

Fidelity & Guaranty Life  
Form 10-K  
November 16, 2017

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

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended September 30, 2017

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number: 001-36227

FIDELITY & GUARANTY LIFE  
(Exact name of registrant as specified in its charter)

Delaware	46-3489149
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Two Ruan Center	
601 Locust Street, 14th Floor	50309
Des Moines, Iowa	
(Address of principal executive offices)	(Zip Code)

(800) 445-6758  
(Registrant's telephone number, including area code)  
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of each exchange on which registered:
Common stock, par value \$.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  or No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  or No

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

Edgar Filing: Fidelity & Guaranty Life - Form 10-K

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large Accelerated Filer  Accelerated Filer

Non-accelerated Filer  (Do not check if a smaller reporting company)

Smaller reporting Company  Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  or No

As of March 31, 2017, the aggregate market value of the registrant's common stock held by non-affiliates was approximately \$312 (based on the closing sale price of the registrant's common stock as reported on the NYSE \$27.80).

The number of shares of common stock outstanding as of November 13, 2017 was 58,999,028.

DOCUMENTS INCORPORATED BY REFERENCE

None.

---

FIDELITY & GUARANTY LIFE  
 ANNUAL REPORT ON FORM 10-K  
 TABLE OF CONTENTS

	Page
PART I	
<u>Item 1. Business</u>	<u>6</u>
<u>Item 1A. Risk Factors</u>	<u>25</u>
<u>Item 1B. Unresolved Staff Comments</u>	<u>47</u>
<u>Item 2. Properties</u>	<u>47</u>
<u>Item 3. Legal Proceedings</u>	<u>47</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>47</u>
PART II	
<u>Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>48</u>
<u>Item 6. Selected Financial Data</u>	<u>50</u>
<u>Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>51</u>
<u>Introduction</u>	<u>51</u>
<u>Critical Accounting Policies and Estimates</u>	<u>54</u>
<u>Recent Accounting Pronouncements</u>	<u>63</u>
<u>Results of Operations</u>	<u>64</u>
<u>Investment Portfolio</u>	<u>73</u>
<u>Liquidity and Capital Resources</u>	<u>83</u>
<u>Item 7A. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>89</u>
<u>Item 8. Financial Statements and Supplementary Data</u>	<u>94</u>
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>94</u>
<u>Item 9A. Controls and Procedures</u>	<u>94</u>
<u>Item 9B. Other Information</u>	<u>96</u>
PART III	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	<u>97</u>
<u>Item 11. Executive Compensation</u>	<u>105</u>
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>128</u>
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	<u>131</u>
<u>Item 14. Principal Accounting Fees and Services</u>	<u>133</u>
PART IV	
<u>Item 15. Exhibits, Financial Statements and Schedules</u>	<u>135</u>
<u>Exhibit Index</u>	<u>136</u>
<u>Item 16. Form 10-K Summary</u>	<u>138</u>
<u>Signatures</u>	<u>139</u>
<u>Index to Consolidated Financial Statements</u>	<u>F-1</u>

Table of Contents

PART I

Unless the context otherwise indicates or requires, the terms “we”, “our”, “us”, “FGL”, and the “Company”, as used in this Form 10-K filing, refer to Fidelity & Guaranty Life (formerly, Harbinger F&G, LLC) and its subsidiaries and the term “FGLH” refers to Fidelity & Guaranty Life’s direct subsidiary Fidelity & Guaranty Life Holdings, Inc. FGL primarily operates through FGLH’s subsidiary, Fidelity & Guaranty Life Insurance Company (“FGL Insurance”), which is domiciled in Iowa. Our fiscal year ends on September 30 of each year.

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

Special Note Regarding Forward-Looking Statements

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

Forward-looking statements are subject to known and unknown risks and uncertainties, many of which are beyond our control. We caution you that forward-looking statements are not guarantees of future performance and that our actual consolidated results of operations, financial condition and liquidity, and industry development may differ materially from those made in or suggested by the forward-looking statements contained in this report. In addition, even if our consolidated results of operations, financial condition and liquidity, and industry development are consistent with the forward-looking statements contained in this report, those results or developments may not be indicative of results or developments in subsequent periods. A number of important factors could cause actual results to differ materially from those contained in or implied by the forward-looking statements, including the risks and uncertainties discussed in “Risk Factors” (Part I, Item 1A of this Form 10-K). Factors that could cause actual results to differ from those reflected in forward-looking statements relating to our operations and business include:

- the ability to satisfy the closing conditions, including regulatory approvals, contained in the Merger Agreement
- the impact on the stock price, business, financial condition and results of operations if the proposed merger is not consummated or not consummated timely;
- the impact of the operating restrictions in the Merger Agreement and their impact on FGL;
- litigation arising from the proposed merger;
- regulatory changes or actions, including those relating to regulation of financial services affecting (among other things) underwriting of insurance products and regulation of the sale, underwriting and pricing of products and
- minimum capitalization and statutory reserve requirements for insurance companies, or the ability of our insurance subsidiaries to make cash distributions to us (including dividends or payments on surplus notes those subsidiaries issue to us);
- the impact of the Department of Labor "fiduciary" rule, finalized in April 2016, on the Company, its products, distribution and business model;
- the impact on our business of new accounting rules or changes to existing accounting rules;
- the impact of restrictions in FGL’s debt instruments on its ability to operate its business, finance its capital needs or pursue or expand its business strategies;
- the accuracy of management’s assumptions and estimates;
- the accuracy of our assumptions regarding the fair value and future performance of our investments;
- our ability and our insurance subsidiaries’ ability to maintain or improve financial strength ratings;

our potential need and our insurance subsidiaries' potential need for additional capital to maintain our and their financial strength and credit ratings and meet other requirements and obligations;

4

---

Table of Contents

the continued availability of capital required for our insurance subsidiaries to grow;

our ability to defend ourselves against or respond to, potential litigation, enforcement investigations or increased regulatory scrutiny;

the impact of potential litigation, including class action litigation;

the impact of our reinsurers failing to meet or timely meet their assumed obligations, increasing their rates, or becoming subject to adverse developments that could materially adversely impact their ability to provide reinsurance to us at consistent and economical terms;

restrictions on our ability to use captive reinsurers and the impact of the anticipated implementation of principle-based reserving

the impact of interest rate fluctuations and withdrawal demands in excess of our assumptions;

the impact of market and credit risks;

equity market volatility;

credit market volatility or disruption;

changes in the federal income tax laws and regulations which may affect the relative income tax advantages of our products;

increases in our valuation allowance against our deferred tax assets, and restrictions on our ability to fully utilize such assets;

potential adverse tax consequences if we generate passive income in excess of operating expenses;

the performance of third parties including third party administrators, independent distributors, underwriters, actuarial consultants and other service providers;

the loss of key personnel;

interruption or other operational failures in telecommunication, information technology and other operational systems, or a failure to maintain the security, integrity, confidentiality or privacy of sensitive data residing on such systems;

our exposure to unidentified or unanticipated risk not adequately addressed by our risk management policies and procedures;

general economic conditions and other factors, including prevailing interest and unemployment rate levels and stock and credit market performance;

our ability to protect our intellectual property;

the impact on our business of natural and man-made catastrophes, pandemics, and malicious and terrorist acts;

our ability to compete in a highly competitive industry;

our ability to maintain competitive policy expense costs;

adverse consequences if the independent contractor status of our insurance marketing organizations ("IMOs") is successfully challenged;

our ability to attract and retain national marketing organizations and independent agents;

the inability of our subsidiaries and affiliates to generate sufficient cash to service all of their obligations;

our subsidiaries' ability to pay dividends to us;

the ability to maintain or obtain approval of Iowa Insurance Division ("IID") and other regulatory authorities as required for our operations and those of our insurance subsidiaries; and

the other factors discussed in "Risk Factors", of (Part I, Item 1A of this Form 10-K).

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



## Item 1. Business

### Overview

#### Our Company

As previously disclosed, on April 17, 2017, FGL terminated its Agreement and Plan of Merger (as amended, the “Anbang Merger Agreement”) with Anbang Insurance Group Co., Ltd. and its affiliates. As a result of the termination, FGL has no remaining obligations under the Anbang Merger Agreement.

On May 24, 2017, FGL entered into an Agreement and Plan of Merger (the “Merger Agreement”), by and among CF Corporation, a Cayman Islands exempted company (“CF Corp”), FGL US Holdings Inc., a Delaware corporation and a wholly-owned indirect subsidiary of CF Corp (“Parent”), FGL Merger Sub Inc., a Delaware corporation and a wholly-owned direct subsidiary of Parent (“Merger Sub”) and FGL. Subject to the terms and conditions of the Merger Agreement, at the time of the closing of the transactions contemplated by the Merger Agreement, Merger Sub will merge with and into FGL (the “Merger”) with FGL continuing as the surviving entity, which will become an, wholly-owned indirect subsidiary of CF Corp.

Pursuant to the Merger Agreement, at the effective time of the Merger (the “Effective Time”), each issued and outstanding share of common stock of FGL (the “Common Stock”) will be cancelled and converted automatically into the right to receive \$31.10 in cash, without interest (the “Merger Consideration”), other than any shares of Common Stock owned by FGL as treasury stock or otherwise or owned by CF Corp, Parent or Merger Sub (which will be cancelled and no payment will be made with respect thereto), shares of Common Stock granted pursuant to the Company Equity Plan (as defined in the Merger Agreement) and those shares of Common Stock with respect to which appraisal rights under Delaware law are properly exercised and not withdrawn. The Merger Agreement permits FGL to pay out a regular quarterly cash dividend on its Common Stock prior to the closing of the transaction in an amount not in excess of \$0.065 per share, per quarter (the per share amount of FGL’s most recently declared quarterly dividend).

At the Effective Time, each (i) option to purchase shares of Common Stock (a “Company Stock Option”), (ii) restricted share of Common Stock and (iii) performance-based restricted stock unit relating to shares of Common Stock (an “RSU”), in each case whether vested or unvested, will become fully vested and automatically converted into the right to receive a cash payment equal to the product of (1) the number of shares subject to the award (for RSUs, determined at the target performance level) multiplied by (2) the Merger Consideration (less the exercise price per share in the case of Company Stock Options). In addition, at the Effective Time, each stock option (“FGLH Stock Option”) and restricted stock unit relating to shares of FGLH, whether vested or unvested, will become fully vested and automatically converted into the right to receive a cash payment equal to the product of (A) the number of shares of FGLH stock subject to the award multiplied by (B) \$176.32 (less the exercise price in the case of such FGLH Stock Options), and each dividend equivalent held in respect of a share of FGLH stock (a “DER”), whether vested or unvested, will become fully vested and automatically converted into the right to receive a cash payment equal to the amount accrued with respect to such DER.

Following execution of the Merger Agreement, FS Holdco II Ltd., a corporation organized under the laws of the Cayman Islands (“FS Holdco”), which is a wholly owned subsidiary of HRG Group, Inc., a Delaware corporation (“HRG”), holding a majority of the issued and outstanding shares of Common Stock, executed and delivered to FGL a written consent (the “Consent”), approving and adopting the Merger Agreement and the transactions contemplated thereby, including the Merger. As a result of the execution and delivery of the Consent, the holders of at least a majority of the outstanding shares of FGL’s common stock have adopted and approved the Merger Agreement. Pursuant to the Merger Agreement, the consummation of the Merger is subject to the satisfaction or waiver of certain closing conditions, the following of which have been met: (i) on June 16, 2017, the Federal Trade Commission granted early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended; (ii) on August 8, 2017, CF Corp held an extraordinary general meeting in lieu of an annual general meeting of shareholders, at which CF Corp’s shareholders approved, among other items, all of the proposals relating to the Merger Agreement and the Merger; (iii) on August 14, 2017, FGL filed with the SEC and mailed to its stockholders a definitive information statement in connection with the Merger; (iv) on August 24, 2017, the Vermont Department of Financial Regulation granted its required regulatory approval relating to the Merger; and (v) on November 8, 2017, the New York Department of Financial Services granted its required regulatory approval relating to the Merger. On



November 7, 2017, the Iowa Insurance Division held a public

6

---

hearing to consider whether the proposed acquisition of control of Fidelity & Guaranty Life Insurance Company complies with the standards set forth under applicable Iowa insurance laws.

Pursuant to the Merger Agreement, the consummation of the Merger is subject to satisfaction or waiver of certain additional closing conditions, including the receipt of regulatory approvals from the Iowa Insurance Division, and the absence of any law or order enacted, issued or enforced that is in effect and that prevents or prohibits the consummation of the Merger.

The Merger Agreement includes customary representations, warranties and covenants of FGL, CF Corp, Parent and Merger Sub. Among other things, FGL and its subsidiaries are required to conduct their respective businesses and operations in the ordinary course of business until the Merger is consummated.

The Merger Agreement contains certain provisions giving each of CF Corp, Parent and FGL rights to terminate the Merger Agreement under certain circumstances. Upon termination of the Merger Agreement, under specified circumstances, FGL may be required to pay a termination fee to CF Corp in an aggregate amount of \$50.

FGL and CF Corp are committed to securing the remaining regulatory approvals and seek to close the Merger as expeditiously as possible, however, the closing of the Merger and the timing thereof is subject to the regulatory review and approval process, none of which can be assured.

The foregoing description of the Merger Agreement and the transactions contemplated thereby does not purport to be complete and should be read concurrently with the other related disclosure in this report, and is subject to and qualified by in its entirety by reference to the text of the Merger Agreement filed with the SEC. FGL has filed with the SEC and mailed to its stockholders the definitive information statement. The definitive information statement and other relevant materials contain important information about FGL, CF Corp, the Merger and related matters. These documents are available at no charge on the SEC's website at [www.sec.gov](http://www.sec.gov). In addition, documents are also available for free from FGL by contacting FGL's investor relations department at [Investor.Relations@fglife.com](mailto:Investor.Relations@fglife.com).

For over 50 years, our Company has been helping middle-income Americans prepare for retirement and unexpected loss of life. Our focus on the middle-income market gives us access to significant, underserved market niches and drives our product development. As of September 30, 2017, we had approximately 700,000 policyholders counting on the safety and protection features of our fixed annuity and life insurance products, and we constantly seek to innovate our products to meet their evolving needs. We offer our products through a network of approximately 200 independent IMOs that in turn represent an estimated 37,000 independent agents.

Through the efforts of our 299 employees, who are primarily located in Baltimore, MD and Des Moines, IA, we offer various types of fixed annuities and life insurance products. Fixed annuities represent a retirement and savings tool which our customers rely on for principal protection and predictable income streams. In addition, our life insurance products provide our customers with a complementary product that allows them to build on their savings and assign payment of a death benefit to a designated beneficiary upon the policyholder's death. Currently, our most popular products are fixed indexed annuities ("FIAs") that tie contractual returns to specific market indices, such as the Standard & Poor's Ratings Services ("S&P") 500 Index. The benefit of FIAs to our customers is to provide a portion of the gains of an underlying market index, while providing principal protection. We believe this mix of "some upside but limited downside" fills the need for middle-income Americans who must save for retirement but who want to limit the risk of decline in their savings. In addition to FIAs, we also sell indexed universal life policies ("IULs") and other fixed annuities.

In Fiscal 2017, FIAs generated approximately 72% of our total sales and the remaining 28% of sales was primarily generated from fixed annuity sales during the year. We invest the annuity premiums primarily in fixed income securities and options that hedge our risk, predominantly using call options on the S&P 500 Index, and replicate the market index returns to our policyholders. The majority of our products contain provisions that permit us to annually adjust the formula by which index credits are provided in response to changing market conditions. In addition, our annuity contracts generally either cannot be surrendered or include surrender charges that discourage early redemptions.

### Our Strategy

We will seek to grow our business by pursuing a set of strategies aimed at delivering sustainable and profitable growth for shareholders; including:

**Protect Sales in Our Existing Market.** We believe the demand for retirement and principal protection products in the IMO market will continue even under the Department of Labor "fiduciary" rule standards. Our focus will be on reconfiguring products and capabilities and partnering with the IMOs to successfully compete in the heightened regulatory environment.

**Strengthen the Foundation.** We will execute foundational initiatives that strengthen the business and provide a platform for sustainable growth.

**Enhance the FGL Experience.** Building off the foundational initiatives, we will create a more engaging, customer-focused experience through accelerating the use of digital and improving the ease of doing business for our IMO partners and customers.

**Leverage Product Capabilities for Additional Distribution.** Capitalize on our manufacturing expertise and distribution partnerships to expand product reach.

**Bottom-line, Profit-oriented Objectives.** We focus on initiatives that we expect will deliver target profits and avoid markets and products when industry pricing makes it difficult to achieve targeted profit margins.

### Competition

Our ability to compete is dependent upon many factors which include, among other things, our ability to develop competitive and profitable products, our ability to maintain stable relationships with our contracted IMOs, our ability to maintain low unit costs and our maintenance of adequate financial strength ratings from rating agencies. Principal competitive factors for FIAs are initial crediting rates, reputation for renewal crediting action, product features, brand recognition, customer service, cost, distribution capabilities and financial strength ratings of the provider. Competition may affect, among other matters, both business growth and the pricing of our products and services. Principal competitive factors for IULs are based on service and distribution channel relationships, price, brand recognition, financial strength ratings of our insurance subsidiaries and financial stability.

For detailed information about revenues, operating income and total assets of our Company, see Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements beginning on page F-1 in this report.

### Products

Our experience designing and developing annuities and life insurance products will allow us to continue to introduce innovative products and solutions designed to meet customers' changing needs. We work hand-in-hand with our distributors to devise the most suitable product solutions for the ever-changing market. We believe that, on a practical basis, we have a unique understanding of the safety, accumulation, protection, and income needs of middle-income Americans.

