting arrangement or similar arrangement						
Embedded derivative - Modco reinsurance treaties	331	—	331	—	—	331
Embedded derivative - GLWB	180	—	180	—	—	180
Embedded derivative - FIA	24	—	24	—	—	24
Total derivatives, not subject to a master netting arrangement or similar arrangement	535	—	535	—	—	535
Total derivatives	911	—	911	141	143	627
<b>Total Assets</b>	<b>\$ 911</b>	<b>\$ —</b>	<b>\$ 911</b>	<b>\$ 141</b>	<b>\$ 143</b>	<b>\$ 627</b>

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Balance Sheets	Net Amounts of Liabilities Presented in the Balance Sheets	Gross Amounts Not Offset in the Balance Sheets		
				Financial Instruments	Collateral Posted	Net Amount
(Dollars In Millions)						
<b>Offsetting of Liabilities</b>						
Derivatives:						
Free-Standing derivatives	\$ 214	\$ —	\$ 214	\$ 141	\$ 73	\$ —
Total derivatives, subject to a master netting arrangement or similar arrangement	214	—	214	141	73	—
Derivatives not subject to a master netting arrangement or similar arrangement						
Embedded derivative - Modco reinsurance treaties	135	—	135	—	—	135
Embedded derivative - GLWB	262	—	262	—	—	262
Embedded derivative - FIA	480	—	480	—	—	480
Embedded derivative - IUL	176	—	176	—	—	176
Other	38	—	38	—	—	38
Total derivatives, not subject to a master netting arrangement or similar arrangement	1,091	—	1,091	—	—	1,091
Total derivatives	1,305	—	1,305	141	73	1,091
Repurchase agreements <sup>(1)</sup>	1,200	—	1,200	—	—	1,200
<b>Total Liabilities</b>	<b>\$ 2,505</b>	<b>\$ —</b>	<b>\$ 2,505</b>	<b>\$ 141</b>	<b>\$ 73</b>	<b>\$ 2,291</b>

(1) Borrowings under repurchase agreements are for a term less than 90 days.

The tables below present the derivative instruments by assets and liabilities for the Company as of December 31, 2021:

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheets	Net Amounts of Assets Presented in the Balance Sheets	Gross Amounts Not Offset in the Balance Sheets		
				Financial Instruments	Collateral Received	Net Amount
(Dollars In Millions)						
<b>Offsetting of Assets</b>						
Derivatives:						
Free-Standing derivatives	\$ 1,152	\$ —	\$ 1,152	\$ 806	\$ 178	\$ 168
Total derivatives, subject to a master netting arrangement or similar arrangement	1,152	—	1,152	806	178	168
Derivatives not subject to a master netting arrangement or similar arrangement						
Embedded derivative - Modco reinsurance treaties	62	—	62	—	—	62
Embedded derivative - GLWB	169	—	169	—	—	169
Other	12	—	12	—	—	12
Total derivatives, not subject to a master netting arrangement or similar arrangement	243	—	243	—	—	243
Total derivatives	1,395	—	1,395	806	178	411
<b>Total Assets</b>	<b>\$ 1,395</b>	<b>\$ —</b>	<b>\$ 1,395</b>	<b>\$ 806</b>	<b>\$ 178</b>	<b>\$ 411</b>

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Balance Sheets	Net Amounts of Liabilities Presented in the Balance Sheets	Gross Amounts Not Offset in the Balance Sheets		Net Amount
				Financial Instruments	Collateral Posted	
(Dollars In Millions)						
<b>Offsetting of Liabilities</b>						
Derivatives:						
Free-Standing derivatives	\$ 830	\$ —	\$ 830	\$ 806	\$ 22	\$ 2
Total derivatives, subject to a master netting arrangement or similar arrangement	830	—	830	806	22	2
Derivatives not subject to a master netting arrangement or similar arrangement						
Embedded derivative - Modco reinsurance treaties	248	—	248	—	—	248
Embedded derivative - GLWB	644	—	644	—	—	644
Embedded derivative - FIA	659	—	659	—	—	659
Embedded derivative - IUL	269	—	269	—	—	269
Other	87	—	87	—	—	87
Total derivatives, not subject to a master netting arrangement or similar arrangement	1,907	—	1,907	—	—	1,907
Total derivatives	2,737	—	2,737	806	22	1,909
Repurchase agreements <sup>(1)</sup>	1,393	—	1,393	—	—	1,393
<b>Total Liabilities</b>	<b>\$ 4,130</b>	<b>\$ —</b>	<b>\$ 4,130</b>	<b>\$ 806</b>	<b>\$ 22</b>	<b>\$ 3,302</b>

(1) Borrowings under repurchase agreements are for a term less than 90 days.

## 8. COMMERCIAL MORTGAGE LOANS

The Company invests a portion of its investment portfolio in commercial mortgage loans. As of September 30, 2022, the Company's commercial mortgage loan holdings were \$11.9 billion, or \$11.8 billion net of allowance for credit losses. The Company specializes in making commercial mortgage loans on credit-oriented commercial properties. The Company's underwriting procedures relative to its commercial mortgage loan portfolio are based, in the Company's view, on a conservative and disciplined approach. The Company concentrates on a small number of commercial real estate asset types associated with the necessities of life (grocery anchored and credit tenant retail, industrial, multi-family, senior living, and credit tenant and medical office). The Company believes that these asset types tend to weather economic downturns better than other commercial asset classes in which it has chosen not to participate. The Company believes this disciplined approach has helped to maintain a relatively low delinquency and foreclosure rate throughout its history. The majority of the Company's commercial mortgage loans portfolio was underwritten by the Company. From time to time, the Company may acquire commercial mortgage loans in conjunction with an acquisition.

The Company's commercial mortgage loans are stated at unpaid principal balance, adjusted for any unamortized premium or discount, and net of the allowance for credit losses. Interest income is accrued on the principal amount of the commercial mortgage loan based on the commercial mortgage loan's contractual interest rate. Amortization of premiums and discounts is recorded using the effective yield method. Interest income, amortization of premiums and discounts and prepayment fees are reported in net investment income.

Certain of the commercial mortgage loans have call options that occur within the next 8 years. However, if interest rates were to significantly increase, the Company may be unable to exercise the call options on its existing commercial mortgage loans commensurate with the significantly increased market rates. As of September 30, 2022, assuming the commercial mortgage loans are called at their next call dates, \$18 million of principal would become due for the remainder of 2022, \$466 million in 2023 through 2027 and \$6 million in 2028 through 2029.

The Company offers a type of commercial mortgage loan under which the Company will permit a loan-to-value ratio of up to 85% in exchange for a participation interest in the cash flows from the underlying real estate. As of September 30, 2022 and December 31, 2021, \$596 million and \$600 million, respectively, of the Company's total commercial mortgage loans principal balance have this participation feature. Cash flows received as a result of this participation feature are recorded as interest income. During the three and nine months ended September 30, 2022 and 2021, the Company recognized \$26 million, \$38 million, \$32 million and \$46 million, respectively, of commercial mortgage loan participation interest income.

As of September 30, 2022 and December 31, 2021, the Company did not have any commercial mortgage loans that were nonperforming, restructured or foreclosed and converted to real estate properties. During the nine months ended September 30, 2022, the Company recognized two troubled debt restructuring transactions as a result of granting concessions to borrowers which included commercial mortgage loan terms unavailable from other lenders. The Company does not expect these investments to adversely affect its liquidity or ability to maintain proper matching of assets and liabilities as they were paid off. For all commercial mortgage loans, the impact of troubled debt restructurings is reflected in our investment balance and in the allowance for commercial mortgage loan credit losses. The Company did not identify any commercial mortgage loans whose principal was permanently impaired during the nine months ended September 30, 2022 and September 30, 2021.

The Company provided certain relief under the Coronavirus Aid Relief, and Economic Security Act (the "CARES Act") under its COVID-19 Commercial Mortgage Loan Program (the "Loan Modification Program"). As of September 30, 2022, one commercial mortgage loan for \$3 million is still included in the Loan Modification Program. This modification is not considered a troubled debt restructuring, and the Company expects this commercial mortgage loan to resume scheduled payments in accordance with the agreed upon terms.

The amortized cost basis of the Company's commercial mortgage loan receivables by origination year, net of the allowance, for credit losses is as follows:

	Term Loans Amortized Cost Basis by Origination Year							
	2022	2021	2020	2019	2018	Prior	Total	
	(Dollars In Millions)							
As of September 30, 2022								
Commercial mortgage loans:								
Performing	\$ 1,719	\$ 2,073	\$ 1,363	\$ 1,913	\$ 1,365	\$ 3,464	\$ 11,897	
Non-performing	—	—	—	—	—	—	—	
Amortized cost	1,719	2,073	1,363	1,913	1,365	3,464	11,897	
Allowance for credit losses	(7)	(13)	(10)	(19)	(14)	(28)	(91)	
Total commercial mortgage loans	\$ 1,712	\$ 2,060	\$ 1,353	\$ 1,894	\$ 1,351	\$ 3,436	\$ 11,806	
Write-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 10	\$ 10	

	Term Loans Amortized Cost Basis by Origination Year							
	2021	2020	2019	2018	2017	Prior	Total	
	(Dollars In Millions)							
As of December 31, 2021								
Commercial mortgage loans:								
Performing	\$ 2,063	\$ 1,439	\$ 2,034	\$ 1,404	\$ 1,224	\$ 2,802	\$ 10,966	
Non-performing	—	—	—	—	—	—	—	
Amortized cost	2,063	1,439	2,034	1,404	1,224	2,802	10,966	
Allowance for credit losses	(12)	(10)	(21)	(18)	(12)	(30)	(103)	
Total commercial mortgage loans	\$ 2,051	\$ 1,429	\$ 2,013	\$ 1,386	\$ 1,212	\$ 2,772	\$ 10,863	

The following tables provide a comparative view of the key credit quality indicators of the Loan-to-Value and Debt Service Coverage Ratio (“DSCR”):

	As of September 30, 2022			As of December 31, 2021		
	Amortized Cost	% of Total	DSCR <sup>(2)</sup>	Amortized Cost	% of Total	DSCR <sup>(2)</sup>
	(Dollars In Millions)			(Dollars In Millions)		
<b>Loan-to-Value<sup>(1)</sup></b>						
Greater than 75%	\$ 204	2 %	1.33	\$ 285	3 %	1.32
50% - 75%	7,657	64 %	1.57	7,241	66 %	1.59
Less than 50%	4,036	34 %	2.04	3,440	31 %	2.04
Total commercial mortgage loans	<u>\$ 11,897</u>	<u>100 %</u>		<u>\$ 10,966</u>	<u>100 %</u>	

(1) The loan-to-value ratio compares the current unpaid principal of the loan to the estimated fair value of the underlying property collateralizing the loan. Our weighted average loan-to-value ratio was 53% at September 30, 2022 and 54% at December 31, 2021.

(2) The debt service coverage ratio compares a property’s net operating income to its debt service payments, including principal and interest. Our weighted average debt service coverage ratio for September 30, 2022 and December 31, 2021 was 1.72x and 1.72x, respectively.