#### Annuity Products

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

#### Deferred Annuities

**FIAs.** Our FIAs allow contract owners the possibility of earning interest based on the performance of a specified market index, predominantly the S&P 500 Index, without risk to principal. The contracts include a provision for a minimum guaranteed surrender value calculated in accordance with applicable law. A market index tracks the performance of a specific group of stocks representing a particular segment of the market, or in some cases an entire market. For example, the S&P 500 Composite Stock Price Index is an index of 500 stocks intended



to be representative of a broad segment of the market. All FIA products allow policyholders to allocate funds once a year among several different crediting strategies, including one or more index-based strategies and a traditional fixed rate strategy. High surrender charges apply for early withdrawal, typically for seven to fourteen years after purchase. The value to the contractholder of an FIA contract is equal to the sum of deposits paid, premium bonuses (described below), index credits, up to a cap and a participation rate based on the annual appreciation (based in certain situations on annual point-to-point, monthly point-to-point or monthly average calculations) in a recognized market index less any fees for riders. Caps generally range from 2% to 6% when measured annually and 1% to 3% when measured monthly, and participation rates generally range from 30% to 100% of the performance of the applicable market index. The cap and participation rate can be reset annually. Certain riders allow for a contractholder to increase their cap for a set fee. As this fee is fixed, the contractholder may lose principal if the index credits received do not exceed the amount of such fee.

Approximately 88% of the FIA sales for Fiscal 2017 involved “premium bonuses” or vesting bonuses. For premium bonuses, we increased the initial annuity deposit by a specified premium bonus of 2% to 4%. The vesting bonuses, which range from 1% to 9%, are earned over time and increase the account value when the bonus is settled. We made compensating adjustments in the commission paid to the agent or the surrender charges on the policy to offset the premium bonus.

As of September 30, 2017, 86% of our FIA contracts were issued with a guaranteed minimum withdrawal benefit (“GMWB”) rider. With this rider, a contract owner can elect to receive guaranteed payments for life from the FIA contract without requiring the owner to annuitize the FIA contract value. The amount of the living income benefit available is determined by the growth in the policy's benefit base value as defined in the FIA contract rider. Typically this accumulates for 10 years based on a guaranteed rate of 3% to 7%. Guaranteed withdrawal payments may be stopped and restarted at the election of the contract owner. Some of the FIA contract riders that we offer include an additional death benefit or an increase in benefit amounts under chronic health conditions. Rider fees range from 0% to 1%.

As of September 30, 2017, the distribution of the FIA account values by cap rate and by strategy was as follows:

Cap rate	0% to 3%	3% to 5%	> 5%	Total
1 year gain trigger	\$443	\$206	\$40	\$689
1-2 year monthly average	613	735	123	1,471
1-3 year monthly point-to-point	4,414	87	—	4,501
1-3 year annual point-to-point	1,560	1,647	362	3,569
3 year step forward	—	27	119	146
Total	\$7,030	\$2,702	\$644	\$10,376

Fixed Rate Annuities. Fixed rate annuities include annual reset and multi-year rate guaranteed policies. Fixed rate annual reset annuities issued by us have an annual interest rate (the “crediting rate”) that is guaranteed for the first policy year. After the first policy year, we have the discretionary ability to change the crediting rate once annually to any rate at or above a guaranteed minimum rate. Fixed rate multi-year guaranteed annuities are similar to fixed rate annual reset annuities except that the initial crediting rate is guaranteed for a specified number of years before it may be changed at our discretion. For Fiscal 2017, we sold \$546 of fixed rate multi-year guaranteed annuities. As of September 30, 2017, crediting rates on outstanding (i) single-year guaranteed annuities generally ranged from 2% to 6% and (ii) multi-year guaranteed annuities ranged from 1% to 6%. The average crediting rate on all outstanding fixed rate annuities at September 30, 2017, was 3%.

As of September 30, 2017, the distribution of the fixed rate annuity account values by crediting rate was as follows:

Crediting rate	1% to 2%	2% to 3%	3% to 4%	4% to 5%	5% to 6%	Total
Account value	\$39	\$176	\$3,213	\$373	\$42	\$3,843

As of September 30, 2017, the multi-year guaranteed annuities expiring guaranty account values, net of reinsurance by year were as follows:

Duration by Fiscal Year:	Multi-Year Rate Guaranteed Annuities Account Value
2018	\$ 298
2019	767
2020	220
2021	572
2022	996
Thereafter	91
Total	\$ 2,944

**Withdrawal Options for Deferred Annuities.** After the first year following the issuance of a FIA deferred annuity policy, holders of deferred annuities are typically permitted penalty-free withdrawals up to 10% of the prior year's value, subject to certain limitations. Withdrawals in excess of allowable penalty-free amounts are assessed a surrender charge if such withdrawals are made during the penalty period of the deferred annuity policy. The penalty period typically ranges from seven to fourteen years for FIAs and three to ten years for fixed rate annuities. This surrender charge initially ranges from 0% to 15% of the contract value for FIAs and 0% to 12% of the contract value for fixed rate annuities and generally decreases by approximately one to two percentage points per year during the penalty period. The average surrender charge is 8% for our FIAs and 6% for our fixed rate annuities as of September 30, 2017. The following table summarizes our deferred annuity account values and surrender charge protection as of September 30, 2017:

	Fixed and Fixed Index Annuities Account Value	Percent of Total	Weighted Average Surrender Charge
<b>SURRENDER CHARGE EXPIRATION BY YEAR</b>			
Out of surrender charge	\$ 2,605	16 %	— %
2017	197	1 %	5 %
2018 - 2019	2,194	13 %	5 %
2020 - 2021	1,912	11 %	7 %
2022 - 2023	2,181	13 %	8 %
Thereafter	7,730	46 %	11 %
Total	\$ 16,819	100 %	

The policyholder may elect to take the proceeds of the surrender either in a single payment or in a series of payments over the life of the policyholder or for a fixed number of years (or a combination of these payment options). In addition to the foregoing withdrawal rights, policyholders may also elect to have additional withdrawal rights by purchasing a GMWB. These riders provide a GMWB, regardless of index performance, for the life of the contract. However, the benefit may vary based on performance.

#### Immediate Annuities

We also sell single premium immediate annuities (or "SPIAs"), which provide a series of periodic payments for a fixed period of time or for the life of the policyholder, according to the policyholder's choice at the time of issue. The amounts, frequency and length of time of the payments are fixed at the outset of the annuity contract. SPIAs are often purchased by persons at or near retirement age who desire a steady stream of payments over a future period of years.



The following table presents the deposits (also known as “sales”) on annuity policies issued by us for the fiscal years ended September 30, 2017, 2016, and 2015 as well as reserves required by U.S. generally accepted accounting principles (“U.S. GAAP Reserves”) as of September 30, 2017, 2016 and 2015:

	September 30, 2017		September 30, 2016		September 30, 2015	
	Deposits on Annuity Policies	U.S. GAAP Reserves	Deposits on Annuity Policies	U.S. GAAP Reserves	Deposits on Annuity Policies	U.S. GAAP Reserves
<b>Products</b>						
Fixed indexed annuities	\$1,893	\$14,237	\$1,861	\$13,148	\$2,185	\$12,094
Fixed rate annuities	557	3,910	539	3,566	211	3,249
Single premium immediate annuities	15	2,845	28	2,917	16	2,956
<b>Total</b>	<b>\$2,465</b>	<b>\$20,992</b>	<b>\$2,428</b>	<b>\$19,631</b>	<b>\$2,412</b>	<b>\$18,299</b>

**Life Insurance**

We currently offer IUL insurance policies and have previously sold term and whole life insurance products. Holders of universal life insurance policies earn returns on their policies which are credited to the policyholder’s cash value account. The insurer periodically deducts its expenses and the cost of life insurance protection from the cash value account. The balance of the cash value account is credited interest at a fixed rate or returns based on the performance of a market index, or both, at the option of the policyholder, using a method similar to that described above for FIAs. Almost all of the life insurance policies in force, except for the return of premium benefits on term life insurance products, are subject to an arrangement with Wilton Reassurance Company (“Wilton Re”). See “Reinsurance-Wilton Re Transaction” on page 16.

As of September 30, 2017, the distribution of the retained IUL account values by cap rate and by strategy was as follows:

Cap rate	2.5%-5.0%	5.0-7.5%	7.5%-10.0%	10.0-12.5%	12.5+	Total
1 year annual point-to-point, Gold Index	\$ —	\$ —	\$ —	\$ —	\$ 31	\$ 31
1 year monthly point-to-point, S&P Index	31	—	—	—	—	31
1 year annual point-to-point with 100% par rate, S&P Index	12	6	35	116	97	266
1 year annual point-to-point with 140% par rate, S&P Index	2	4	17	—	—	23
<b>Total</b>	<b>\$ 45</b>	<b>\$ 10</b>	<b>\$ 52</b>	<b>\$ 116</b>	<b>\$ 128</b>	<b>\$ 351</b>

**Distribution**

The sale of our products typically occurs as part of a four-party, three stage sales process between FGL Insurance, an IMO, the agent and the customer. FGL Insurance designs, manufactures, issues, and services the product. The IMOs will usually sign contracts with multiple insurance carriers to provide their agents with a broad and competitive product portfolio. The IMO will discuss product options over the phone with agents about to meet with clients. The IMO staff will also provide assistance to the agent during the selling and application process. The agent may get customer leads from the IMOs. The agent will conduct a fact find and present suitable product choices to the customers. We monitor each distribution partner for pricing metrics, mortality, persistency, as well as market conduct and suitability.

Within this business model, we offer our products through a network of approximately 200 IMOs, representing approximately 37,000 agents, and identify our most important IMOs - - those who we believe have the ability to generate significant production for the Company - as “Power Partners”. We currently have 32 Power Partners, comprised of 21 annuity IMOs and 11 life insurance IMOs. During Fiscal 2017, these Power Partners accounted for approximately 95% of our annual sales volume. We believe that our relationships with these IMOs are strong. The average tenure of the top ten Power Partners is approximately 14 years.





Our Power Partners play an important role in the development of our products. Over the last ten years, the majority of our best-selling products have been developed with our Power Partners. We intend to continue to have the Power Partners play an important role in the development of our products in the future, which we believe provides us with integral feedback throughout the development process and assists us with competing for “shelf space” of new design launches.

The top five states for the distribution of FGL Insurance’s products in 2017 were California, Florida, Texas, Michigan and New Jersey, which together accounted for 43% of FGL Insurance’s premiums.

#### Investments

We embrace a long-term conservative investment philosophy, investing nearly all the insurance premiums we receive in a wide range of fixed income interest-bearing securities.

Our internal asset management team manages the bulk of the investment portfolio. For certain asset classes, we utilize experienced third party companies, including our affiliates. As of September 30, 2017, 80% of our \$21 billion fixed maturity investment portfolio was managed by our employees, with the 20% balance managed by third parties. Our investment strategy is designed to (i) achieve strong absolute returns, (ii) provide consistent yield and investment income, and (iii) preserve capital. We base all of our decisions on fundamental, bottom-up research, coupled with a top-down view that respects the cyclicity of certain asset classes.

In addition to active management of assets, our Investments department is also responsible for defining portfolio strategy, managing our asset/liability profile and hedging our product guarantees.

The types of assets in which we may invest are influenced by various state laws, which prescribe qualified investment assets applicable to insurance companies. Additionally, we define risk tolerance across a wide range of factors, including credit risk, liquidity risk, concentration (issuer and sector) risk, and caps on specific asset classes, which in turn establish conservative risk thresholds.

Our investment portfolio consists of high quality fixed maturities, including publicly issued and privately issued corporate bonds, municipal and other government bonds, asset-backed securities (“ABS”), residential mortgage-backed securities (“RMBS”), commercial mortgage-backed securities (“CMBS”) and commercial mortgage loans (“CMLs”). We also maintain holdings in floating rate, and less rate-sensitive investments, including senior tranches of collateralized loan obligations (“CLOs”), non-agency RMBS, and various types of ABS. It is our expectation that our investment portfolio will broaden in scope and diversity to include other asset classes held by life and annuity insurance writers. We also have a small amount of equity holdings through our funding arrangement with the Federal Home Loan Bank of Atlanta.

#### Portfolio Activity

Over the last year, we continued to work with our internal asset management team and third party asset managers to broaden the portfolio’s exposure to include United States dollar (“USD”) denominated emerging market bonds, highly rated preferred stocks and hybrids, and structured securities including ABS.

As a result of these portfolio repositionings, we currently maintain:

- a well matched asset/liability profile (asset duration, including cash and cash equivalents, of 6.78 years vs. liability duration of 6.76 years); and

- a large exposure to less rate-sensitive assets (18% of invested assets).

For further discussion of portfolio activity, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Investment Portfolio”.

#### Derivatives

Our FIA contracts permit the holder to elect to receive a return based on an interest rate or the performance of a market index, most typically based on the S&P 500 Index. We purchase derivatives consisting predominantly of call options and, to a lesser degree, futures contracts on the equity indices underlying the applicable policy. These derivatives are used to fund the index credits due to policyholders under the FIA contracts based upon policyholders’ contract elections. The majority of all such call options are one-year options purchased to match the funding requirements underlying the FIA contracts. On the anniversary dates of the FIA contracts, the market



index used to compute the annual index credit under the FIA contract is reset. At such time, we purchase new one-, two-, three-, or five-year call options to fund the next index credit. We manage the cost of these purchases through the terms of our FIA contracts, which permit us to change caps or participation rates, subject to certain guaranteed minimums that must be maintained. The change in the fair value of the call options and futures contracts is generally designed to offset the equity market related change in the fair value of the FIA contract's related reserve liability. The call options and futures contracts are marked to fair value with the change in fair value included as a component of Net investment gains (losses). The change in fair value of the call options and futures contracts includes the gains and losses recognized at the expiration of the instruments' terms or upon early termination and the changes in fair value of open positions.

#### Outsourcing

We outsource the following functions to third-party service providers:

- new business administration (date entry and policy issue only);
- service of existing policies;
- underwriting administration of life insurance applications;
- call centers;
- information technology development and maintenance;
- investment accounting and custody; and
- hosting of financial systems.

We closely manage our outsourcing partners and integrate their services into our operations. We believe that outsourcing such functions allows us to focus capital and FGL employees on our core business operations and perform differentiating functions, such as investment, actuarial, product development and risk management functions. In addition, we believe an outsourcing model provides predictable pricing, service levels and volume capabilities and allows us to benefit from technological developments that enhance our customer self-service and sales processes.

We outsource our new business and existing policy administration for annuity and life products to Transaction Applications Group, Inc. Under this arrangement, Transaction Applications Group, Inc. manages most of our call center and processing requirements. Our current agreement expires on December 31, 2021. Additionally, in August 2017, we partnered with Concentrix to administer a portion of our annuity new business processing and the servicing of these issued annuity contracts (administration and call center activities).

We have partnered with CRL-Plus ("CRL-Plus") to implement our life insurance underwriting policies. Under the terms of the arrangement, CRL-Plus has assigned FGL a dedicated team of underwriters with appropriate professional designations and experience. Underwriting guidelines for each product are established by our Chief Underwriter in collaboration with our actuarial department. Our Chief Underwriter and actuarial department work closely with the applicable reinsurance company to establish or change guidelines. Adherence to underwriting guidelines is managed at a case level through monthly underwriting audits conducted by our Chief Underwriter as well as the CRL-Plus lead underwriter. Periodically, underwriting audits are conducted by our reinsurers. Our current agreement with CRL-Plus is reviewed annually. We believe that we have a good relationship with our principal outsource service providers.

#### Ratings

Our access to funding and our related cost of borrowing, the attractiveness of certain of our products to customers and requirements for derivatives collateral posting are affected by our credit ratings and insurance financial strength ratings, which are periodically reviewed by the rating agencies. Financial strength ratings and credit ratings are important factors affecting public confidence in an insurer and its competitive position in marketing products. As of September 30, 2017, A.M. Best Company ("A.M. Best"), Fitch Ratings ("Fitch"), Moody's Investors Service ("Moody's") and S&P Global Ratings ("S&P") issued financial strength credit and/or ratings and outlook statements regarding FGLH and its wholly-owned insurance subsidiaries, FGL Insurance and Fidelity & Guaranty Life Insurance Company of New York ("FGL NY Insurance"), as listed below. Credit ratings represent the opinions of rating agencies regarding an entity's ability to repay its indebtedness. Financial strength ratings represent the

opinions of rating agencies regarding the ability of an insurance company to meet its financial obligations under an insurance policy and generally involve quantitative and qualitative evaluations by rating agencies of a company's financial condition and operating performance. Generally, rating agencies base their financial strength ratings upon information furnished to them by the insurer and upon their own investigations, studies and assumptions. Financial strength ratings are based upon factors of concern to policyholders, agents and intermediaries and are not directed toward the protection of investors. Credit and financial strength ratings are not recommendations to buy, sell or hold securities and they may be revised or revoked at any time at the sole discretion of the rating organization.

In addition to the financial strength ratings, rating agencies use an "outlook statement" to indicate a medium or long term trend which, if continued, may lead to a rating change. A positive outlook indicates a rating may be raised and a negative outlook indicates a rating may be lowered. A stable outlook is assigned when ratings are not likely to be changed. A developing outlook is assigned when a rating may be raised, lowered, or affirmed. Outlooks should not be confused with expected stability of the issuer's financial or economic performance. A rating may have a "stable" outlook to indicate that the rating is not expected to change, but a "stable" outlook does not preclude a rating agency from changing a rating at any time without notice.