The following provides a summary of the rollforward of the allowance for credit losses for funded commercial mortgage loans and unfunded commercial mortgage loan commitments for the periods indicated.

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars In Millions)			
Allowance for Funded Commercial Mortgage Loan Credit Losses				
Beginning balance	\$ 77	\$ 136	\$ 103	\$ 222
Write-offs	—	—	(10)	—
Recoveries	—	—	(1)	(7)
Provision	14	(33)	(1)	(112)
Ending balance	<u>\$ 91</u>	<u>\$ 103</u>	<u>\$ 91</u>	<u>\$ 103</u>
Allowance for Unfunded Commercial Mortgage Loan Commitments Credit Losses				
Beginning balance	\$ 7	\$ 12	\$ 5	\$ 22
Write-offs	—	—	—	—
Recoveries	—	—	—	—
Provision	1	(3)	3	(13)
Ending balance	<u>\$ 8</u>	<u>\$ 9</u>	<u>\$ 8</u>	<u>\$ 9</u>

As of September 30, 2022, the Company did not have any commercial mortgage loans that were delinquent. As of December 31, 2021, the Company had one commercial mortgage loan of \$28 million that was 30-59 days delinquent.

The Company’s commercial mortgage loan portfolio consists of commercial mortgage loans that are collateralized by real estate. Due to the collateralized nature of the commercial mortgage loans, any assessment of impairment and ultimate loss given a default on the commercial mortgage loans is based upon a consideration of the estimated fair value of the real estate.

The Company limits accrued interest income on commercial mortgage loans to ninety days of interest. For commercial mortgage loans in nonaccrual status, interest income is recognized on a cash basis. As of September 30, 2022 and December 31, 2021, the Company did not have any commercial mortgage loans in nonaccrual status, and no accrued interest was excluded from the amortized cost basis pursuant to the Company’s nonaccrual policy.

## 9. MONY CLOSED BLOCK OF BUSINESS

In 1998, MONY Life Insurance Company (“MONY”) converted from a mutual insurance company to a stock corporation (“demutualization”). In connection with its demutualization, an accounting mechanism known as a closed block (the “Closed Block”) was established for certain individuals’ participating policies in force as of the date of demutualization. Assets, liabilities, and earnings of the Closed Block are specifically identified to support its participating policyholders. The Company acquired the Closed Block in conjunction with the acquisition of MONY in 2013.

Assets allocated to the Closed Block inure solely to the benefit of the Closed Block’s policyholders and will not revert to the benefit of MONY or the Company. No reallocation, transfer, borrowing or lending of assets can be made between the Closed Block and other portions of MONY’s general account, any of MONY’s separate accounts or any affiliate of MONY without the approval of the Superintendent of The New York State Department of Financial Services (the “Superintendent”). Closed Block assets and liabilities are carried on the same basis as similar assets and liabilities held in the general account.

Summarized financial information for the Closed Block as of September 30, 2022, and December 31, 2021, is as follows:

	As of	
	September 30, 2022	December 31, 2021
	(Dollars In Millions)	
<b>Closed block liabilities</b>		
Future policy benefits, policyholders’ account balances and other policyholder liabilities	\$ 5,164	\$ 5,277
Policyholder dividend obligation	—	401
Other liabilities	11	10
Total closed block liabilities	5,175	5,688
<b>Closed block assets</b>		
Fixed maturities, available-for-sale, at fair value	3,354	4,633
Commercial mortgage loans	2	68
Policy loans	535	557
Cash and other invested assets	67	73
Other assets	267	83
Total closed block assets	4,225	5,414
Excess of reported closed block liabilities over closed block assets	950	274
Portion of above representing accumulated other comprehensive income:		
Net unrealized gains (losses) - net of policyholder dividend obligation: 2022 - \$(70) and 2021 - \$323; and net of income tax: 2022 - \$180 and 2021 - \$(68)	(678)	—
Future earnings to be recognized from closed block assets and closed block liabilities	\$ 272	\$ 274

Reconciliation of the policyholder dividend obligation is as follows:

	For The Nine Months Ended September 30,	
	2022	2021
	(Dollars In Millions)	
Policyholder dividend obligation, beginning balance	\$ 401	\$ 580
Applicable to net revenue (losses)	(8)	(8)
Change in net unrealized gains (losses) - allocated to the policyholder dividend obligation	(393)	(166)
Policyholder dividend obligation, ending balance	\$ —	\$ 406

Closed Block revenues and expenses were as follows:

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars In Millions)			
<b>Revenues</b>				
Premiums and other income	\$ 34	\$ 35	\$ 96	\$ 102
Net investment income	46	47	139	143
Net realized gains (losses)	—	3	1	27
Total revenues	80	85	236	272
<b>Benefits and other deductions</b>				
Benefits and settlement expenses	76	82	233	248
Other operating expenses	—	—	1	1
Total benefits and other deductions	76	82	234	249
<b>Net revenues before income taxes</b>	4	3	2	23
Income tax expense (benefit)	1	1	—	5
<b>Net revenues</b>	\$ 3	\$ 2	\$ 2	\$ 18

## 10. REINSURANCE

### *Reinsurance Assets and Liabilities*

Reinsurance assets and liabilities related to agreements with funds withheld at interest where no net risk is retained by the Company are presented on a net basis. Reinsurance receivables were presented net of approximately \$2.2 billion and \$2.3 billion, respectively, in reinsurance liabilities as of September 30, 2022 and December 31, 2021.

### *Allowance for Credit Losses – Reinsurance Receivables*

The Company establishes an allowance for current expected credit losses related to amounts receivable from reinsurers (the “Reinsurance ACL”). Changes in the Reinsurance ACL are recognized as a component of benefits and settlement expenses. The Reinsurance ACL is remeasured on a quarterly basis using an internally developed probability of default (“PD”) and loss given default (“LGD”) model. Key inputs to the calculation are a conditional probability of insurer liquidation by issuer credit rating and exposure at default derived from a runoff projection of ceded reserves by reinsurer to forecast future loss amounts. Management’s position is that the rate of return implicit in the financial asset (i.e. the ceded reserves) is associated with the discount rate used to value the underlying insurance reserves; that is, the rate of return on the asset portfolio(s) supporting the reserves. For reinsurance receivable exposures that do not share similar risk characteristics with other receivables, including those associated with counterparties that have experienced significant credit deterioration, the Company measures the allowance for credit losses individually, based on facts and circumstances associated with the specific reinsurer or transaction.

As of September 30, 2022 and December 31, 2021, the Reinsurance ACL was \$83 million and \$97 million, respectively. The Reinsurance ACL decreased \$14 million for the nine months ended September 30, 2022. There were no write-offs or recoveries during the nine months ended September 30, 2022 and 2021.

The Company had total reinsurance receivables of \$4.2 billion as of September 30, 2022, which includes both ceded policy benefit reserves and receivables for claims. Receivables for claims represented 11% of total reinsurance receivables as of September 30, 2022. Receivables for claims are short-term in nature, and generally carry minimal credit risk. Of reserves ceded as of September 30, 2022, 81% were receivables from reinsurers rated by A.M. Best Company. Of the total rated by A.M. Best Company, 58% were rated A+ or better, 12% were rated A, and 30% were rated A- or lower. The Company monitors the concentration of credit risk the Company has with any reinsurer, as well as the financial condition of its reinsurers, on an ongoing basis. Certain of the Company’s reinsurance receivables are supported by letters of credit, funds held or trust agreements.



## 11. DEBT AND OTHER OBLIGATIONS

### Debt and Subordinated Debt

Debt and subordinated debt are summarized as follows:

	As of			
	September 30, 2022		December 31, 2021	
	Outstanding Principal	Carrying Amounts	Outstanding Principal	Carrying Amounts
	(Dollars In Millions)			
Debt (year of issue):				
Credit Facility	\$ —	\$ —	\$ 275	\$ 275
Term Loan Credit Agreement	600	600	600	600
Commercial paper	255	255	—	—
8.45% Senior Notes (2009), due 2039	181	263	181	266
4.30% Senior Notes (2018), due 2028	400	397	400	397
3.40% Senior Notes (2019), due 2030	400	398	400	397
	<u>\$ 1,836</u>	<u>\$ 1,913</u>	<u>\$ 1,856</u>	<u>\$ 1,935</u>
Subordinated debt (year of issue):				
5.35% Subordinated Debentures (2017), due 2052	\$ 500	\$ 496	\$ 500	\$ 496
3.55% Subordinated Funding Obligations (2018), due 2038	55	55	55	55
3.55% Subordinated Funding Obligations (2018), due 2038	55	55	55	55
	<u>\$ 610</u>	<u>\$ 606</u>	<u>\$ 610</u>	<u>\$ 606</u>

Under a revolving line of credit arrangement (the “2018 Credit Facility”), the Company had the ability to borrow on an unsecured basis up to an aggregate principal amount of \$1.0 billion. Under certain circumstances, the 2018 Credit Facility allowed for a request that the commitment be increased up to a maximum principal amount of \$1.5 billion.

On April 5, 2022, the Company amended and restated the 2018 Credit Facility and entered into a Second Amended and Restated Credit Agreement (the “2022 Credit Facility”) among the Company, the several lenders from time to time party thereto, and Regions Bank, as administrative agent and swingline lender. Under the 2022 Credit Facility, the Company has the ability to borrow on an unsecured basis up to an aggregated principal amount of \$1.5 billion. The Company also has the right in certain circumstances to request that the commitment under the 2022 Credit Facility be increased up to a maximum principal amount of \$2.0 billion. Balances outstanding under the 2022 Credit Facility accrue interest at a rate equal to, at the option of the Company, (i) Adjusted Term SOFR Rate plus a spread based on the ratings of the Company’s Senior Debt, or (ii) the sum of (A) a rate equal to the highest of (x) the Administrative Agent’s Prime Rate, (y) 0.50% above the Federal Funds Rate, or (z) the one-month Adjusted Term SOFR Rate plus 1.00% and (B) a spread based on the ratings of the Company’s Senior Debt subject to adjustments based upon the achievement of certain environmental, social and governance metrics (“ESG Metrics”) by the Company. The 2022 Credit Facility also provides for a facility fee at a rate that varies with the ratings of the Company’s Senior Debt, subject to adjustments based upon the achievement of certain ESG Metrics by the Company. The facility fee is calculated based on the aggregate amount of commitments under the 2022 Credit Facility, whether used or unused. The maturity date of current borrowings under the 2022 Credit Facility is April 5, 2027, subject to certain extension options available to the Company. The Company is not aware of any non-compliance with the financial debt covenants of the 2022 Credit Facility as of September 30, 2022.

The Company maintains a commercial paper program under which the Company may issue unsecured commercial paper notes (“CP Notes”) from time to time in an aggregate amount not to exceed \$750 million outstanding at any time. The maturities of CP Notes can vary, but may not exceed 397 days from the date of issuance. CP Notes rank equal in right of payment with all of the Company’s other unsecured and unsubordinated indebtedness. The Company intends to maintain available commitments under the 2022 Credit Facility in an amount at least equal to the amount of CP Notes outstanding at any time. The CP Notes are sold under customary terms in the commercial paper market and may be issued at a discount from par or, alternatively, may be sold at par and bear interest at rates dictated by market conditions at the time of issuance. Commercial paper is used by the Company as a continuing source of short-term financing for general corporate purposes. As of September 30, 2022, the weighted-average interest rate was 3.27% on the \$255 million of outstanding CP Notes.