Following the announcement of the CF Corp Merger Agreement on May 24, 2017, the rating organizations have undertaken a review of our debt ratings and our insurance company subsidiaries' financial strength ratings. The rating organizations may take various actions, positive or negative. Such actions are beyond FGL's control and FGL cannot predict what these actions may be and the timing thereof.

	A.M. Best	Fitch	Moody's	S&P
Company				
Fidelity & Guaranty Life Insurance Company				
Financial Strength Rating	B++ (5 of 16)	BBB (9 of 21)	Baa2 (9 of 21)	BBB- (10 of 22)
Outlook	Under Review With Developing Implications	Stable	Stable	CreditWatch Positive
Fidelity & Guaranty Life Insurance Company of New York				
Financial Strength Rating	B++ (5 of 16)	BBB (9 of 21)	Not Rated	BBB- (10 of 22)
Outlook	Under Review With Developing Implications	Stable	Not Rated	CreditWatch Positive
Fidelity & Guaranty Life Holdings, Inc.				
Senior Unsecured Notes	bb+ (11 of 22)	BB- (13 of 21)	Ba2 (12 of 21)	BB- (13 of 22)
Issuer Credit / Default Rating	bb+ (11 of 22)	BB (12 of 21)	Not Rated	BB- (13 of 22)
Outlook	Under Review With Developing Implications	Rating Watch Positive	Stable	CreditWatch Positive

\*Reflects current ratings and outlooks as of date of filing

A.M. Best, Fitch, Moody's and S&P review their ratings of insurance companies from time to time. There can be no assurance that any particular rating will continue for any given period of time or that it will not be changed or withdrawn entirely if, in their judgment, circumstances so warrant. While the degree to which ratings adjustments will affect sales and persistency is unknown, we believe if our ratings were to be negatively adjusted for any reason, we could experience a material decline in the sales of our products and the persistency of our existing business. See "Item 1A. Risk Factors".

Potential Impact of a Ratings Downgrade

Under some International Swaps and Derivatives Association, Inc. ("ISDA") agreements, we have agreed to maintain certain financial strength ratings. A downgrade below these levels provides the counterparty under the agreement the right to terminate the open derivative contracts between the parties, at which time any amounts payable by us or the counterparty would be dependent on the market value of the underlying derivative contracts.

Our current rating allows multiple counterparties the right to terminate ISDA agreements, at which time the counterparty would unwind existing positions for fair market value. No ISDA agreements have been terminated, although the counterparties have reserved the right to terminate the ISDA agreements at any time. As of September 30, 2017, the amount due to the Company at risk for ISDA agreements which could be terminated based upon our current ratings was \$413, which equals the fair value to us of the open over-the-counter call option positions. The fair value of the call options can never decrease below zero. See "Item 7A. Quantitative and Qualitative Disclosures about Market Risk-Credit Risk and Counterparty Risk".

In certain transactions, we and the counterparty have entered into a collateral support agreement requiring either party to post collateral when the net exposures exceed predetermined thresholds. These thresholds vary by counterparty and credit rating, however are generally zero. As of September 30, 2017 and 2016, \$381 and \$128, respectively, of collateral was posted by our counterparties. Accordingly, the maximum amount of loss due to credit risk that we would incur if parties to the call options failed completely to perform according to the terms of the contracts was \$32 and \$148 at September 30, 2017 and 2016, respectively.

If the insurance subsidiaries held net short positions against a counterparty, and the subsidiaries' financial strength ratings were below the levels required in the ISDA agreement with the counterparty, the counterparty would demand immediate further collateralization which could negatively impact overall liquidity. Based on the market value of our derivatives as of September 30, 2017 and 2016, we hold no net short positions against a counterparty; therefore, there is currently no potential exposure for us to post collateral.

A downgrade of the financial strength rating of one of our principal insurance subsidiaries could affect our competitive position in the insurance industry and make it more difficult for us to market our products, as potential customers may select companies with higher financial strength ratings. A downgrade of the financial strength rating could also impact the Company's borrowing costs.

#### Risk Management

Risk management is a critical part of our business. We seek to assess risk to our business through a formalized process involving (i) identifying short-term and long-term strategic and operational objectives, (ii) development of risk appetite statements that establish what the company is willing to accept in terms of risks to achieving its goals and objectives, (iii) identifying the levers that control the risk appetite of the company, (iv) establishing the overall limits of risk acceptable for a given risk driver, (v) establishing operational risk limits that are aligned with the tolerances, (vi) assigning risk limit quantification and mitigation responsibilities to individual team members within functional groups, (vii) analyzing the potential qualitative and quantitative impact of individual risks, including but not limited to stress and scenario testing covering over 8 economic and insurance related risks, (viii) mitigating risks by appropriate actions and (ix) identifying, documenting and communicating key business risks in a timely fashion.

The responsibility for monitoring, evaluating and responding to risk is assigned first to our management and employees, second to those occupying specialist functions, such as legal compliance and risk teams, and third to those occupying supervisory functions, such as internal audit and the board of directors.

In compliance with the Risk Management and Own Risk and Solvency Assessment Model Act (ORSA), FGL Insurance submitted an ORSA report to the state regulators in November 2017 to provide risk management transparency and insight in the financial strength and long-term sustainability of the Companies.

#### Reinsurance

FGL both cedes reinsurance and assumes reinsurance from other insurance companies. We use reinsurance to diversify risks, manage loss exposures, to enhance our capital position, and to manage new business volume. In instances where we are the ceding company, we pay a premium to a reinsurer in exchange for the reinsurer assuming a portion of our liabilities under the policies we issued and collect expense allowances in return for our administration of the ceded policies. Use of reinsurance does not discharge our liability as the ceding company because we remain directly liable to our policyholders and are required to pay the full amount of our policy obligations in the event that our reinsurers fail to satisfy their obligations. We collect reimbursement from our reinsurers when we pay claims on policies that are reinsured. In instances where we assume reinsurance from another insurance company, we accept, in exchange for a reinsurance premium, a portion of the liabilities of the other insurance company under the policies that the ceding company has issued to its policyholders.





We monitor the credit risk related to the ability of our reinsurers to honor their obligations under various agreements. To minimize the risk of credit loss on such contracts, we generally diversify our exposures among many reinsurers and limit the amount of exposure to each based on financial strength ratings, which are reviewed at least quarterly. We are able to further manage risk via funds withheld arrangements.

See “Item 1A. Risk Factors” for further discussion of reinsurance credit risk.

#### Wilton Re Transaction

On January 26, 2011, FGL entered into an agreement (the “Commitment Agreement”) with Wilton Re U.S. Holdings, Inc. (“Wilton”), pursuant to which Wilton agreed to cause Wilton Re, its wholly-owned subsidiary, to enter into certain coinsurance arrangements with FGL Insurance following the closing of the FGLH Acquisition. Pursuant to the Commitment Agreement, Wilton Re has reinsured a 100% quota share of certain of FGL Insurance’s policies that are subject to redundant reserves under Regulation XXX and Guideline AXXX, as well as another block of FGL Insurance’s in-force traditional, and IUL insurance policies.

Wilton Re’s reinsurance of such FGL Insurance policies has not extinguished FGL Insurance’s liability with respect to such business because FGL Insurance remains directly liable to policyholders and is required to pay the full amount of its policy obligations in the event that Wilton Re fails to satisfy its obligations with respect to the reinsured business.

#### The Front Street Reinsurance Transactions

On December 31, 2012, following regulatory approval, FGL Insurance entered into a coinsurance agreement (the “Cayman Reinsurance Agreement”) with FSRCI, at the time, an indirectly wholly-owned subsidiary of FGL. Pursuant to the Cayman Reinsurance Agreement, FSRCI reinsured a 10% quota share percentage of certain FGL Insurance annuity liabilities of approximately \$1 billion and the funds withheld assets are \$1 billion. Under the terms of the agreement, FSRCI paid an initial ceding allowance of \$15 which was determined to be fair and reasonable according to an independent third-party actuarial firm. The coinsurance agreement is on a funds withheld basis, meaning that funds are withheld by FGL Insurance from the coinsurance premium owed to FSRCI as collateral for FSRCI’s payment obligations. Accordingly, the collateral assets remain under the ultimate ownership of FGL Insurance. See “Note 13. Reinsurance” to our audited Consolidated Financial Statements. As of September 30, 2017, ceded reserves are \$1 billion.

Effective September 17, 2014, FGL Insurance entered into a second reinsurance treaty with FSRCI whereby FGL Insurance ceded 30% of any new business of its multi-year guaranteed annuity (“MYGA”) block of business on a funds withheld basis. This treaty was subsequently terminated as to new business effective April 30, 2015, but will remain in effect for policies ceded to FSRCI with an effective date between September 17, 2014 and April 30, 2015.

#### Hannover Reinsurance Transaction

Effective January 1, 2017, the Company entered into a reinsurance agreement with Hannover Re, a third party reinsurer, to reinsure an inforce block of its FIA and fixed deferred annuity contracts with Guaranteed Minimum Withdraw Benefit (“GMWB”) and Guaranteed Minimum Death Benefit (“GMDB”) secondary guarantees. In accordance with the terms of this agreement, the Company cedes 70% net retention of secondary guarantee payments in excess of account value for GMWB and GMDB guarantees. Effective July 1, 2017, the Company extended this agreement to include new business issued during 2017.

#### Reserve Facilities

Life insurance companies operating in the United States must calculate required reserves for life and annuity policies based on statutory principles. These methodologies are governed by “Regulation XXX” (applicable to term life insurance policies), “Guideline AXXX” (applicable to universal life insurance policies with secondary guarantees) and the Commissioners Annuity Reserve Valuation Method, known as “CARVM” (applicable to annuities). Under Regulation XXX, Guideline AXXX and CARVM, insurers are required to establish statutory reserves for such policies that exceed economic reserves. The industry has reduced or eliminated redundancies thereby increasing capital using a variety of techniques including reserve facilities.

The CARVM Facility. On October 5, 2012, FGL Insurance entered into a yearly renewable term indemnity reinsurance agreement with Raven Reinsurance Company (“Raven Re”), a wholly-owned subsidiary of FGL

Insurance (the “Raven Reinsurance Agreement”), pursuant to which FGL Insurance ceded a 100% quota share of its CARVM liability for annuity benefits where surrender charges are waived. To collateralize its obligations under the Raven Reinsurance Agreement, Raven Re entered into a reimbursement agreement with Nomura Bank International plc (“NBI”), an affiliate of Nomura Securities International, Inc., and FGL (the “Reimbursement Agreement”) whereby a subsidiary of NBI issued trust notes and NBI issued a \$295 letter of credit that, in each case, were deposited into a reinsurance trust as collateral for Raven Re’s obligations under the Raven Reinsurance Agreement (the “NBI Facility”). Pursuant to the NBI Facility, FGL Insurance takes full credit on its statutory financial statements for the CARVM reserve ceded to Raven Re. The letter of credit facility automatically reduces each calendar quarter by \$6. As of September 30, 2017, there was \$115 available under the letter of credit facility. Under the terms of the Reimbursement Agreement, in the event the letter of credit is drawn upon, Raven Re is required to repay the amounts utilized, and FGLH is obligated to repay the amounts utilized if Raven Re fails to make the required reimbursement. FGLH also is required to make capital contributions to Raven Re in the event that Raven Re’s statutory capital and surplus falls below certain defined levels. As of December 31, 2016, Raven Re’s statutory capital and surplus was \$24 in excess of the minimum level required under the Reimbursement Agreement.

Effective April, 1 2017, FGL Insurance and Raven Re amended the reinsurance treaty and related trust and letter of credit agreements to extend the term of the letter of credit which would have matured on September 30, 2017. The amendments added additional in-force business to the reinsurance treaty (fixed indexed annuities without a guaranteed minimum withdrawal benefit rider and multi-year guarantee annuities (“MYGA”) issued between January 1, 2011 and December 31, 2016). No initial ceding commission was paid or received by FGL Insurance or Raven Re in connection with the cession of additional in-force business. No assets were transferred to or from FGL Insurance or Raven Re in connection with the cession of additional in-force business. The amendments extended the letter of credit for an additional five year period and reduced the face amount of the letter of credit at April 1, 2017 from \$183 to \$115. The facility may terminate earlier in accordance with the Reimbursement Agreement.

See “Item 7A. Quantitative and Qualitative Disclosures About Market Risk-Credit Risk and Counterparty Risk”.

## Regulation

### Overview

FGL Insurance, FGL NY Insurance and Raven Re are subject to comprehensive regulation and supervision in their domiciles, Iowa, New York and Vermont, respectively, and in each state in which they do business. FGL Insurance does business throughout the United States, except for New York. FGL NY Insurance only does business in New York. Raven Re is a special purpose captive reinsurance company that only provides reinsurance to FGL Insurance under the CARVM Treaty. Following its redomestication to Iowa, FGL Insurance’s principal insurance regulatory authority is the IID. State insurance departments throughout the United States also monitor FGL Insurance’s insurance operations as a licensed insurer. The New York State Department of Financial Services (“NYDFS”) regulates the operations of FGL NY Insurance, which is domiciled and licensed in New York. The purpose of these regulations is primarily to protect policyholders and beneficiaries and not general creditors and shareholders of those insurers. Many of the laws and regulations to which FGL Insurance and FGL NY Insurance are subject are regularly re-examined and existing or future laws and regulations may become more restrictive or otherwise adversely affect their operations. Generally, insurance products underwritten by and rates used by FGL Insurance and FGL NY Insurance must be approved by the insurance regulators in each state in which they are sold. Those products are also substantially affected by federal and state tax laws. For example, changes in tax law could reduce or eliminate the tax-deferred accumulation of earnings on the deposits paid by the holders of annuities and life insurance products, which could make such products less attractive to potential purchasers. A shift away from life insurance and annuity products could reduce FGL Insurance’s and FGL NY Insurance’s income from the sale of such products, as well as the assets upon which FGL Insurance and FGL NY Insurance earn investment income. In addition, insurance products may also be subject to the Employee Retirement Income Security Act of 1974 (“ERISA”).

State insurance authorities have broad administrative powers over FGL Insurance and FGL NY Insurance with respect to all aspects of the insurance business including:

- licensing to transact business;



- licensing agents;
  - prescribing which assets and liabilities are to be considered in determining statutory surplus;
  - regulating premium rates for certain insurance products;
  - approving policy forms and certain related materials;
  - determining whether a reasonable basis exists as to the suitability of the annuity purchase recommendations producers make;
  - regulating unfair trade and claims practices;
  - establishing reserve requirements and solvency standards;
  - regulating the amount of dividends that may be paid in any year;
  - regulating the availability of reinsurance or other substitute financing solutions, the terms thereof and the ability of an insurer to take credit on its financial statements for insurance ceded to reinsurers or other substitute financing solutions;
  - 
  - fixing maximum interest rates on life insurance policy loans and minimum accumulation or surrender values; and
  - regulating the type, amounts, and valuations of investments permitted, transactions with affiliates, and other matters.
- Financial Regulation

State insurance laws and regulations require FGL Insurance, FGL NY Insurance and Raven Re to file reports, including financial statements, with state insurance departments in each state in which they do business, and their operations and accounts are subject to examination by those departments at any time. FGL Insurance, FGL NY Insurance and Raven Re prepare statutory financial statements in accordance with accounting practices and procedures prescribed or permitted by these departments.

The National Association of Insurance Commissioners ("NAIC") has approved a series of statutory accounting principles and various model regulations that have been adopted, in some cases with certain modifications, by all state insurance departments. These statutory principles are subject to ongoing change and modification. For instance, the NAIC adopted, effective with the annual reporting period ending December 31, 2010, revisions to the Annual Financial Reporting Model Regulation (or the Model Audit Rule) related to auditor independence, corporate governance and internal control over financial reporting. These revisions require that insurance companies, such as FGL Insurance and FGL NY Insurance, file reports with state insurance departments regarding their assessments of internal control over financial reporting. Moreover, compliance with any particular regulator's interpretation of a legal or accounting issue may not result in compliance with another regulator's interpretation of the same issue, particularly when compliance is judged in hindsight. Any particular regulator's interpretation of a legal or accounting issue may change over time to FGL Insurance's or FGL NY Insurance's detriment, or changes to the overall legal or market environment, even absent any change of interpretation by a particular regulator, may cause FGL Insurance and FGL NY Insurance to change their views regarding the actions they need to take from a legal risk management perspective, which could necessitate changes to FGL Insurance's or FGL NY Insurance's practices that may, in some cases, limit their ability to grow and improve profitability.

State insurance departments conduct periodic examinations of the books and records, financial reporting, policy and rate filings, market conduct and business practices of insurance companies domiciled in their states, generally once every three to five years. Examinations are generally carried out in cooperation with the insurance departments of other states under guidelines promulgated by the NAIC. State insurance departments also have the authority to conduct examinations of non-domiciliary insurers that are licensed in their states. The Maryland Insurance Administration ("MIA") completed a routine financial examination of FGL Insurance for the three-year period ended December 31, 2012, and found no material deficiencies and proposed no adjustments to the financial statements as filed. The NYDFS completed a routine financial examination of FGL NY for the three-year period ended December 31, 2009, and found no material deficiencies and proposed no adjustments to the financial statements as filed. The NYDFS is in the process of completing a routine financial examination of FGL NY Insurance for the three-year periods ended December 31, 2012.

The Vermont Department of Financial Regulation has completed a routine financial examination of Raven Re for the period from April 7, 2011 (commencement of business) through December 31, 2012. It found no material deficiencies and proposed no adjustments to the financial statements as filed.