## Secured Financing Transactions

### *Repurchase Program Borrowings*

While the Company anticipates that the cash flows of its operating subsidiaries will be sufficient to meet its investment commitments and operating cash needs in a normal credit market environment, the Company recognizes that investment commitments scheduled to be funded may, from time to time, exceed the funds then available. Therefore, the Company has established repurchase agreement programs for certain of its insurance subsidiaries to provide liquidity when needed. The Company expects that the rate received on its investments will equal or exceed its borrowing rate. Under this program, the Company may, from time to time, sell an investment security at a specific price and agree to repurchase that security at another specified price at a later date. These borrowings are typically for a term less than 90 days. The market value of securities to be repurchased is monitored and collateral levels are adjusted where appropriate to protect the counterparty against credit exposure. Cash received is invested in fixed maturity securities, and the agreements provide for net settlement in the event of default or on termination of the agreements. As of September 30, 2022, the fair value of securities pledged under the repurchase program was \$1,266 million, and the repurchase obligation of \$1,200 million was included in the Company's consolidated condensed balance sheets (at an average borrowing rate of 299 basis points). During the nine months ended September 30, 2022, the maximum balance outstanding at any one point in time related to these programs was \$1,647 million. The average daily balance was \$1,183 million (at an average borrowing rate of 91 basis points) during the nine months ended September 30, 2022. As of December 31, 2021, the fair value of securities pledged under the repurchase program was \$1,503 million, and the repurchase obligation of \$1,393 million was included in the Company's consolidated condensed balance sheets (at an average borrowing rate of 13 basis points). During 2021, the maximum balance outstanding at any one point in time related to these programs was \$1,799 million. The average daily balance was \$775 million (at an average borrowing rate of 13 basis points) during the year ended December 31, 2021.

### *Securities Lending*

The Company participates in securities lending, primarily as an investment yield enhancement, whereby securities that are held as investments are loaned out to third parties for short periods of time. The Company requires collateral at least equal to 102% of the fair value of the loaned securities to be separately maintained. The loaned securities' fair value is monitored on a daily basis and collateral is adjusted accordingly. The Company maintains ownership of the securities at all times and is entitled to receive from the borrower any payments for interest received on such securities during the loan term. Securities lending transactions are accounted for as secured borrowings. As of September 30, 2022 and December 31, 2021, securities with a fair value of \$144 million and \$174 million, respectively, were loaned under this program. As collateral for the loaned securities, the Company receives cash, which is primarily reinvested in short-term repurchase agreements, which are also collateralized by U.S. Government or U.S. Government Agency securities, and government money market funds. These investments are recorded in *short-term investments* with a corresponding liability recorded in *secured financing liabilities* to account for its obligation to return the collateral. As of September 30, 2022 and December 31, 2021, the fair value of the collateral related to this program was \$150 million and \$179 million, and the Company has an obligation to return collateral of \$150 million and \$179 million to the securities borrowers, respectively.

The following table provides the fair value of collateral pledged for repurchase agreements, grouped by asset class as of September 30, 2022 and December 31, 2021:

**Repurchase Agreements, Securities Lending Transactions, and Repurchase-to-Maturity Transactions  
Accounted for as Secured Borrowings**

	Remaining Contractual Maturity of the Agreements				
	As of September 30, 2022				
	(Dollars In Millions)				
	Overnight and Continuous	Up to 30 days	30-90 days	Greater Than 90 days	Total
<b>Repurchase agreements and repurchase-to-maturity transactions</b>					
U.S. Treasury and agency securities	\$ 1,266	\$ —	\$ —	\$ —	\$ 1,266
Commercial mortgage loans	—	—	—	—	—
Total repurchase agreements and repurchase-to-maturity transactions	1,266	—	—	—	1,266
<b>Securities lending transactions</b>					
Corporate securities	140	—	—	—	140
Equity Securities	4	—	—	—	4
Total securities lending transactions	144	—	—	—	144
<b>Total securities</b>	<b>\$ 1,410</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 1,410</b>

**Repurchase Agreements, Securities Lending Transactions, and Repurchase-to-Maturity Transactions  
Accounted for as Secured Borrowings**

	Remaining Contractual Maturity of the Agreements				
	As of December 31, 2021				
	(Dollars In Millions)				
	Overnight and Continuous	Up to 30 days	30-90 days	Greater Than 90 days	Total
<b>Repurchase agreements and repurchase-to-maturity transactions</b>					
U.S. Treasury and agency securities	\$ 1,070	\$ —	\$ —	\$ —	\$ 1,070
State and municipal securities	69	—	—	—	69
Commercial mortgage loans	364	—	—	—	364
Total repurchase agreements and repurchase-to-maturity transactions	1,503	—	—	—	1,503
<b>Securities lending transactions</b>					
Fixed maturities	171	—	—	—	171
Equity securities	1	—	—	—	1
Redeemable preferred stocks	2	—	—	—	2
Total securities lending transactions	174	—	—	—	174
<b>Total securities</b>	<b>\$ 1,677</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 1,677</b>

*Golden Gate Captive Insurance Company*

Golden Gate Captive Insurance Company (“Golden Gate”), a Vermont special purpose financial insurance company and a wholly owned subsidiary of PLICO, is party to a transaction with a term of 20 years, that may be extended to a maximum of 25 years, that finances up to \$5 billion of “XXX” and “AXXX” reserves related to the term life insurance business and universal life insurance with secondary guarantee business that is reinsured to Golden Gate by PLICO and West Coast Life Insurance Company, an indirect wholly owned subsidiary, pursuant to an Excess of Loss Reinsurance Agreement (the “XOL Agreement”) with Hannover Life Reassurance Company of America (Bermuda) Ltd., The Canada Life Assurance Company (Barbados Branch) and RGA Reinsurance Company (Barbados) Ltd. (collectively, the “Retrocessionaires”). The transaction is “non-recourse” to the Company, WCL, and PLICO, meaning that none of these companies are liable to reimburse the

Retrocessionaires for any XOL payments required to be made. As of September 30, 2022, the XOL Asset backing the difference in statutory and economic reserve liabilities was \$4 billion.