Going forward, FGL Insurance will be subject to financial and market conduct examinations by the IID, the primary regulatory authority for Iowa domestic life insurance companies.

#### Dividend and Other Distribution Payment Limitations

The Iowa insurance law and the New York insurance law regulate the amount of dividends that may be paid in any year by FGL Insurance and FGL NY Insurance, respectively. Each year, FGL Insurance and FGL NY Insurance may pay a certain limited amount of ordinary dividends or other distributions without being required to obtain the prior consent of the Iowa Insurance Commissioner (“Iowa Commissioner”) or the NYDFS, respectively. However, to pay any dividends or distributions (including the payment of any dividends or distributions for which prior consent is not required), FGL Insurance and FGL NY Insurance must provide advance written notice to the Iowa Commissioner or the NYDFS, respectively.

Pursuant to Iowa insurance law, ordinary dividends are payments, together with all other such payments within the preceding twelve months, that do not exceed the greater of (i) 10% of FGL Insurance’s statutory surplus as regards policyholders as of December 31 of the preceding year; or (ii) the net gain from operations of FGL Insurance (excluding realized capital gains) for the 12-month period ending December 31 of the preceding year.

Dividends in excess of FGL Insurance’s ordinary dividend capacity are referred to as extraordinary and require prior approval of the Iowa Commissioner. In deciding whether to approve a request to pay an extraordinary dividend, Iowa insurance law requires the Iowa Commissioner to consider the effect of the dividend payment on FGL Insurance’s surplus and financial condition generally and whether the payment of the dividend will cause FGL Insurance to fail to meet its required RBC ratio. Dividends may only be paid out of statutory earned surplus.

In recent calendar years, FGL Insurance has had the dividend capacity and paid dividends to us as set forth in this table:

	2017	2016	2015	2014	2013
FGL Insurance ordinary dividend capacity	\$132	\$124	\$121	\$124	\$106
FGL Insurance ordinary dividends paid	25	—	—	—	40

Any payment of dividends by FGL Insurance is subject to the regulatory restrictions described above and the approval of such payment by the board of directors of FGL Insurance, which must consider various factors, including general economic and business conditions, tax considerations, FGL Insurance’s strategic plans, financial results and condition, FGL Insurance’s expansion plans, any contractual, legal or regulatory restrictions on the payment of dividends and its effect on RBC and such other factors the board of directors of FGL Insurance considers relevant. For example, payments of dividends could reduce FGL Insurance’s RBC and financial condition and lead to a reduction in FGL Insurance’s financial strength rating. See “Item 1A. Risk Factors-Risks Relating to Our Business-A financial strength ratings downgrade, potential downgrade, or any other negative action by a rating agency could make our products less attractive and increase our cost of capital, and thereby adversely affect our financial condition and results of operations”.

FGL NY Insurance has historically not paid dividends. In 2012, FGL NY Insurance paid a \$4 dividend to FGL Insurance after a determination that, as a result of capital contributions by FGL Insurance, FGL NY Insurance was overcapitalized.

#### Surplus and Capital

FGL Insurance and FGL NY Insurance are subject to the supervision of the regulators in states where they are licensed to transact business. Regulators have discretionary authority in connection with the continuing licensing of these entities to limit or prohibit sales to policyholders if, in their judgment, the regulators determine that such entities have not maintained the minimum surplus or capital or that the further transaction of business will be hazardous to policyholders.

### Risk-Based Capital

In order to enhance the regulation of insurers' solvency, the NAIC adopted a model law to implement RBC requirements for life, health and property and casualty insurance companies. All states have adopted the NAIC's model law or a substantially similar law. RBC is used to evaluate the adequacy of capital and surplus maintained by an insurance company in relation to risks associated with: (i) asset risk, (ii) insurance risk, (iii) interest rate risk, and (iv) business risk. In general, RBC is calculated by applying factors to various asset, premium and reserve items, taking into account the risk characteristics of the insurer. Within a given risk category, these factors are higher for those items with greater underlying risk and lower for items with lower underlying risk. The RBC formula is used as an early warning regulatory tool to identify possible inadequately capitalized insurers for purposes of initiating regulatory action, and not as a means to rank insurers generally. Insurers that have less statutory capital than the RBC calculation requires are considered to have inadequate capital and are subject to varying degrees of regulatory action depending upon the level of capital inadequacy. As of the most recent annual statutory financial statements filed with insurance regulators, the RBC ratios for FGL Insurance and FGL NY Insurance each exceeded the minimum RBC requirements.

It is desirable to maintain an RBC ratio in excess of the minimum requirements in order to maintain or improve our financial strength ratings. Our historical RBC ratios for FGL Insurance are presented in the table below. See "Item 1A. Risk Factors-Risks Relating to Our Business-A financial strength ratings downgrade, potential downgrade, or any other negative action by a rating agency could make our product offerings less attractive and increase our cost of capital, and thereby adversely affect our financial condition and results of operations".

#### RBC Ratio

As of:

December 31, 2016	412%
December 31, 2015	401%
December 31, 2014	388%
December 31, 2013	423%
December 31, 2012	406%

### Insurance Regulatory Information System Tests

The NAIC has developed a set of financial relationships or tests known as the Insurance Regulatory Information System ("IRIS") to assist state regulators in monitoring the financial condition of U.S. insurance companies and identifying companies that require special attention or action by insurance regulatory authorities. A ratio falling outside the prescribed "usual range" is not considered a failing result. Rather, unusual values are viewed as part of the regulatory early monitoring system. In many cases, it is not unusual for financially sound companies to have one or more ratios that fall outside the usual range. Insurance companies generally submit data annually to the NAIC, which in turn analyzes the data using prescribed financial data ratios, each with defined "usual ranges". Generally, regulators will begin to investigate or monitor an insurance company if its ratios fall outside the usual ranges for four or more of the ratios. IRIS consists of a statistical phase and an analytical phase whereby financial examiners review insurers' annual statements and financial ratios. The statistical phase consists of 12 key financial ratios based on year-end data that are generated from the NAIC database annually; each ratio has a "usual range" of results. As of December 31, 2016, FGL Insurance had one ratio outside the usual range. FGL NY Insurance and Raven Re each had two ratios outside the usual range. The IRIS ratio for change in reserving for both FGL Insurance and FGL NY Insurance was outside the usual range. The IRIS ratio for change in premium for both FGL NY Insurance and Raven Re was outside the usual range. In addition, Raven Re's IRIS ratio for adequacy of investment income also fell outside the usual range. In all instances in prior years, regulators have been satisfied upon follow-up that no regulatory action was required. FGL Insurance, FGL NY Insurance and Raven Re are not currently subject to regulatory restrictions based on these ratios.

### Insurance Reserves

State insurance laws require insurers to analyze the adequacy of reserves. The respective appointed actuaries for FGL Insurance, FGL NY Insurance and Raven Re must each submit an opinion on an annual basis that their respective

reserves, when considered in light of the respective assets FGL Insurance, FGL NY Insurance and Raven Re hold with respect to those reserves, make adequate provision for the contractual obligations and related expenses

of FGL Insurance, FGL NY Insurance and Raven Re. FGL Insurance, FGL NY Insurance and Raven Re have filed all of the required opinions with the insurance departments in the states in which they do business.

#### Credit for Reinsurance Regulation

States regulate the extent to which insurers are permitted to take credit on their financial statements for the financial obligations that the insurers cede to reinsurers. Where an insurer cedes obligations to a reinsurer which is neither licensed nor accredited by the state insurance department, the ceding insurer is not permitted to take such financial statement credit unless the unlicensed or unaccredited reinsurer secures the liabilities it will owe under the reinsurance contract. Under the laws regulating credit for reinsurance issued by such unlicensed or unaccredited reinsurers, the permissible means of securing such liabilities are (i) the establishment of a trust account by the reinsurer to hold certain qualifying assets in a qualified U.S. financial institution, such as a member of the Federal Reserve, with the ceding insurer as the exclusive beneficiary of such trust account with the unconditional right to demand, without notice to the reinsurer, that the trustee pay over to it the assets in the trust account equal to the liabilities owed by the reinsurer; (ii) the posting of an unconditional and irrevocable letter of credit by a qualified U.S. financial institution in favor of the ceding company allowing the ceding company to draw upon the letter of credit up to the amount of the unpaid liabilities of the reinsurer and (iii) a “funds withheld” arrangement by which the ceding company withholds transfer to the reinsurer of the reserves which support the liabilities to be owed by the reinsurer, with the ceding insurer retaining title to and exclusive control over such reserves. In addition, on January 1, 2014, the NAIC Model Credit for Reinsurance Act became effective in Iowa, which adds the concept of “certified reinsurer”, whereby a ceding insurer may take financial statement credit for reinsurance provided by an unaccredited and unlicensed reinsurer which has been certified by the Iowa Commissioner. The Iowa Commissioner certifies reinsurers based on several factors, including their financial strength ratings, and imposes collateral requirements based on such factors. FGL Insurance and FGL NY Insurance are subject to such credit for reinsurance rules in Iowa and New York, respectively, insofar as they enter into any reinsurance contracts with reinsurers which are neither licensed nor accredited in Iowa and New York, respectively.

#### Insurance Holding Company Regulation

As the parent company of FGL Insurance and the indirect parent company of FGL NY Insurance, we and entities affiliated for purposes of insurance regulation are subject to the insurance holding company laws in Iowa and New York. These laws generally require each insurance company directly or indirectly owned by the holding company to register with the insurance department in the insurance company’s state of domicile and to furnish annually financial and other information about the operations of companies within the holding company system. Generally, all transactions between insurers and affiliates within the holding company system are subject to regulation and must be fair and reasonable, and may require prior notice and approval or non-disapproval by its domiciliary insurance regulator.

Most states, including Iowa and New York, have insurance laws that require regulatory approval of a direct or indirect change of control of an insurer or an insurer’s holding company. Such laws prevent any person from acquiring control, directly or indirectly, of HRG, FGL, FGLH, FGL Insurance or FGL NY Insurance unless that person has filed a statement with specified information with the insurance regulators and has obtained their prior approval. In addition, investors deemed to have a direct or indirect controlling interest are required to make regulatory filings and respond to regulatory inquiries. Under most states’ statutes, including those of Iowa and New York, acquiring 10% or more of the voting stock of an insurance company or its parent company is presumptively considered a change of control, although such presumption may be rebutted. Accordingly, any person who acquires 10% or more of our voting securities or that of HRG, FGL, FGLH, FGL Insurance or FGL NY Insurance without the prior approval of the insurance regulators of Iowa and New York will be in violation of those states’ laws and may be subject to injunctive action requiring the disposition or seizure of those securities by the relevant insurance regulator or prohibiting the voting of those securities and to other actions determined by the relevant insurance regulator.

#### Insurance Guaranty Association Assessments

Each state has insurance guaranty association laws under which insurers doing business in the state may be assessed by state insurance guaranty associations for certain obligations of insolvent insurance companies to policyholders and claimants. Typically, states assess each member insurer in an amount related to the member insurer’s proportionate share of the business written by all member insurers in the state. Although no prediction can be made as to the amount



and timing of any future assessments under these laws, FGL Insurance and FGL NY

21

---

Insurance have established reserves that they believe are adequate for assessments relating to insurance companies that are currently subject to insolvency proceedings.

#### Market Conduct Regulation

State insurance laws and regulations include numerous provisions governing the marketplace activities of insurers, including provisions governing the form and content of disclosure to consumers, illustrations, advertising, sales and complaint process practices. State regulatory authorities generally enforce these provisions through periodic market conduct examinations. In addition, FGL Insurance and FGL NY Insurance must file, and in many jurisdictions and for some lines of business obtain regulatory approval for, rates and forms relating to the insurance written in the jurisdictions in which they operate. FGL Insurance is currently the subject of four ongoing market conduct examinations in various states. Market conduct examinations can result in monetary fines or remediation and generally require FGL Insurance to devote significant resources to the management of such examinations. FGL Insurance does not believe that any of the current market conduct examinations it is subject to will result in any fines or remediation orders that will be material to its business.

#### Regulation of Investments

FGL Insurance and FGL NY Insurance are subject to state laws and regulations that require diversification of their investment portfolios and limit the amount of investments in certain asset categories, such as below investment grade fixed income securities, equity, real estate, other equity investments and derivatives. Failure to comply with these laws and regulations would cause investments exceeding regulatory limitations to be treated as either non-admitted assets for purposes of measuring surplus or as not qualified as an asset held for reserve purposes and, in some instances, would require divestiture or replacement of such non-qualifying investments. We believe that the investment portfolios of FGL Insurance and FGL NY Insurance as of September 30, 2017 complied in all material respects with such regulations.

#### Privacy Regulation

Our operations are subject to certain federal and state laws and regulations that require financial institutions and other businesses to protect the security and confidentiality of personal information, including health-related and customer information, and to notify customers and other individuals about their policies and practices relating to their collection and disclosure of health-related and customer information and their practices relating to protecting the security and confidentiality of such information. These laws and regulations require notice to affected individuals, law enforcement agencies, regulators and others if there is a breach of the security of certain personal information, including social security numbers, and require holders of certain personal information to protect the security of the data. Our operations are also subject to certain federal regulations that require financial institutions and creditors to implement effective programs to detect, prevent, and mitigate identity theft. In addition, our ability to make telemarketing calls and to send unsolicited e-mail or fax messages to consumers and customers and our uses of certain personal information, including consumer report information, are regulated. Federal and state governments and regulatory bodies may be expected to consider additional or more detailed regulation regarding these subjects and the privacy and security of personal information.

#### FIA's

In recent years, the U.S. Securities and Exchange Commission ("SEC") and state securities regulators have questioned whether FIA's, such as those sold by us, should be treated as securities under the federal and state securities laws rather than as insurance products exempted from such laws. Treatment of these products as securities would require additional registration and licensing of these products and the agents selling them, as well as cause us to seek additional marketing relationships for these products, any of which may impose significant restrictions on our ability to conduct operations as currently operated. Under the Dodd-Frank Act, annuities that meet specific requirements, including requirements relating to certain state suitability rules, are specifically exempted from being treated as securities by the SEC. We expect that the types of FIA's FGL Insurance and FGL NY Insurance sell will meet these requirements and therefore are exempt from being treated as securities by the SEC and state securities regulators. However, there can be no assurance that federal or state securities laws or state insurance laws and regulations will not be amended or interpreted to impose further requirements on FIA's.



#### The Dodd-Frank Act

The Dodd-Frank Act makes sweeping changes to the regulation of financial services entities, products and markets. Certain provisions of the Dodd-Frank Act are or may become applicable to us, our competitors or those entities with which we do business, including, but not limited to:

- the establishment of federal regulatory authority over derivatives;
- the establishment of consolidated federal regulation and resolution authority over systemically important financial services firms;
- the establishment of the Federal Insurance Office;
- changes to the regulation of broker dealers and investment advisors;
- changes to the regulation of reinsurance;
- changes to regulations affecting the rights of shareholders;
- the imposition of additional regulation over credit rating agencies;
- 
- the imposition of concentration limits on financial institutions that restrict the amount of credit that may be extended to a single person or entity; and
- the clearing of derivative contracts.

Numerous provisions of the Dodd-Frank Act require the adoption of implementing rules or regulations, some of which have been implemented. In addition, the Dodd-Frank Act mandates multiple studies, which could result in additional legislation or regulation applicable to the insurance industry, us, our competitors or those entities with which we do business. Legislative or regulatory requirements imposed by or promulgated in connection with the Dodd-Frank Act may impact us in many ways, including, but not limited to:

- placing us at a competitive disadvantage relative to our competition or other financial services entities;
- changing the competitive landscape of the financial services sector or the insurance industry;
- making it more expensive for us to conduct our business;
- requiring the reallocation of significant company resources to government affairs;
- increasing our legal and compliance related activities and the costs associated therewith; or
- otherwise having a material adverse effect on the overall business climate as well as our financial condition and results of operations.

Until various studies are completed and final regulations are promulgated pursuant to the Dodd-Frank Act, the full impact of the Dodd-Frank Act on investments, investment activities and insurance and annuity products of FGL Insurance and FGL NY Insurance remains unclear.

#### ERISA

We may offer certain insurance and annuity products to employee benefit plans governed by ERISA and/or the Code, including group annuity contracts designated to fund tax-qualified retirement plans. ERISA and the Code provide (among other requirements) standards of conduct for employee benefit plan fiduciaries, including investment managers and investment advisers with respect to the assets of such plans, and holds fiduciaries liable if they fail to satisfy fiduciary standards of conduct.

In April 2016, the Department of Labor (“DOL”) issued the “fiduciary” rule which could have a material impact on the Company, its products, distribution, and business model. The rule provides that persons who render investment advice for a fee or other compensation with respect to an employer plan or individual retirement account (“IRA”) are fiduciaries of that plan or IRA. The rule expands the definition of fiduciary under ERISA to apply to insurance agents who advise and sell products to IRA owners. As a result, commissioned insurance agents selling the Company’s IRA products must qualify for a prohibited transaction exemption, either the newly introduced Best Interest Contract Exemption (BICE) or amended PTE 84-24. When fully implemented, BICE would apply to fixed indexed annuities and amended PTE 84-24 would apply to fixed rate annuities. The rule and exemptions have been the subject of much controversy and various actions have been taken by DOL to delay and reconsider aspects of the rule and exemptions. The rule took effect June 2016 and was scheduled to become applicable in April 2017 but the “applicability date” was delayed by DOL for 60 days from April 10, 2017 to June 9, 2017. DOL also acted to delay many aspects of the prohibited transaction exemption requirements during a transition period from June



9, 2017 to January 1, 2018 provided the agent (and if applicable, financial institution) comply with “impartial conduct standards.” The impartial conduct standards essentially require the sale to be in the “best interest” of the client, misleading statements not be made, and compensation be reasonable. More recently, DOL has proposed extending the transition period to July 1, 2019 which at the present time is still under consideration. Industry continues its efforts to overturn the rule in court actions and Congress continues to consider related legislation but the success or failure of these efforts cannot be predicted. Assuming the rule is not overturned and the requirements of the exemptions were to be implemented fully, the impact on the financial services industry generally and on the Company and its business in particular is difficult to assess. We believe however it could have an adverse effect on sales of annuity products to IRA owners particularly in the independent agent distribution channel. A significant portion of our annuity sales are to IRAs. Compliance with the prohibited transaction exemptions when fully phased in would likely require additional supervision of agents, cause changes to compensation practices and product offerings, and increase litigation risk, all of which could adversely impact our business, results of operations and/or financial condition. FGL Insurance will continue to monitor developments closely and believes it is prepared to execute implementation plans as necessary to meet the rule and exemption requirements on the requisite applicability dates.

#### Employees

As of September 30, 2017, we had 299 employees. We believe that we have a good relationship with our employees.

#### FGL Available Information

FGL’s Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) are made available, free of charge, on or through the “Investor Relations” portion of our Internet website <https://home.fglife.com>. The public may read and copy any materials that the Company has filed with the SEC at the SEC’s Public Reference Room located at 100 F Street, NE, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 800-SEC-0330. Reports filed with or furnished to the SEC will also be available as soon as reasonably practicable after they are filed with or furnished to the SEC and are available over the Internet at the SEC’s website at <http://www.sec.gov>.

Table of Contents

Item 1A. Risk Factors

In addition to the other information set forth in this Annual Report on Form 10-K, you should carefully consider the following factors which could have a material adverse effect on our business, financial condition, results of operations or stock price. The risks below are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also adversely affect our business, financial condition.

Risk factors related to the proposed merger with CF Corporation are as follows:

The Merger is subject to various closing conditions, including regulatory approvals.

As described in "Item 1. Business-Overview-Our Company," on May 24, 2017, FGL entered into a Merger Agreement by and among CF Corp., Parent and Merger Sub. Subject to the terms and conditions of the Merger Agreement, at the Effective Time, Merger Sub will merge with and into the Company, with the Company continuing as the surviving entity, which will become an indirect, wholly-owned subsidiary of CF Corp. The Merger is subject to closing conditions, including, among others, the receipt of regulatory approval from the Iowa Insurance Division.

A number of the closing conditions are outside of our control and we cannot predict with certainty whether all of the required closing conditions will be satisfied or waived or if other uncertainties may arise. In addition, regulators could impose additional requirements or obligations as conditions for their approvals, which may be burdensome. Despite our best efforts, we may not be able to satisfy the various closing conditions or obtain the necessary waivers or approvals in a timely fashion or at all, in which case the Merger would be prevented or delayed.

Failure to timely complete the Merger could adversely impact our stock price, business, financial condition and results of operations.

A failure to complete the Merger on a timely basis or at all could result in negative publicity and cause the price of our common stock to decline, in particular because our current stock price reflects a market assumption that the Merger will occur. In addition, as a result of the announcement of the Merger Agreement, trading in our stock has increased substantially. If the Merger is not consummated, the investment goals of our stockholders may be materially different than those of our stockholders on a pre-Merger announcement basis. In addition, we will remain liable for significant transaction costs that will be payable even if the Merger is not completed and could also be required to pay a termination fee to CF Corp in specific circumstances.

The pending Merger and operating restrictions contained in the Merger Agreement could adversely affect our business and operations.

The proposed Merger and certain interim operating covenants that govern the conduct of our business during the pendency of the Merger could cause disruptions to the Company's business and business relationships, which could have an adverse impact on the Company's results of operations, liquidity and financial condition. For example, the attention of the Company's management may be directed to Merger-related considerations, the Company's current and prospective employees may experience uncertainty about their future roles with the Company, which may adversely affect our ability to retain and hire key personnel, and parties with which the Company has business relationships, including customers, potential customers and distributors, may experience uncertainty as to the future of such relationships and seek alternative relationships or seek to alter their present business relationships with us in a manner that negatively impacts the Company.

Shareholder litigation against the Company, our directors and/or CF Corp could delay or prevent the Merger and cause us to incur significant costs and expenses.

Transactions such as the Merger are often subject to lawsuits by shareholders. Conditions to the closing of the Merger include that no law or order shall have been enacted, issued or enforced and in effect, that would prevent or prohibit consummation of the Merger. We cannot provide assurance as to the outcome of any potential lawsuits, including the costs associated with defending the claims or any other liabilities that may be incurred in connection with the litigation or settlement of lawsuits.



Table of Contents

Risks Relating to Our Business

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

State Regulation

Our business is subject to government regulation in each of the states in which we conduct business and is concerned primarily with the protection of policyholders and other customers rather than shareholders. Such regulation is vested in state agencies having broad administrative and discretionary, authority with respect to many aspects of our business, which may include, among other things, premium rates and increases thereto, underwriting practices, reserve requirements, marketing practices, advertising, privacy, policy forms, reinsurance reserve requirements, acquisitions, mergers and capital adequacy. At any given time, we and our insurance subsidiaries may be the subject of a number of ongoing financial or market conduct, audits or inquiries. From time to time, regulators raise issues during such examinations or audits that could have a material impact on our business.

We have received inquiries from a number of state regulatory authorities regarding our use of the U.S. Social Security Administration's Death Master File ("Death Master File") and compliance with state claims practices regulations and unclaimed property or escheatment laws. The NYDFS issued a letter and subsequent regulation requiring life insurers doing business in New York to use the Death Master File or similar databases to determine if benefits were payable under life insurance policies, annuities and retained asset accounts. Other states have enacted laws which will impose requirements on insurers to periodically compare their in-force life insurance policies and annuities against the Death Master File or similar databases, investigate any identified potential matches to confirm the death of the insured and determine whether benefits are due and attempt to locate the beneficiaries of any benefits that are due or, if no beneficiary can be located, escheat the benefit to the state as unclaimed property. We have received notice of escheatment audits from several states. We have filed suit in federal and state court to challenge the audit policies of the California controller and the applicability of California's unclaimed property laws to FGL generally. It is possible that these requirements will result in additional payments to beneficiaries, additional escheatment of funds deemed abandoned under state laws or administrative penalties and expenses. While we believe that we have established sufficient reserves with respect to these matters, it is possible that third parties could dispute these amounts and additional payments or additional unreported claims or liabilities could be required or identified given the ongoing regulatory developments, the effects of which could be significant and could have a material adverse effect on our results of operations in any one period.

State insurance departments conduct periodic examinations of the books and records, financial reporting, policy and rate filings, market conduct and business practices of insurance companies domiciled in their states, generally once every three to five years. The regulator in FGL Insurance's previous state of domicile, the MIA, completed a routine financial examination of FGL Insurance for the three-year period ended December 31, 2012. The NYDFS completed a routine financial examination of FGL NY Insurance for the three-year periods ended December 31, 2009 and is completing its exam for the period ending December 31, 2012. The Vermont Department of Financial Regulation completed a routine financial examination of Raven Re for the period from April 7, 2011 (commencement of business) through December 31, 2012. FGL Insurance is currently the subject of four ongoing market conduct examinations or inquiries in various states. While FGL Insurance does not believe that any of the current market conduct examinations it is subject to will result in any fines or remediation orders that will be material to its business, market conduct examinations can result in monetary fines or remediation and generally require FGL Insurance to devote significant resources to the management of such examinations. As a result of its re-domestication to Iowa, FGL Insurance became subject to financial and market conduct examinations by the IID, the primary regulatory authority for Iowa domestic life insurance companies.

NAIC

Although our business is subject to regulation in each state in which we conduct business, in many instances the state regulatory models emanate from the NAIC. State insurance regulators and the NAIC regularly re-examine existing laws and regulations applicable to insurance companies and their products. Changes in these laws and regulations, or interpretations thereof, are often made for the benefit of the consumer and at the expense of the insurer and, thus, could have a material adverse effect on our business, operations and financial condition. We are also subject to the

risk that compliance with any particular regulator's interpretation of a legal or accounting issue may not result in compliance with another regulator's interpretation of the same issue, particularly when compliance is judged in hindsight.

## Table of Contents

Under insurance guaranty fund laws in most states, insurance companies doing business therein can be assessed up to prescribed limits for policyholder losses incurred by insolvent companies. We cannot predict the amount or timing of any such future assessments. There is an additional risk that any particular regulator's interpretation of a legal or accounting issue may change over time to our detriment, or that changes to the overall legal or market environment, even absent any change of interpretation by a particular regulator, may cause us to change our views regarding the actions we need to take from a legal risk management perspective, which could necessitate changes to our practices that may, in some cases, limit our ability to grow and improve profitability.

Some of the NAIC pronouncements, particularly as they affect accounting issues, take effect automatically in the various states without affirmative action by the states. Statutes, regulations and interpretations may be applied with retroactive impact, particularly in areas such as accounting and reserve requirements. Also, regulatory actions with prospective impact can potentially have a significant impact on our current product offerings. The NAIC continues to work to reform state regulation in various areas, including comprehensive reforms relating to life insurance reserves. On June 10, 2016, the NAIC formally approved principle-based reserving for life insurance products with secondary guarantees, with an effective date January 1, 2017. A three year transition period is available which delays application of the new guidance until January 1, 2020. Additionally, various statutory accounting guidance is being evaluated, including investment value of insurance subsidiaries.

### Federal Regulation

In April 2016, the DOL issued the "fiduciary" rule which could have a material impact on the Company, its products, distribution, and business model. The rule provides that persons who render investment advice for a fee or other compensation with respect to an employer plan or IRA are fiduciaries of that plan or IRA. The rule expands the definition of fiduciary under ERISA to apply to insurance agents who advise and sell products to IRA owners. As a result, commissioned insurance agents selling the Company's IRA products must qualify for a prohibited transaction exemption, either the newly introduced BICE or amended PTE 84-24. When fully implemented, BICE would apply to fixed indexed annuities and amended PTE 84-24 would apply to fixed rate annuities. The rule and exemptions have been the subject of much controversy and various actions have been taken by DOL to delay and reconsider aspects of the rule and exemptions. The rule took effect June 2016 and was scheduled to become applicable in April 2017 but the "applicability date" was delayed by DOL for 60 days from April 10, 2017 to June 9, 2017. DOL also acted to delay many aspects of the prohibited transaction exemption requirements during a transition period from June 9, 2017 to January 1, 2018 provided the agent (and if applicable, financial institution) comply with "impartial conduct standards." The impartial conduct standards essentially require the sale to be in the "best interest" of the client, misleading statements not be made, and compensation be reasonable. More recently, DOL has proposed extending the transition period to July 1, 2019 which at the present time is still under consideration. Industry continues its efforts to overturn the rule in court actions and Congress continues to consider related legislation but the success or failure of these efforts cannot be predicted. Assuming the rule is not overturned and the requirements of the exemptions were to be implemented fully, the impact on the financial services industry generally and on the Company and its business in particular is difficult to assess. We believe however it could have an adverse effect on sales of annuity products to IRA owners particularly in the independent agent distribution channel. A significant portion of our annuity sales are to IRAs. Compliance with the prohibited transaction exemptions when fully phased in would likely require additional supervision of agents, cause changes to compensation practices and product offerings, and increase litigation risk, all of which could adversely impact our business, results of operations and/or financial condition. FGL Insurance will continue to monitor developments closely and believes it is prepared to execute implementation plans as necessary to meet the rule and exemption requirements on the requisite applicability dates.

### Other Regulation

Other types of regulation that could affect us include insurance company investment laws and regulations, state adopted statutory accounting principles, antitrust laws, minimum solvency requirements, federal privacy laws, insurable interest laws and federal anti-money laundering and anti-terrorism laws.

Compliance with applicable laws and regulations is time-consuming and personnel-intensive, and changes in laws and regulations may materially increase the cost of compliance and other expenses of doing business. There are a number

of risks that may arise where applicable regulations may be unclear, subject to multiple interpretations or under development or where regulations may conflict with one another, where regulators revise their previous guidance or courts overturn previous rulings, which could result in our failure to meet applicable standards. Regulators and other authorities have the power to bring administrative or judicial proceedings against us, which

Table of Contents

could result, among other things, in suspension or revocation of our licenses, cease and desist orders, fines, civil penalties, criminal penalties or other disciplinary action, which could materially harm our results of operations and financial condition. If we fail to address, or appear to fail to address, appropriately any of these matters, our reputation could be harmed and we could be subject to additional legal risk, which could increase the size and number of claims and damages asserted against us or subject us to enforcement actions, fines and penalties. See “Business-Regulation” for further discussion of the impact of regulations on our business.

We cannot predict what form any future changes in these or other areas of regulation affecting the insurance industry might take or what effect, if any, such proposals might have on us if enacted into law. In addition, because our activities are relatively concentrated in a small number of lines of business, any change in law or regulation affecting one of those lines of business could have a disproportionate impact on us as compared to other more diversified insurance companies.

Accounting rules, changes to accounting rules, or the grant of permitted accounting practices to competitors could negatively impact us.

We are required to comply with U.S. GAAP. A number of organizations are instrumental in the development and interpretation of U.S. GAAP, such as the SEC, the Financial Accounting Standards Board (“FASB”) and the American Institute of Certified Public Accountants. U.S. GAAP is subject to constant review by these organizations and others in an effort to address emerging accounting issues and to interpret existing accounting guidance. We cannot assure you that future changes to U.S. GAAP will not have a negative impact on us. U.S. GAAP includes the requirement to carry certain assets and liabilities at fair value. These fair values are sensitive to various factors including, but not limited to, interest rate movements, credit spreads, and various other factors. Because of this, changes in these fair values may cause increased levels of volatility in our consolidated financial statements.

Our insurance subsidiaries are required to comply with statutory accounting principles (“SAP”). SAP and in particular actuarial reserving methodology are subject to constant review by the NAIC and its task forces and committees as well as state insurance departments in an effort to address emerging issues and otherwise improve financial reporting. Various proposals are currently, or have previously been, pending before committees and task forces of the NAIC, some of which, if enacted, would negatively affect our insurance subsidiaries. The NAIC is also currently working to reform state regulation in various areas, including comprehensive reforms relating to life insurance reserves and the accounting for such reserves. We cannot predict whether or in what form reforms will be enacted and, if so, whether the enacted reforms will positively or negatively affect us. In addition, the NAIC Accounting Practices and Procedures manual provides that state insurance departments may permit insurance companies domiciled therein to depart from SAP by granting them permitted accounting practices. We cannot predict whether or when the insurance departments of the states of domicile of our competitors may permit them to utilize advantageous accounting practices that depart from SAP, the use of which is not permitted by the insurance departments of the states of domicile of us and our insurance subsidiaries. With respect to regulations and guidelines, states sometimes defer to the interpretation of the insurance department of the state of domicile. Neither the action of the domiciliary state nor action of the NAIC is binding on a state. Accordingly, a state could choose to follow a different interpretation. We can give no assurance that future changes to SAP or components of SAP or the grant of permitted accounting practices to its competitors will not have a negative impact on us.

The agreements and instruments governing our debt contain significant operating and financial restrictions, which may prevent us from capitalizing on business opportunities.

The indenture governing the 6.375% senior notes due 2021 (the “Senior Notes”) issued by FGLH and the three-year \$150 unsecured revolving credit facility (the “Credit Agreement”); each contains various restrictive covenants which limit, among other things, FGLH’s ability to:

- incur additional indebtedness;
- pay dividends or certain other distributions on its capital stock other than as allowed under the indenture and the Credit Agreement;
- make certain investments or other restricted payments;
- engage in transactions with stockholders or affiliates;
- sell certain assets or merge with or into other companies;

- change our accounting policies;
- enter into restrictive agreements;

28

---

Table of Contents

guarantee indebtedness; and  
create liens.

In addition, if FGL or FGLH undergoes a “change of control” as defined in the indenture, each holder of Senior Notes will have the right to require us to repurchase their Senior Notes at a price equal to 101% of the principal amount and any accrued but unpaid interest.

As a result of these restrictions and their effect on us, we may be limited in how we conduct our business and we may be unable to raise additional debt financing to compete effectively or to take advantage of new business opportunities. The terms of any future indebtedness we or our subsidiaries may incur could include more restrictive covenants. For detailed information about restrictions governing our debt, see Part II, Item 7. "Debt" in this report.

Our results of operations and financial condition depend on the accuracy of a broad range of assumptions and estimates made by our management.

We make certain assumptions and estimates regarding mortality, persistency, expenses, interest rates, tax liability, business mix, frequency of claims, contingent liabilities, investment performance, derivative costs and other factors related to our business and anticipated results. We rely on these assumptions and estimates to determine the amounts of deferred acquisition cost (“DAC”) and value of business acquired (“VOBA”), policy liabilities and accruals, future earnings and various components of our consolidated balance sheets and income statements. These assumptions are also used in making decisions crucial to the operation of our business, including the pricing of products and expense structures related to products. The calculations we use to estimate various components of our balance sheet and consolidated statement of operations are necessarily complex and involve analyzing and interpreting large quantities of data. The assumptions and estimates required for these calculations involve judgment and by their nature are imprecise and subject to changes and revisions over time. These assumptions and estimates incorporate many factors, none of which can be predicted with certainty. To the extent our actual experience and changes in estimates differ from original estimates and assumptions, our business, Consolidated Statement of Operations and financial condition may be materially adversely affected. Accordingly, our results may be adversely affected by changes resulting from implementing more sophisticated administrative systems and procedures that facilitate the calculation of more precise estimates.