## **12. COMMITMENTS AND CONTINGENCIES**

The Company has entered into indemnity agreements with each of its current directors other than those that are employees of Dai-ichi Life that provide, among other things and subject to certain limitations, a contractual right to indemnification to the fullest extent permissible under the law. The Company has agreements with certain of its officers providing up to \$10 million in indemnification. These obligations are in addition to the customary obligation to indemnify officers and directors contained in the Company's governance documents.

The Company leases administrative and marketing office space as well as various office equipment. Most leases have terms ranging from two years to twenty-five years. Leases with an initial term of 12 months or less are not recorded on the consolidated condensed balance sheet. The Company accounts for lease components separately from non-lease components (e.g., common area maintenance). Certain of the Company's lease agreements include options to renew at the Company's discretion. Management has concluded that the Company is not reasonably certain to elect any of these renewal options. The Company will use the interest rates received on its funding agreement backed notes as the collateralized discount rate when calculating the present value of remaining lease payments when the rate implicit in the lease is unavailable.

Under the insurance guaranty fund laws in most states, insurance companies doing business in those states can be assessed up to prescribed limits for policyholder losses incurred by insolvent companies. From time to time, companies may be asked to contribute amounts beyond prescribed limits. It is possible that the Company could be assessed with respect to product lines not offered by the Company. In addition, legislation may be introduced in various states with respect to guaranty fund assessment laws related to insurance products, including long term care insurance and other specialty products, that increases the cost of future assessments or alters future premium tax offsets received in connection with guaranty fund assessments. The Company cannot predict the amount, nature, or timing of any future assessments or legislation, any of which could have a material and adverse impact on the Company's financial condition or results of operations.

A number of civil jury verdicts have been returned against insurers, broker-dealers, and other providers of financial services involving sales, refund, or claims practices, alleged agent misconduct, failure to properly supervise representatives, relationships with agents or persons with whom the insurer does business, and other matters. Often these lawsuits have resulted in the award of substantial judgments that are disproportionate to the actual damages, including material amounts of punitive and non-economic compensatory damages. In some states, juries, judges, and arbitrators have substantial discretion in awarding punitive and non-economic compensatory damages which creates the potential for unpredictable material adverse judgments or awards in any given lawsuit or arbitration. Arbitration awards are subject to very limited appellate review. In addition, in some class action and other lawsuits, companies have made material settlement payments. The financial services and insurance industries in particular are also sometimes the target of law enforcement and regulatory investigations relating to the numerous laws and regulations that govern such companies. Some companies have been the subject of law enforcement or regulatory actions or other actions resulting from such investigations. The Company, in the ordinary course of business, is involved in such matters.

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

*Advance Trust & Life Escrow Services, LTA, as Securities Intermediary of Life Partners Position Holder Trust v. Protective Life Insurance Company*, Case No. 2:18-CV-01290, is a putative class action that was filed on August 13, 2018 in the United States District Court for the Northern District of Alabama. Plaintiffs seek to represent all owners of universal life and variable universal life policies issued or administered by PLICO or its predecessors that provide that cost of insurance rates are to be determined based on expectations of future mortality experience. Plaintiffs' complaint alleges PLICO breached those policies by failing to periodically adjust its COI rates based on improved expectations of future mortality, and they seek class certification, compensatory damages, pre-judgment and post-judgment interest, costs, and other unspecified relief. On August 8, 2022, the US District Court granted PLICO's Motion for Judgment on the Pleadings, concluding Protective has no contractual duty to lower COI rates if expectations as to future mortality improve. This favorable decision is subject to appeal by the plaintiffs to the Eleventh Circuit Court of Appeals. The Company will continue to vigorously defend this matter and cannot predict the outcome of or reasonably estimate the possible loss or range of loss that might result from this litigation.

PLICO is currently defending two putative class actions (*Beverly Allen v. Protective Life Insurance Company*, Civil Action No. 1:20-cv-00530-JLT (E.D. Cal. filed Apr. 14, 2020), and *Janice Schmidt v. Protective Life Insurance Company, et al.*, Civil Action No. 1:21-cv-01784-SAB (E.D. Cal. filed Dec. 17, 2021) in which the plaintiffs claim that defendants' alleged failure to comply with certain California statutes which address contractual grace periods and lapse notice requirements for certain life insurance policies requires that these policies remain in force. The plaintiffs seek unspecified monetary damages and injunctive relief. No class has been certified in either putative class action. PLICO maintains various defenses to the merits of the plaintiffs' claims and to class certification. However, the Company cannot predict the outcome of or reasonably estimate the possible loss or range of loss that might result from this litigation.

Scottish Re (U.S.), Inc. ("SRUS") was placed in rehabilitation on March 6, 2019 by the State of Delaware. Under the related order, the Insurance Commissioner of the State of Delaware has been appointed the receiver of SRUS (the "Receiver") and provided with authority to conduct and continue the business of SRUS in the interest of its cedents, creditors, and stockholder. The order was accompanied by an injunction requiring the continued payment of reinsurance premiums to SRUS and temporarily prohibiting cedents, including the Company, from offsetting premiums payable against receivables from SRUS. On June 20, 2019, the Delaware Court of Chancery (the "Court") entered an order approving a Revised Offset Plan, which allows cedents, including the Company, to offset premiums under certain circumstances.

A proposed Rehabilitation Plan ("Original Rehabilitation Plan") was filed by the Receiver on June 30, 2020. The Original Rehabilitation Plan presents the following two options to each cedent: 1) remain in business with SRUS and be governed by the Rehabilitation Plan, or 2) recapture business ceded to SRUS. Due to SRUS's financial status, neither option would pay 100% of the Company's outstanding claims. The Original Rehabilitation Plan would impose certain financial terms and conditions on the cedents based on the election made, the type of business ceded, the manner in which the business is collateralized, and the amount of losses sustained by the cedent. On October 9, 2020, the Receiver filed a proposed order setting forth a schedule to present the Original Rehabilitation Plan for Court approval, which order contemplated possible modifications to the Rehabilitation Plan to be filed with the Court by March 16, 2021. The Court approved the order. On March 16, 2021, the Receiver filed a draft Amended Rehabilitation Plan ("Amended Plan"). The majority of the substance and form of the original Rehabilitation Plan, including its two option structure described above, remained in place.

For much of 2020 and into early 2021, a group of interested parties collectively requested certain information and financial data from the Receiver that would allow them to more fully evaluate first the Original Rehabilitation Plan and then the Amended Plan. This group also had a number of conversations with counsel for the Receiver regarding concerns over the Plan. On June 30, 2022, the Receiver filed a motion seeking approval of a Modified Plan, along with a number of financial disclosure documents, including a liquidation analysis. While there are significant changes proposed in the Modified Plan (as compared to the Original Rehabilitation Plan and the Amended Plan), much of the economic substance (including not paying claims in full) of the Original Rehabilitation Plan and the Amended Rehabilitation Plan are included in the Modified Plan.

The Court provided a framework to be followed by the Receiver to seek formal approval of the Rehabilitation Plan. This framework included filing the motion specifically seeking that relief and supporting that motion with the disclosure document containing the information that the Receiver believes is sufficient to enable parties to evaluate whether to object. In response to that document, interested parties (those with standing) may file objections and seek discovery. After discovery, the parties will brief the issues and an evidentiary hearing on the Rehabilitation Plan will follow. A tentative timeline beginning in August 2022 has been set, although given the inherent delays associated with the case, the tentative timeline is likely to be extended. On October 24, 2022, a number of interested parties filed objections to the Modified Plan.

The Company continues to monitor SRUS and the actions of the Receiver through discussions with legal counsel and review of publicly available information. An allowance for credit losses related to SRUS is included in the overall reinsurance allowance for credit losses. As of September 30, 2022, management does not believe that the ultimate outcome of the rehabilitation process will have a material impact on our financial position or results of operations.

Certain insurance companies for which the Company has coinsured blocks of life insurance and annuity policies are under audit for compliance with the unclaimed property laws of a number of states. The audits are being conducted on behalf of the treasury departments or unclaimed property administrators in such states. The focus of the audits is on whether there have been unreported deaths, maturities, or policies that have exceeded limiting age with respect to which death benefits or other payments under life insurance or annuity policies should be treated as unclaimed property that should be escheated to the state. The Company is presently unable to estimate the reasonably possible loss or range of loss that may result from the audits due to a number of factors, including the early stages of the audits being conducted, and uncertainty as to whether the Company or other companies are responsible for the liabilities, if any, arising in connection with certain co-insured policies. The Company will continue to monitor the matter for any developments that would make the loss contingency associated with the audits reasonably estimable.

### 13. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following tables summarize the changes in the accumulated balances for each component of accumulated other comprehensive income (loss) (“AOCI”) as of and for the three and nine months ended September 30, 2022 and 2021.

#### Changes in Accumulated Other Comprehensive Income (Loss) by Component

	Unrealized Gains and Losses on Investments <sup>(2)</sup>	Accumulated Gain and Loss on Derivatives	Minimum Pension Liability Adjustment	Total Accumulated Other Comprehensive Income (Loss)
(Dollars In Millions, Net of Tax)				
<b>Balance, June 30, 2022</b>	\$ (3,957)	\$ (3)	\$ (23)	\$ (3,983)
Other comprehensive income (loss) before reclassifications	(2,106)	3	—	(2,103)
Other comprehensive income (loss) on investments for change in net expected credit losses	(1)	—	—	(1)
Amounts reclassified from accumulated other comprehensive income (loss) <sup>(1)</sup>	(2)	1	—	(1)
<b>Balance, September 30, 2022</b>	<u>\$ (6,066)</u>	<u>\$ 1</u>	<u>\$ (23)</u>	<u>\$ (6,088)</u>

	Unrealized Gains and Losses on Investments <sup>(2)</sup>	Accumulated Gain and Loss on Derivatives	Minimum Pension Liability Adjustment	Total Accumulated Other Comprehensive Income (Loss)
(Dollars In Millions, Net of Tax)				
<b>Balance, December 31, 2021</b>	\$ 2,413	\$ (7)	\$ (24)	\$ 2,382
Other comprehensive income (loss) before reclassifications	(8,475)	7	1	(8,467)
Other comprehensive income (loss) on investments for change in net expected credit losses	(2)	—	—	(2)
Amounts reclassified from accumulated other comprehensive income (loss) <sup>(1)</sup>	(2)	1	—	(1)
<b>Balance, September 30, 2022</b>	<u>\$ (6,066)</u>	<u>\$ 1</u>	<u>\$ (23)</u>	<u>\$ (6,088)</u>