We have minimal experience to date on policyholder behavior for our GMWB products which we began issuing in 2008; as a result, future experience could lead to significant changes in our assumptions. If emerging experience deviates from our assumptions on GMWB utilization, it could have a significant effect on our reserve levels and related results of operations. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Critical Accounting Policies and Estimates”.

Our financial condition and results of operations could be adversely impacted if our assumptions regarding the fair value and future performance of our investments differ from actual experience.

We make assumptions regarding the fair value and expected future performance of our investments. It is possible that actual values will differ from our assumptions. Such events could result in a material change in the value of our investments, business, operations and financial condition.

For example, expectations that our investments in RMBS and CMBS will continue to perform in accordance with their contractual terms are based on assumptions a market participant would use in determining the current fair value and considering the performance of the underlying assets. We have non-agency RMBS holdings of \$1 billion as of September 30, 2017. It is possible that the collateral underlying these investments will not meet performance expectations and the lower performance levels may lead to adverse changes in the cash flows on our holdings of these types of securities. This could lead to potential future other-than-temporary impairments (“OTTI”) within our portfolio of these securities. In addition, expectations that our investments in corporate securities or debt obligations will continue to perform in accordance with their contractual terms are based on evidence gathered through our normal credit surveillance process. It is possible that issuers of corporate securities in which we have invested will perform worse than current expectations. Such events may lead us to recognize potential future OTTI within our portfolio of corporate securities. We recorded OTTI charges of approximately \$22 and \$44 for the fiscal years ended September 30, 2017 and 2016, respectively. It is also possible that unanticipated events would lead us to dispose of certain of those holdings and recognize the effects of any market movements in our financial statements.





Table of Contents

A financial strength ratings downgrade, potential downgrade, or any other negative action by a rating agency, could make our product offerings less attractive and increase our cost of capital, and thereby adversely affect our financial condition and results of operations.

Various nationally recognized rating agencies review the financial performance and condition of insurers, including our insurance subsidiaries, and publish their financial strength ratings as indicators of an insurer's ability to meet policyholder and contractholder obligations. These ratings are important to maintaining public confidence in our products, our ability to market our products and our competitive position. Any downgrade or other negative action by a rating agency with respect to the financial strength ratings of our insurance subsidiaries could have a materially adverse effect on us in many ways, including the following:

- adversely affecting relationships with distributors, IMOs and sales agents, which could result in reduction of sales;
- increasing the number or amount of policy lapses or surrenders and withdrawals of funds;
- requiring a reduction in prices for our insurance products and services in order to remain competitive;
- adversely affecting our ability to obtain reinsurance at a reasonable price, on reasonable terms or at all; and
- requiring us to collateralize reserves, balances or obligations under reinsurance and derivatives agreements.

Rating agencies assign ratings based upon several factors. While most of these factors relate to the rated company, some factors relate to the views of the rating agency, general economic conditions and circumstances outside the rated company's control. In addition, rating agencies use various proprietary models and formulas to assess the strength of a rated company, and from time to time rating agencies have altered their models and may do so in the future in ways that negatively impact the financial strength ratings of our insurance subsidiaries and make it more difficult to maintain or obtain comparable ratings going forward. As rating agencies continue to evaluate the financial services industry, it is possible that rating agencies will heighten the level of scrutiny that they apply to financial institutions, increase the frequency and scope of their credit reviews, request additional information from the companies that they rate and potentially adjust upward the capital and other requirements employed in the rating agency models for maintenance of certain ratings levels. It is possible that the outcome of any such review of us would have additional adverse ratings consequences, which could have a material adverse effect on our results of operations, financial condition and liquidity. We may need to take actions in response to changing standards or capital requirements set by any of the rating agencies which could cause our business and operations to suffer. If the financial strength ratings of our insurance subsidiaries are downgraded, we anticipate that our sales of new policies will be adversely impacted and that we could experience substantial surrenders of existing policies. In order to improve or maintain their financial strength ratings, our insurance subsidiaries may limit the amount of dividends that they would otherwise pay to us. In that regard, we may, among other things, implement business strategies to improve the RBC ratio of our insurance subsidiaries to a level anticipated by the rating agencies to maintain or improve our current rating. If we are unable to achieve this level, we may limit dividend payments from FGL Insurance to the extent necessary. We cannot guarantee these measures will be successful, and if FGL Insurance fails to maintain such a target RBC ratio, its financial strength rating could suffer. We cannot predict what actions rating agencies may take in the future, and failure to improve or maintain current financial strength ratings could adversely affect our financial condition and results of operations. Following the announcement of the CF Corp Merger Agreement on May 24, 2017, the rating organizations have undertaken a review of our debt ratings and our insurance company subsidiaries' financial strength ratings. The rating organizations may take various actions, positive or negative. Such actions are beyond FGL's control and FGL cannot predict what these actions may be and the timing thereof.

We are required to maintain minimum ratings as a matter of routine practice under our over-the-counter derivative agreements on forms promulgated by the ISDA. Under some ISDA agreements, we have agreed to maintain certain financial strength ratings. A downgrade below these levels provides the counterparty under the agreement the right to terminate the open derivative contracts between the parties, at which time any amounts payable by us or the counterparty would be dependent on the market value of the underlying derivative contracts. Our current rating allows multiple counterparties the right to terminate ISDA agreements. As of September 30, 2017, the amount at risk for ISDA agreements which could be terminated based upon our current ratings was \$413, which equals the fair value to us of the open over-the-counter call option positions. The fair value of the call options can never decrease below zero. No ISDA agreements have been terminated, although the counterparties have



Table of Contents

reserved the right to terminate the ISDA agreements at any time. In certain transactions, we and the counterparty have entered into a collateral support agreement requiring either party to post collateral when the net exposures exceed predetermined thresholds. These thresholds vary by counterparty and credit rating but are generally zero. As of September 30, 2017 and 2016, \$381 and \$128, respectively, of collateral was posted by our counterparties.

Accordingly, the maximum amount of loss due to credit risk that we would incur if parties to the call options failed completely to perform according to the terms of the contracts was \$32 and \$148 at September 30, 2017 and 2016, respectively.

Additionally, under certain insurance reserve financing arrangements, if FGLH were to take certain actions without the counterparties consent, and such actions resulted in a specified financial strength ratings downgrade, FGLH would be in default.

See “Item 7A. Quantitative and Qualitative Disclosures about Market Risk-Credit Risk and Counterparty Risk”.

The amount of statutory capital that our insurance subsidiaries have and the amount of statutory capital that they must hold to maintain their financial strength ratings and meet other requirements can vary significantly from time to time due to a number of factors outside of our control.

Our insurance subsidiaries are subject to regulations that provide minimum capitalization requirements based on RBC formulas for life insurance companies that establish capital requirements relating to insurance, business, asset, interest rate, and certain other risks.

In any particular year, statutory surplus amounts and RBC ratios may increase or decrease depending on a variety of factors, most of which are outside of our control, including, but not limited to, the following:

- the amount of statutory income or losses generated by our insurance subsidiaries (which itself is sensitive to equity market and credit market conditions);
- the amount of additional capital our insurance subsidiaries must hold to support business growth;
- changes in reserve requirements applicable to our insurance subsidiaries;
- our ability to access capital markets to provide reserve relief;
- changes in equity market levels;
- the value of certain fixed-income and equity securities in our investment portfolio;
- changes in the credit ratings of investments held in our portfolio;
- the value of certain derivative instruments;
- changes in interest rates;
- credit market volatility;
- changes in consumer behavior; and
- changes to the RBC formulas and interpretation of the NAIC instructions with respect to RBC calculation methodologies.

The financial strength ratings of our insurance subsidiaries are significantly influenced by their statutory surplus amounts and capital adequacy ratios. Rating agencies may also implement changes to their internal models, which differ from the RBC capital model, that have the effect of increasing or decreasing the amount of statutory capital our insurance subsidiaries must hold in order to maintain their current ratings. In addition, rating agencies may downgrade the investments held in our portfolio, which could result in a reduction of our capital and surplus and our RBC ratio. In extreme equity market declines, the amount of additional statutory reserves our insurance subsidiaries are required to hold for fixed indexed products may decrease at a rate less than the rate of change of the market value of the invested assets. This mismatch could result in a reduction of the capital, surplus or RBC ratio of our insurance subsidiaries. To the extent that an insurance subsidiary’s RBC ratios are deemed to be insufficient, we may take actions either to increase the capitalization of the insurer or to reduce the capitalization requirements. If we are unable to take such actions, the rating agencies may view this as a reason for a ratings downgrade.

Table of Contents

While the amount of statutory reserves is not directly affected by changes in market interest rates, additional statutory reserves may be required as the result of an asset adequacy analysis, and this analysis of cash flow testing is altered by rising or falling interest rates and widening credit spreads.

The failure of any of our insurance subsidiaries to meet its applicable RBC requirements or minimum capital and surplus requirements could subject it to further examination or corrective action imposed by insurance regulators, including limitations on its ability to write additional business, supervision by regulators or seizure or liquidation. Any corrective action imposed could have a material adverse effect on our business, results of operations and financial condition. A decline in RBC ratios also limits the ability of an insurance subsidiary to make dividends or distributions to us and could be a factor in causing rating agencies to downgrade the insurer's financial strength ratings, which could have a material adverse effect on our business, results of operations and financial condition.

Our insurance subsidiaries' ability to grow depends in large part upon the continued availability of capital.

Our insurance subsidiaries' long-term strategic capital requirements will depend on many factors, including their accumulated statutory earnings and the relationship between their statutory capital and surplus and various elements of required capital. To support long-term capital requirements, we and our insurance subsidiaries may need to increase or maintain statutory capital and surplus through financings, which could include debt, equity, financing arrangements or other surplus relief transactions. Adverse market conditions have affected and continue to affect the availability and cost of capital from external sources. We are not obligated, may choose not, or may not be able to provide financing or make capital contributions to our insurance subsidiaries. Consequently, financings, if available at all, may be available only on terms that are not favorable to us or our insurance subsidiaries. If our insurance subsidiaries cannot maintain adequate capital, they may be required to limit growth in sales of new policies, and such action could materially adversely affect our business, operations and financial condition.

We and HRG may be the target of future litigation, law enforcement investigations or increased regulatory scrutiny.

The financial services industry, including the insurance sector, is sometimes the target of law enforcement and regulatory investigations or other actions resulting from such investigations. Resulting publicity about any such investigation or action may generate inquiries or investigations into or litigation against other financial services companies, even those who do not engage in the business lines or practices at issue in the original action. Responding to these inquiries, investigations and lawsuits, regardless of the ultimate outcome of the proceeding, is time-consuming and expensive and can divert the time and effort of our management from its business.

Future legislation or regulation or governmental views on business practices in the financial services industry may result in our altering our practices in ways that could adversely affect our business and results of operations. It is impossible to predict the outcome of such investigations or actions, whether they will expand into other areas not yet contemplated, whether they will result in changes in regulation, whether activities currently thought to be lawful will be characterized as unlawful, or the impact, if any, of such scrutiny on the financial services and insurance industry or on us. Adverse publicity, governmental scrutiny, pending or future investigations by regulators or law enforcement agencies and/or legal proceedings involving us or our affiliates can also have a negative impact on our reputation and on the morale and performance of employees, and on business retention and new sales, which could adversely affect our business and results of operations.

Financial services companies are frequently the targets of litigation, including class action litigation, which could result in substantial judgments.

We, like other financial services companies, are involved in litigation and arbitration in the ordinary course of business. Although we do not believe that the outcome of any such litigation or arbitration will have a material adverse effect on our financial condition, it is possible our results of operations and cash flows could be materially affected by an unfavorable outcome. More generally, we operate in an industry in which various practices are subject to scrutiny and potential litigation, including class actions. In addition, we sell our products through IMOs, whose activities may be difficult to monitor. Civil jury verdicts have been returned against insurers and other financial services companies involving sales, underwriting practices, product design, product disclosure, administration, denial or delay of benefits, charging excessive or impermissible fees, recommending unsuitable products to customers, breaching fiduciary or other duties to customers, refund or claims practices, alleged agent misconduct, failure to properly supervise representatives, relationships with agents or other persons with whom the insurer does business,

payment of sales or other contingent commissions and other matters. Such lawsuits can result in substantial judgments that are disproportionate to the actual damages, including material amounts of

Table of Contents

punitive 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, financial services companies have made material settlement payments.

Our reinsurers, including Wilton Re and FSRCI, could fail to meet assumed obligations, increase their rates, or become subject to adverse developments that could materially adversely affect our business, financial condition and results of operations.

Our insurance subsidiaries cede material amounts of insurance and transfer related assets and certain liabilities to other insurance companies through reinsurance. For example, a material amount of reinsured liabilities are concentrated with Wilton Re and FSRCI. As of September 30, 2017, the amount recoverable from Wilton Re and FSRCI was \$1,535 and \$1,016, respectively. As of September 30, 2017, the reserves ceded to Wilton Re and FSRCI were \$1,477 and \$1,016, respectively. Given our significant concentration of reinsurance with Wilton Re, if Wilton Re fails to perform its obligations under the various reinsurance treaties, such failure could have a material impact on our financial position. See “Business- Reinsurance-Wilton Re Transaction”. However, notwithstanding the transfer of related assets and certain liabilities, we remain liable with respect to ceded insurance should any reinsurer fail to meet the obligations assumed. Accordingly, we bear credit risk with respect to our reinsurers. The failure, insolvency, inability or unwillingness of any reinsurer to pay under the terms of reinsurance agreements with us could materially adversely affect our business, financial condition and results of operations. To mitigate the counterparty risk for the FSRCI transaction, the assets are held on FGL Insurance's balance sheet and are used as collateral in the event of a failure. For Wilton Re, A+ rated from Fitch, we monitor the credit rating. During 2014 Wilton Re announced their purchase by Canadian Pension Plan Investment Board, (“CCIB”), an AAA rated organization. With the capital resources of CCIB behind Wilton Re, we believe the counterparty risk is low. See “Business- Reinsurance-Wilton Re Transaction”.

Our ability to compete is dependent on the availability of reinsurance or other substitute financing solutions, both of which could involve the use of reinsurance affiliates referred to generally as “captives”. Premium rates charged by us are based, in part, on the assumption that reinsurance will be available at a certain cost. Under certain reinsurance agreements, the reinsurer may increase the rate it charges us for the reinsurance. Therefore, if the cost of reinsurance were to increase, if reinsurance were to become unavailable on commercially reasonable terms or at all, if alternatives to reinsurance were not available to us, if the use of captives were materially restricted through regulation, including certain general proposals currently under consideration by the NAIC, our business, financial condition and results of operations could be materially adversely affected.

The credit for reinsurance taken by our insurance subsidiaries under offshore reinsurance agreements is, under certain conditions, dependent upon the offshore reinsurer’s ability to obtain and provide sufficient qualifying assets in a qualifying trust or qualifying letters of credit issued by qualifying lending banks. The cost of letters of credit, when available, continues to be very expensive in the current economic environment. Loss of reserve credit by an insurance subsidiary would require it to establish additional reserves and would result in a decrease in the level of its capital, which could have a material adverse effect on our profitability, results of operations and financial condition.

In recent years, access to reinsurance has become more costly for members of the insurance industry, including us. In addition, the number of life reinsurers has decreased as the reinsurance industry has consolidated. The decreased number of participants in the life reinsurance market resulted in increased concentration of risk for insurers, including us. If the reinsurance market further contracts, our ability to continue to offer our products on terms favorable to us could be negatively impacted, resulting in adverse consequences to our business, operations and financial condition.

In addition, reinsurers are facing many challenges regarding illiquid credit or capital markets, investment downgrades, rating agency downgrades, deterioration of general economic conditions and other factors negatively impacting the financial services industry generally. If such events cause a reinsurer to fail to meet its obligations, our business, financial condition and results of operations could be materially adversely affected.



Table of Contents

Restrictions on our ability to use captive reinsurers could adversely impact our competitive position and results of operations.

The NAIC and state insurance regulators continue to review life insurance companies' use of affiliated captive reinsurers or off-shore entities. On June 4, 2014, Rector & Associates, a consulting firm commissioned by the NAIC, presented a revised report (the "Rector Report") to the Principle-Based Reserving Implementation Task Force of the NAIC which proposes a new regulatory framework for captives assuming term life insurance ("XXX") or universal life insurance with secondary guarantees ("AXXX") business, and recommends, among other things, placing limitations on the types of assets that may be used to finance reserves associated with XXX and AXXX business and making an individual state's adoption of the new regulations contemplated by the report an NAIC accreditation standard. On August 17, 2014, the NAIC Executive (EX) Committee adopted the regulatory framework proposed by the Rector Report, including recommendations to have various NAIC technical subgroups propose regulations and guidelines to implement the new framework. These technical working groups are in various stages of developing and proposing regulations and guidelines. On October 9, 2014, the NAIC's Principle-Based Reserving Implementation Task Force voted to expose for comment a new Actuarial Guideline (AG48) designed to implement many of the recommendations in the Rector Report related to the amount of assets that may be supported by different asset classes in connection with certain transactions involving captive reinsurance companies. AG48 was adopted effective January 1, 2015 and did not materially impact the Company's financial statements or actuarial opinion.

If state insurance regulators restrict the use of captive reinsurers or if we otherwise are unable to continue to use captive reinsurers in the future, our ability to write certain products, to manage the associated risks and to deploy capital efficiently, could be adversely affected, or we may need to increase prices on those products, which could adversely impact our competitive position and our results of operations.