	Unrealized Gains and Losses on Investments <sup>(2)</sup>	Accumulated Gain and Loss on Derivatives	Minimum Pension Liability Adjustment	Total Accumulated Other Comprehensive Income (Loss)
(Dollars In Millions, Net of Tax)				
<b>Balance, June 30, 2021</b>	\$ 2,823	\$ (5)	\$ (47)	\$ 2,771
Other comprehensive income (loss) before reclassifications	(263)	(2)	1	(264)
Other comprehensive income (loss) on investments for change in net expected credit losses	(1)	—	—	(1)
Amounts reclassified from accumulated other comprehensive income (loss) <sup>(1)</sup>	(5)	1	—	(4)
<b>Balance, September 30, 2021</b>	<u>\$ 2,554</u>	<u>\$ (6)</u>	<u>\$ (46)</u>	<u>\$ 2,502</u>

	Unrealized Gains and Losses on Investments <sup>(2)</sup>	Accumulated Gain and Loss on Derivatives	Minimum Pension Liability Adjustment	Total Accumulated Other Comprehensive Income (Loss)
(Dollars In Millions, Net of Tax)				
<b>Balance, December 31, 2020</b>	\$ 3,565	\$ (8)	\$ (49)	\$ 3,508
Other comprehensive income (loss) before reclassifications	(971)	1	3	(967)
Other comprehensive income (loss) on investments for change in net expected credit losses	(1)	—	—	(1)
Amounts reclassified from accumulated other comprehensive income (loss) <sup>(1)</sup>	(39)	1	—	(38)
<b>Balance, September 30, 2021</b>	<u>\$ 2,554</u>	<u>\$ (6)</u>	<u>\$ (46)</u>	<u>\$ 2,502</u>

(1) See Reclassifications Out of Accumulated Other Comprehensive Income (Loss) table below for details.

(2) As of September 30, 2022 and December 31, 2021, net unrealized losses reported in AOCI were offset by \$3.0 billion and \$(1.9) billion, respectively, and \$(1.7) billion and \$(2.0) billion as of September 30, 2021 and December 31, 2020, respectively, due to the impact those net unrealized losses would have had on certain of the Company's insurance assets and liabilities if the net unrealized losses had been recognized in net income (loss).

The following tables summarize the reclassifications amounts out of AOCI for the three and nine months ended September 30, 2022 and 2021.

### Reclassifications Out of Accumulated Other Comprehensive Income (Loss)

Gains/(losses) in net income (loss):	Affected Line Item in the Condensed Consolidated Financial Statements	For The		For The	
		Three Months Ended		Nine Months Ended	
		September 30,		September 30,	
	Statements of Income (Loss)	2022	2021	2022	2021
(Dollars In Millions)					
Derivative instruments	Benefits and settlement expenses, net of reinsurance ceded <sup>(1)</sup>	\$ (1)	\$ 1	\$ (1)	\$ 1
	Tax (expense) benefit	—	—	—	—
		<u>\$ (1)</u>	<u>\$ 1</u>	<u>\$ (1)</u>	<u>\$ 1</u>
Unrealized gains and losses on available-for-sale securities	Net realized gains (losses) - investments	\$ 2	\$ 5	\$ 2	\$ 44
	Change in net expected credit losses - fixed maturities	—	—	—	5
	Tax (expense) benefit	—	(1)	—	(10)
		<u>\$ 2</u>	<u>\$ 4</u>	<u>\$ 2</u>	<u>\$ 39</u>
Postretirement benefits liability adjustment	Other operating expenses	\$ —	\$ —	\$ —	\$ —
	Amortization of net actuarial gain (loss)	—	—	(1)	(2)
	Tax (expense) benefit	—	—	—	—
		<u>\$ —</u>	<u>\$ —</u>	<u>\$ (1)</u>	<u>\$ (2)</u>

## 14. SUBSEQUENT EVENTS

The Company has evaluated the effects of events subsequent to September 30, 2022, and through November 11, 2022, the date the Company's financial statements were issued. All accounting and disclosure requirements related to subsequent events are included in the Company's consolidated condensed financial statements.





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## Independent Auditors' Review Report

The Board of Directors  
Protective Life Corporation:

### Results of Review of Consolidated Condensed Interim Financial Information

We have reviewed the accompanying consolidated condensed balance sheet of Protective Life Corporation (the Company) as of September 30, 2022, the related consolidated condensed statements of income, comprehensive income (loss), and shareowner's equity for the three-month and nine-month periods ended September 30, 2022 and 2021, and the related consolidated condensed statements of cash flows for the nine-month periods ended September 30, 2022 and 2021, and the related notes (collectively referred to as the consolidated condensed interim financial information).

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying consolidated condensed interim financial information for it to be in accordance with U.S. generally accepted accounting principles.

### *Basis for Review Results*

We conducted our reviews in accordance with auditing standards generally accepted in the United States of America (GAAS) applicable to reviews of interim financial information. A review of consolidated condensed interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. A review of consolidated condensed interim financial information is substantially less in scope than an audit conducted in accordance with GAAS, the objective of which is an expression of an opinion regarding the financial information as a whole and accordingly, we do not express such an opinion. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our reviews. We believe that the results of the review procedures provide a reasonable basis for our conclusion.

### *Responsibilities of Management for the Consolidated Condensed Interim Financial Information*

Management is responsible for the preparation and fair presentation of the consolidated condensed interim financial information in accordance with U.S. generally accepted accounting principles and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated condensed interim financial information that is free from material misstatement, whether due to fraud or error.

**KPMG LLP**

Birmingham, Alabama  
November 11, 2022