Interest rate fluctuations and withdrawal demands in excess of our assumptions could negatively affect our business, financial condition and results of operations.

We offer certain products that allow policyholders to withdraw their funds under defined circumstances. In order to meet such funding obligations, we manage our liabilities and configure our investment portfolios so as to provide and maintain sufficient liquidity to support expected withdrawal demands and contract benefits and maturities. However, in order to provide necessary long-term returns, a certain portion of our assets are relatively illiquid. There can be no assurance that withdrawal demands will match our estimation of withdrawal demands, however in an effort to mitigate this risk we assess surrender charges on withdrawals in excess of allowable penalty-free amounts that occur prior to surrender expiration. As interest rates increase, we are exposed to the risk of financial disintermediation through a potential increase in the number of withdrawals. Disintermediation risk refers to the risk that policyholders may surrender their contracts in a rising interest rate environment, requiring us to liquidate assets in an unrealized loss position. If we experience unexpected withdrawal activity, whether as a result of interest rate movements, financial strength downgrades or otherwise, we could exhaust our liquid assets and be forced to liquidate other less liquid assets, possibly at a loss or on other unfavorable terms, which could have a material adverse effect on our business, financial condition and results of operations. Additionally, we may experience spread compression, and a loss of anticipated earnings, if credited interest rates are increased on renewing contracts in an effort to decrease or manage withdrawal activity.

Interest rates are subject to volatility and fluctuations. For the past several years, interest rates have trended downwards to historically low levels. In order to meet our policy and contractual obligations, we must earn a sufficient return on our invested assets. A prolonged period of historically low rates or significant changes in interest rates could expose us to the risk of not achieving sufficient return on our invested assets by not achieving anticipated interest earnings, or of not earning anticipated spreads between the interest rate earned on investments and the credited interest rates paid on outstanding policies and contracts. Additionally, a prolonged period of low interest rates in the future may lengthen liability maturity, thus increasing the need for a re-investment of assets at yields that are below the amounts required to support guarantee features of our contracts. Both rising and declining interest rates can negatively affect our interest earnings and spread income (the difference between the returns we earn on our investments and the amounts we must credit to policyholders and contractholders). While we develop and maintain asset liability management ("ALM") programs and procedures designed to mitigate the effect on interest earnings and



spread income in rising or falling interest rate environments, no assurance can be given that changes in interest rates will not materially adversely affect our business, financial condition and results of operations. Our expectation for future interest earnings and spread income is an important component in amortization of DAC and VOBA and significantly lower interest earnings or spreads may cause us to accelerate amortization,

Table of Contents

thereby reducing net income in the affected reporting period. An extended period of declining interest rates or a prolonged period of low interest rates may also cause us to change our long-term view of the interest rates that we can earn on our investments. Such a change in our view would cause us to change the long-term interest rate that we assume in our calculation of insurance assets and liabilities under U.S. GAAP. This revision would result in increased reserves and other unfavorable consequences. In addition, while the amount of statutory reserves is not directly affected by changes in market interest rates, additional statutory reserves may be required as the result of an asset adequacy analysis, which is altered by rising or falling interest rates and widening credit spreads.

Additionally, our ALM programs and procedures incorporate assumptions about the relationship between short-term and long-term interest rates and relationships between risk-adjusted and risk-free interest rates, market liquidity and other factors. The effectiveness of our ALM programs and procedures may be negatively affected whenever actual results differ from these assumptions.

Changes in interest rates may also affect the attractiveness of certain of our products. For example, lower interest rates may result in decreased sales of certain of our insurance and investment products. However, during periods of declining interest rates, certain life insurance and annuity products may be relatively more attractive investments to consumers, resulting in increased premium payments on products with flexible premium features, repayment of policy loans and increased persistency or a higher percentage of insurance policies remaining in force from year to year during a period when our investments carry lower returns. As a result, we could become unable to earn our desired level of spread income.

During periods of increasing market interest rates, we may offer higher crediting rates on interest-sensitive products, such as universal life insurance and fixed annuities, and we may increase crediting rates on in-force products to keep these products competitive. Increases in crediting rates, as well as surrenders and withdrawals, could have a material adverse effect on our business, financial condition and results of operations. In addition, if long-term interest rates rise dramatically within a six- to twelve-month time period, certain of our products may be exposed to disintermediation risk. Higher interest rates may increase the cost of debt and other obligations having floating rate or rate reset provisions and may result in lower sales of other products. A rise in interest rates, in the absence of other countervailing changes, will increase the gross unrealized loss position of our investment portfolio which will decrease our accumulated other comprehensive income and shareholders' equity. Our gross unrealized loss on our available for sale ("AFS") portfolio was \$139 as of September 30, 2017 compared to \$269 as of September 30, 2016. Our investments are subject to market and credit risks. These risks could be heightened during periods of extreme volatility or disruption in financial and credit markets.

Our invested assets and derivative financial instruments are subject to risks of credit defaults and changes in market values. Periods of extreme volatility or disruption in the financial and credit markets could increase these risks. Underlying factors relating to volatility affecting the financial and credit markets could have a material adverse impact on our results of operations or financial condition.

The value of our mortgage-backed investments depends in part on the financial condition of the borrowers and tenants for the properties underlying those investments, as well as general and specific economic trends affecting the overall default rate. We are also subject to the risk that cash flows resulting from the payments on pools of mortgages that serve as collateral underlying the mortgage-backed securities we own may differ from our expectations in timing or size. Cash flow variability arising from an unexpected acceleration in mortgage prepayment behavior can be significant, and could cause a decline in the estimated fair value of certain "interest-only" securities within our mortgage-backed securities portfolio. Any event reducing the estimated fair value of these securities, other than on a temporary basis, could have an adverse effect on our business, results of operations and financial condition.

Significant continued financial and credit market volatility, changes in interest rates, credit spreads, credit defaults, real estate values, market illiquidity, declines in equity prices, acts of corporate malfeasance, ratings downgrades of the issuers or guarantors of these investments and declines in general economic conditions, either alone or in combination, could have a material adverse impact on our results of operations, financial condition or cash flows through realized losses, OTTI, changes in unrealized loss positions and increased demands on capital. As of September 30, 2017 and 2016, we had gross unrealized losses on our AFS portfolio of \$139 and \$269, respectively. In addition, our investment portfolio is concentrated in certain industries. As of September 30, 2017 and 2016, our most

significant investment in one industry was our investment securities in the banking industry

35

---

Table of Contents

with a fair value of \$2,827 and \$2,448, or 12% and 12%, respectively, of the invested assets portfolio. Our holdings in this industry include investments in 115 and 97 different issuers as of September 30, 2017 and 2016, respectively, with the top ten investments accounting for 30% and 34% of the total holdings in this industry as of September 30, 2017 and 2016, respectively. In addition, market volatility can make it difficult for us to value certain of our assets, especially if trading becomes less frequent. Valuations may include assumptions or estimates that may have significant period-to-period changes that could have an adverse impact on our results of operations or financial condition.

We are exposed to credit loss in the event of non-performance by our counterparties on call options. We seek to reduce the risk associated with such agreements by purchasing such options from large, well-established financial institutions, but there can be no assurance that we will not suffer losses in the event of counterparty non-performance. As of September 30, 2017 and 2016, \$381 and \$128, respectively, of collateral was posted by our counterparties. Accordingly, the maximum amount of loss due to credit risk that we would incur if parties to the call options failed completely to perform according to the terms of the contracts was \$32 and \$148 at September 30, 2017 and 2016, respectively. See "Note 5. Derivative Financial Instruments" to our audited Consolidated Financial Statements for further discussion of credit risk.

Equity market volatility could negatively impact our business.

Equity market volatility can negatively affect our revenues and profitability in various ways, particularly as a result of guaranteed minimum withdrawal or surrender benefits in our products. The estimated cost of providing GMWB incorporates various assumptions about the overall performance of equity markets over certain time periods. Periods of significant and sustained downturns in equity markets or increased equity volatility could result in an increase in the valuation of the future policy benefit or policyholder account balance liabilities associated with such products, resulting in a reduction in our revenues and net income. The rate of amortization of DAC and VOBA relating to FIA products and the cost of providing guaranteed minimum withdrawal or surrender benefits could also increase if equity market performance is worse than assumed, hence materially and adversely impacting our results of operations and financial condition.

Credit market volatility or disruption could adversely impact our financial condition or results of operations.

Significant volatility or disruption in credit markets could have a material adverse effect on our business, financial condition and results of operations. Changes in interest rates and credit spreads could cause market price and cash flow variability in the fixed income instruments in our investment portfolio. Significant volatility and lack of liquidity in the credit markets could cause issuers of the fixed-income securities in our investment portfolio to default on either principal or interest payments on these securities. Additionally, market price valuations may not accurately reflect the underlying expected cash flows of securities within our investment portfolio.

Changes in federal or state tax laws may affect sales of our products and profitability.

The annuity and life insurance products that we market generally provide the policyholder with certain federal income or state tax advantages. For example, federal income taxation on any increases in non-qualified annuity contract values (i.e., the "inside build-up") is deferred until it is received by the policyholder. Non-qualified annuities are annuities that are not sold to a qualified retirement plan. With other savings investments, such as certificates of deposit and taxable bonds, the increase in value is generally taxed each year as it is realized. Additionally, life insurance death benefits are generally exempt from income tax.

From time to time, various tax law changes have been proposed that could have an adverse effect on our business, including the elimination of all or a portion of the income tax advantages described above for annuities and life insurance. Additionally, insurance products, including the tax favorable features of these products, generally must be approved by the insurance regulators in each state in which they are sold. This review could delay the introduction of new products or impact the features that provide for tax advantages and make such products less attractive to potential purchasers. If legislation were enacted to eliminate the tax deferral for annuities, such a change would have a material adverse effect on our ability to sell non-qualified annuities.

We may be required to increase our valuation allowance against our deferred tax assets, and may face restrictions on our ability to fully utilize such assets which could materially adversely affect our capital position, business, operations and financial condition.

Deferred tax assets refer to assets that are attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets in essence represent future savings of taxes that would otherwise be paid in cash. The realization of the deferred tax assets is dependent

Table of Contents

upon the generation of sufficient future taxable income, including capital gains. If it is determined that the deferred tax assets cannot be realized, a deferred tax valuation allowance must be established, with a corresponding charge to net income.

Based on our current assessment of future taxable income, including available tax planning opportunities, we anticipate that it is more likely than not that we will generate sufficient taxable income to realize all of our deferred tax assets as to which we do not have a valuation allowance. If future events differ from our current forecasts, the valuation allowance may need to be increased from the current amount, which could have a material adverse effect on our capital position, business, operations and financial condition.

We may be subject to an additional tax as a personal holding company on future undistributed personal holding company income if we generate passive income in excess of operating expenses (subject to certain exclusions relating to our life insurance subsidiaries).

Section 541 of the Code subjects a corporation (not including a life insurance corporation) that is a “personal holding company” (“PHC”) to a 20% tax on “undistributed personal holding company income” in addition to a corporation’s normal income tax. A corporation (not including a life insurance corporation) is also generally considered to be a PHC if (i) at least 60% of its adjusted ordinary gross income (excluding dividends paid by any non-consolidated life insurance subsidiary) is PHC Income (defined below) and (ii) more than 50% in value of its outstanding stock is owned, directly or indirectly, by five or fewer individuals (including, for this purpose, certain organizations and trusts) at any time during the last half of the taxable year. Personal holding company income (“PHC Income”) is comprised primarily of passive investment income (but does not include non-passive income such as insurance premiums or dividends paid by any non-consolidated life insurance subsidiary) plus, under certain circumstances, personal service income.

So long as individuals and their affiliates hold (directly or by attribution) more than 50% in value of our outstanding common stock, including through ownership of the outstanding common stock of HRG at any time during any future tax year, it is possible that we will be a PHC if at least 60% of our adjusted ordinary gross income consists of PHC Income (taking into account the rules and exclusions discussed above). In the past, we have not incurred the PHC tax. However, there can be no assurance that we will not be subject to this tax in the future, which, in turn, may materially and adversely impact our financial position, results of operations, cash flows and liquidity.

Our business model depends on the performance of various third parties, including independent distributors, underwriters, actuarial consultants and other service providers.

We rely significantly on various third parties to provide services for our business operations. As such, our results may be affected by the performance of those other parties. For example, we are dependent upon independent distribution channels to sell our products, third parties to perform policy administration and underwriting functions, and independent consultants to perform actuarial analyses and to manage certain of our assets. Additionally, our operations are dependent on various service providers and on various technologies, some of which are provided or maintained by certain key outsourcing partners and other parties.

Many of our products and services are complex and are sold through third-party intermediaries. In particular, our insurance businesses are reliant on these intermediaries to describe and explain their products to potential customers. The intentional or unintentional misrepresentation of our products and services in advertising materials or other external communications, or inappropriate activities by our personnel or an intermediary, could adversely affect our reputation and business prospects, as well as lead to potential regulatory actions or litigation.

The third parties upon which we depend may default on their obligations to us due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, fraud, loss of key personnel, or other reasons. Such defaults could have a material adverse effect on our financial condition and results of operations. In addition, certain of these other parties may act, or be deemed to act, on behalf of us or represent us in various capacities. Consequently, we may be held responsible for obligations that arise from the acts or omissions of these other parties.

Table of Contents

Our business could be interrupted or compromised if we experience difficulties arising from outsourcing relationships. In addition to services provided by third-party asset managers and actuarial consultants, we outsource the following functions to third-party service providers, and expect to continue to do so in the future: (i) new business administration, (ii) hosting of financial systems, (iii) servicing of existing policies, (iv) information technology development and maintenance, (v) call centers and (vi) underwriting administration of life insurance applications. If we do not maintain an effective outsourcing strategy or third-party providers do not perform as contracted, we may experience operational difficulties, increased costs and a loss of business that could have a material adverse effect on our results of operations. In addition, our reliance on third-party service providers that we do not control does not relieve us of our responsibilities and requirements. Any failure or negligence by such third-party service providers in carrying out their contractual duties may result in us becoming subjected to liability to parties who are harmed and ensuing litigation. Any litigation relating to such matters could be costly, expensive and time-consuming, and the outcome of any such litigation may be uncertain.

Moreover, any adverse publicity arising from such litigation, even if the litigation is not successful, could adversely affect our reputation and sales of our products.

The loss of key personnel could negatively affect our financial results and impair our ability to implement our business strategy.

Our success depends in large part on our ability to attract and retain key people. Intense competition exists for key employees with demonstrated ability, and we may be unable to hire or retain such employees. Our key employees include investment professionals, such as portfolio managers, sales and distribution professionals, actuarial and finance professionals and information technology professionals. While we do not believe that the departure of any particular individual would cause a material adverse effect on our operations, the unexpected loss of several of our senior management, portfolio managers or other key employees could have a material adverse effect on our operations due to the loss of their skills, knowledge of our business, and their years of industry experience as well as the potential difficulty of promptly finding qualified replacement employees. We also rely upon the knowledge and experience of employees involved in functions that require technical expertise in order to provide for sound operational controls for our overall enterprise, including the accurate and timely preparation of required regulatory filings and U.S. GAAP and statutory financial statements and operation of internal controls. A loss of such employees could adversely impact our ability to execute key operational functions and could adversely affect our operational controls, including internal controls over financial reporting.

Interruption or other operational failures in telecommunication, information technology and other operational systems, or a failure to maintain the security, integrity, confidentiality or privacy of sensitive data residing on such systems, including as a result of human error, could harm our business.

We are highly dependent on automated and information technology systems to record and process our internal transactions and transactions involving our customers, as well as to calculate reserves, value-invested assets and complete certain other components of our U.S. GAAP and statutory financial statements. We could experience a failure of one of these systems, our employees or agents could fail to monitor and implement enhancements or other modifications to a system in a timely and effective manner, or our employees or agents could fail to complete all necessary data reconciliation or other conversion controls when implementing a new software system or implementing modifications to an existing system. Despite the implementation of security and back-up measures, our information technology systems may be vulnerable to physical or electronic intrusions, viruses or other attacks, programming errors and similar disruptions. We may also be subject to disruptions of any of these systems arising from events that are wholly or partially beyond our control (for example, natural disasters, acts of terrorism, epidemics, computer viruses and electrical/telecommunications outages). All of these risks are also applicable where we rely on outside vendors, including NTT Data (formerly "Dell"), to provide services to us and our customers. The failure of any one of these systems for any reason, or errors made by our employees or agents, could in each case cause significant interruptions to our operations, which could harm our reputation, adversely affect our internal control over financial reporting, or have a material adverse effect on our business, results of operations and financial condition.

We retain confidential information in our information technology systems and those of our business partners, and we rely on industry standard commercial technologies to maintain the security of those systems. Despite our implementation of network security measures, our servers could be subject to physical and electronic break-ins,



Table of Contents

and similar disruptions from unauthorized tampering with our computer systems. While we perform annual penetration tests and have adopted a number of measures to protect the security of customer and company data and have not experienced a successful cyber-attack, there is no guaranty that such an attack will not occur or be successful in the future. Anyone who is able to circumvent our security measures and penetrate our information technology systems could access, view, misappropriate, alter, or delete information in the systems, including personally identifiable customer information and proprietary business information. Information security risks also exist with respect to the use of portable electronic devices, such as laptops, which are particularly vulnerable to loss and theft. In addition, an increasing number of jurisdictions require that customers be notified if a security breach results in the disclosure of personally identifiable customer information. Any compromise of the security of our information technology systems that results in inappropriate access, use or disclosure of personally identifiable customer information could damage our reputation in the marketplace, deter purchases of our products, subject us to heightened regulatory scrutiny or significant civil and criminal liability and require us to incur significant technical, legal and other expenses.

In the event of a disaster such as a natural catastrophe, an industrial accident, a blackout, a computer virus, a terrorist attack or war, our information technology systems may be inaccessible to our employees, customers, or business partners for an extended period of time. Even if our employees are able to report to work, they may be unable to perform their duties for an extended period of time if our data or systems are disabled or destroyed. Any such occurrence could materially adversely affect our business, operations and financial condition.

Our risk management policies and procedures could leave us exposed to unidentified or unanticipated risk, which could negatively affect our business or result in losses.

We have developed risk management policies and procedures and expect to continue to enhance these in the future. Nonetheless, our policies and procedures to identify, monitor, and manage both internal and external risks may not effectively mitigate these risks or predict future exposures, which could be different or significantly greater than expected. These identified risks may not be the only risks facing us. Additional risks and uncertainties not currently known to us, or that we currently deem to be immaterial, may adversely affect our business, financial condition or operating results. For example, we hedge our FIA index credits with a combination of static and dynamic strategies, which can result in earnings volatility. In addition, our FIA hedging strategy economically hedges the equity returns and exposes us to the risk that unhedged market exposures result in divergence between changes in the fair value of the liabilities and the hedging assets.

Difficult conditions in the economy generally could adversely affect our business, operations and financial condition. A general economic slowdown could adversely affect us in the form of changes in consumer behavior and pressure on our investment portfolios. Concerns over the Federal Reserve's stimulus plan, the slow economic recovery, the level of U.S. national debt, the global economic concerns and financial sector issues, sluggish job growth and wage stagnation, the availability and cost of credit, the U.S. housing market, inflation levels, and geopolitical issues have contributed to increased volatility and diminished expectations for the economy and the markets. Even under relatively favorable economic and market conditions, demand for our products, as well as our investment returns, are sensitive to fixed income, equity, real estate and other fluctuations and overall economic and political conditions. Our top five states for the distribution of our products are California, Texas, Florida, New Jersey and Michigan, and, as a result, any adverse economic developments in these states could have an adverse impact on our business. As a result of these and other concerns, consumer behavior could change, potentially resulting in decreased demand for our products and elevated levels of policy lapses, policy loans, withdrawals and surrenders. In addition, our investments, including investments in mortgage-backed securities, could be adversely affected as a result of deteriorating financial and business conditions affecting the issuers of the securities in our investment portfolio.

We may not be able to protect our intellectual property and may be subject to infringement claims.

We rely on a combination of contractual rights and copyright, trademark and trade secret laws to establish and protect our intellectual property. Although we use a broad range of measures to protect our intellectual property rights, third parties may infringe or misappropriate our intellectual property. We may have to litigate to enforce and protect our copyrights, trademarks, trade secrets and know-how or to determine their scope, validity or enforceability, which represents a diversion of resources that may be significant in amount and may not prove



Table of Contents

successful. The loss of intellectual property protection or the inability to secure or enforce the protection of our intellectual property assets could adversely impact our business and its ability to compete effectively.

We also may be subject to costly litigation in the event that another party alleges our operations or activities infringe upon that party's intellectual property rights. We may also be subject to claims by third parties for breach of copyright, trademark, trade secret or license usage rights. Any such claims and any resulting litigation could result in significant expense and liability for damages or we could be enjoined from providing certain products or services to our customers or utilizing and benefiting from certain methods, processes, copyrights, trademarks, trade secrets or licenses, or alternatively, we could be required to enter into costly licensing arrangements with third parties, all of which could have a material adverse effect on our business, results of operations and financial condition.

We are exposed to the risks of natural and man-made catastrophes, pandemics and malicious and terrorist acts that could materially adversely affect our business, financial condition and results of operations.

Natural and man-made catastrophes, pandemics and malicious and terrorist acts present risks that could materially adversely affect our results of operations. A natural or man-made catastrophe, pandemic or malicious or terrorist act could materially adversely affect the mortality or morbidity experience of our business or our reinsurers. Claims arising from such events could have a material adverse effect on our business, operations and financial condition, either directly or as a result of their effect on our reinsurers or other counterparties. Such events could also have an adverse effect on lapses and surrenders of existing policies, as well as sales of new policies. While we have taken steps to identify and manage these risks, such risks cannot be predicted with certainty, nor fully protected against even if anticipated. In addition, such events could result in overall macroeconomic volatility or specifically a decrease or halt in economic activity in large geographic areas, adversely affecting the marketing or administration of our business within such geographic areas or the general economic climate, which in turn could have an adverse effect on our business, operations and financial condition. The possible macroeconomic effects of such events could also adversely affect our asset portfolio.

We operate in a highly competitive industry, which could limit our ability to gain or maintain our position in the industry and could materially adversely affect our business, financial condition and results of operations.

We operate in a highly competitive industry. We encounter significant competition in all of our product lines from other insurance companies, many of which have greater financial resources and higher financial strength ratings than us and which may have a greater market share, offer a broader range of products, services or features, assume a greater level of risk, have lower operating or financing costs, or have different profitability expectations than us. Competition could result in, among other things, lower sales or higher lapses of existing products.

Our annuity products compete with fixed indexed, fixed rate and variable annuities sold by other insurance companies and also with mutual fund products, traditional bank investments and other retirement funding alternatives offered by asset managers, banks and broker-dealers. Our insurance products compete with those of other insurance companies, financial intermediaries and other institutions based on a number of factors, including premium rates, policy terms and conditions, service provided to distribution channels and policyholders, ratings by rating agencies, reputation and commission structures.

Consolidation in the insurance industry and in distribution channels may result in increasing competitive pressures on us. Larger, potentially more efficient organizations may emerge from such consolidation. In addition, some mutual insurance companies have converted to stock ownership, which gives them greater access to capital markets and greater ability to compete. The ability of banks to increase their securities-related business or to affiliate with insurance companies may materially and adversely affect sales of all of our products by substantially increasing the number and financial strength of potential competitors. Consolidation and expansion among banks, insurance companies and other financial services companies with which we do business could also have an adverse effect on our business, operations and financial condition if they demand more favorable terms than we previously offered or if they elect not to continue to do business with us following consolidation or expansion.

Our ability to compete is dependent upon, among other things, our ability to develop competitive and profitable products, our ability to maintain low unit costs, and our maintenance of adequate financial strength ratings from rating agencies. Our ability to compete is also dependent upon, among other things, our ability to attract and retain

distribution channels to market our products, the competition for which is vigorous. We compete for marketers and agents primarily on the basis of our financial position, support services, compensation and

40

---

Table of Contents

product features. Such marketers and agents may promote products offered by other life insurance companies that may offer a larger variety of products than we do. Our competitiveness for such marketers and agents also depends upon the long-term relationships we develop with them. If we are unable to attract and retain sufficient marketers and agents to sell our products, our ability to compete and our revenues will suffer.

Our ability to maintain competitive policy expense costs is dependent upon the level of new sales and persistency of existing business.

Our ability to maintain competitive policy expense costs is dependent upon a number of factors, such as the level of new sales, persistency of existing business and expense management. A decrease in sales or persistency without a corresponding reduction in expenses may result in higher policy expense costs.

In addition, lower persistency may result in higher or more rapid amortization of DAC and VOBA, which would result in higher unit costs and lower reported earnings. Although many of our products contain surrender charges, such charges decrease over time and may not be sufficient to cover the unamortized DAC and VOBA costs with respect to the insurance policy or annuity contract being surrendered. Refer to the deferred annuity account values and surrender charge protection disclosure included within "Item 1. Business, Fixed Rate Annuities."

There may be adverse consequences if the independent contractor status of our IMOs is successfully challenged.

We sell our products through a network of approximately 200 IMOs representing approximately 37,000 independent agents and managing general agents. We currently treat these IMOs as independent contractors who own their own businesses. However, the tests governing the determination of whether an individual is considered to be an independent contractor or an employee are typically fact sensitive and vary from jurisdiction to jurisdiction. Laws and regulations that govern the status of the IMOs are subject to change or interpretation by various authorities. If a federal, state or local authority or court enacts legislation or adopts regulations or adopts an interpretation that changes the manner in which employees and independent contractors are classified or makes any adverse determination with respect to some or all of our independent contractors, we could incur significant costs in complying with such laws, regulations or interpretations, including, in respect of tax withholding, social security payments and recordkeeping, or we could be held liable for the actions of such independent contractors or may be required to modify our business model, any of which could have a material adverse effect on our business, financial condition and results of operations. In addition, there is the risk that we may be subject to significant monetary liabilities arising from fines or judgments as a result of any such actual or alleged non-compliance with federal, state or local tax or employment laws. Further, if it were determined that our IMOs should be treated as employees, we could possibly incur additional liabilities with respect to any applicable employee benefit plan.

If we are unable to attract and retain national marketing organizations and independent agents, sales of our products may be reduced.

We must attract and retain our network of IMOs and independent agents to sell our products. Insurance companies compete vigorously for productive agents. We compete with other life insurance companies for marketers and agents primarily on the basis of our financial position, support services, compensation and product features. Such marketers and agents may promote products offered by other life insurance companies that may offer a larger variety of products than we do. Our competitiveness for such marketers and agents also depends upon the long-term relationships we develop with them. Our most important IMOs (those who are able to meet certain production targets) are referred to as "Power Partners". We currently have 32 Power Partners that accounted for approximately 95% of our Fiscal 2017 sales volume. There can be no guaranty that such relationships will continue in the future. If we are unable to attract and retain a sufficient number of marketers and agents to sell our products, our ability to compete and our revenues would suffer.

Our subsidiaries may not be able to generate sufficient cash to service all of their obligations and may be forced to take other actions to satisfy their obligations, which may not be successful.

Our subsidiaries' ability to make scheduled payments on or to refinance their debt obligations, including the Senior Notes, depends on their financial condition and operating performance, which in turn are subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond their control. Our subsidiaries may not be able to maintain a level of cash flows from operating activities sufficient to permit them to pay the principal, premium, if any, and interest on indebtedness.



Table of Contents

If our subsidiaries' cash flows and capital resources are insufficient to fund our subsidiaries' obligations, we could face substantial liquidity problems and may be forced to reduce or delay investments and capital expenditures, or to sell assets, seek additional capital or restructure or refinance indebtedness. Our ability to restructure or refinance our subsidiaries' debt will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our subsidiaries' debt could be at higher interest rates and may require compliance with more onerous covenants, which could further restrict our business operations. The terms of existing and future debt instruments may restrict us from adopting some of these alternatives. In addition, any failure to make payments on outstanding obligations on a timely basis would likely result in a reduction of our ratings, which could harm our ability to conduct our business and to incur additional indebtedness. In the face of such substantial liquidity problems, we may be required to dispose of material assets or operations to meet our obligations. We may not be able to consummate those dispositions and these proceeds may not be adequate to meet any obligations then due.

We are a holding company with no operations of our own. As a consequence, our ability to pay dividends on our stock will depend on the ability of our subsidiaries to pay dividends to us, which may be restricted by law.

We are a holding company with limited business operations of our own. Our primary subsidiaries are insurance subsidiaries that own substantially all of our assets and conduct substantially all of our operations. Accordingly, our payment of dividends is dependent, to a significant extent, on the generation of cash flow by our subsidiaries and their ability to make such cash available to us, by dividend or otherwise. Our subsidiaries may not be able to, or may not be permitted to, make distributions to enable us to meet our obligations and pay dividends. Each subsidiary is a distinct legal entity and legal and contractual restrictions may also limit our ability to obtain cash from our subsidiaries.

Our insurance subsidiaries are subject to various statutory and regulatory restrictions and the ability of our insurance subsidiaries to pay dividends is limited by applicable insurance laws and regulations. See

"Business-Regulation-Dividend and Other Distribution Payment Limitations". The Iowa insurance law and the New York insurance law regulate the amount of dividends that may be paid in any year by FGL Insurance and FGL NY Insurance, respectively. This could limit both our ability to receive cash flow from our direct wholly-owned subsidiary, FGLH, FGLH's ability to receive cash flow from its direct wholly-owned subsidiary, FGL Insurance, and FGL Insurance's ability to receive cash flow from its direct wholly-owned subsidiary, FGL NY Insurance.

Each year FGL Insurance may pay a certain limited amount of ordinary dividends or other distributions without being required to obtain the prior consent of the Iowa Commissioner. FGL Insurance is required to provide advance written notice to the Iowa Commissioner of its intention to pay dividends that are deemed ordinary dividends and to request approval to pay dividends that are deemed extraordinary dividends. Pursuant to Iowa insurance law, ordinary dividends are payments, together with all other such payments within the preceding twelve months, that do not exceed the greater of (i) 10% of FGL Insurance's statutory surplus as regards policyholders as of December 31 of the preceding year; or (ii) the net gain from operations of FGL Insurance (excluding realized capital gains) for the 12-month period ending December 31 of the preceding year. Dividends may only be paid out of statutory earned surplus.

Dividends in excess of FGL Insurance's ordinary dividend capacity are referred to as extraordinary and require prior approval of the Iowa Commissioner. In deciding whether to approve a request to pay an extraordinary dividend, Iowa insurance law requires the Iowa Commissioner to consider the effect of the dividend payment on FGL Insurance's surplus and financial condition generally and whether the payment of the dividend will cause FGL Insurance to fail to meet its required RBC ratio. In addition, Delaware law may impose requirements that may restrict our ability to pay dividends to holders of our common stock. FGL Insurance has not paid out extraordinary dividends since 2008, and in the future FGL Insurance may be required to request approval to pay an extraordinary dividend and there is no guarantee such a request would be approved by the Iowa Commissioner.

It is possible that in the future, our insurance subsidiaries may be unable to pay dividends or distributions to us in an amount sufficient to meet our obligations or to pay dividends due to a lack of sufficient statutory net gain from operations, a diminishing statutory policyholders surplus, changes to the Iowa or New York insurance laws or regulations or for some other reason. Further, the covenants in the agreement governing the existing indebtedness of FGLH significantly restrict its ability to pay dividends, which further limits our ability to obtain cash or other assets

from our subsidiaries. If our subsidiaries cannot pay sufficient dividends or distributions to us in the future, we would be unable to meet our obligations or to pay dividends. This would negatively affect our business and financial condition as well as the trading price of our common stock.



## Table of Contents

### Risks Relating to Our Common Stock

The market price of our common stock may be volatile and could decline.

The market price of our common stock may fluctuate significantly in response to various factors, some of which are beyond our control. In addition to the factors discussed in this “Risk Factors” section and elsewhere in this Form 10-K, the factors that could affect our stock price are:

- industry or general market conditions;
- domestic and international political and economic factors unrelated to our performance;
- actual or anticipated fluctuations in our quarterly operating results;
- changes in or failure to meet publicly disclosed expectations as to our future financial performance;
- changes in securities analysts’ estimates of our financial performance or lack of research and reports by industry analysts;
- action by institutional shareholders or other large shareholders, such as HRG, including sales of large blocks of common stock;
- speculation in the press or investment community;
- changes in investor perception of us and our industry;
- changes in market valuations or earnings of similar companies;
- announcements by us or our competitors of significant products, contracts, acquisitions or strategic partnerships;
- changes in our capital structure, such as future sales of our common stock or other securities;
- changes in applicable laws, rules or regulations, regulatory actions affecting us and other dynamics; and
- additions or departures of key personnel.

The stock markets have experienced extreme volatility over time that has been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock. In the past, following periods of volatility in the market price of a company’s securities, class action litigation has often been instituted against such company. Any litigation of this type brought against us could result in substantial costs and a diversion of our management’s attention and resources, which would harm our business, operating results and financial condition.

Future sales of a substantial number of shares by existing shareholders could cause our stock price to decline.

Sales of substantial amounts of our common stock in the public market, or the perception that these sales could occur, could cause the market price of our common stock to decline. As of September 30, 2017, we have 58,933 thousand outstanding shares of common stock. The 9,750 thousand shares sold pursuant to the Company’s initial public offering (“IPO”) on December 13, 2013, as well as the additional 1,463 thousand options granted to the underwriters that was subsequently exercised, became immediately tradable without restriction under the Securities Act unless held by “affiliates”, as that term is defined in Rule 144 under the Securities Act of 1933, as amended (“Securities Act”). The remaining 47,720 thousand shares of common stock outstanding are restricted securities within the meaning of Rule 144 under the Securities Act, but will be eligible for resale subject to applicable volume, means of sale, holding period and other limitations of Rule 144. We also have entered into a registration rights agreement with HRG pursuant to which HRG is able to require us to register shares it holds for resale. We have filed and intend to file registration statements under the Securities Act to register the shares of common stock to be issued under our 2013 Stock Incentive Plan, as amended (the “Omnibus Plan”) and, as a result, all shares of common stock acquired upon exercise of stock options and vesting of unvested restricted shares granted under the Omnibus Plan will also be freely tradable under the Securities Act, unless purchased by our affiliates. A total of 2,838 thousand shares of common stock are reserved for issuance under the Omnibus Plan. At September 30, 2017, 603 thousand shares remain available for future issuance under the Omnibus Plan.

In the future, we may issue additional shares of common stock or other equity or fixed maturity securities convertible into common stock in connection with a financing, acquisition, and litigation settlement or employee arrangement or otherwise. Any of these issuances could result in substantial dilution to our existing shareholders and could cause the trading price of our common stock to decline.



Table of Contents

If securities or industry analysts do not publish research or publish misleading or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. We are currently covered by one or more securities analysts, but there is no guarantee such coverage will continue. If one or more of the analysts covering our stock downgrades our stock or publishes misleading or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of our company or fails to publish reports on us regularly, demand for our stock could decrease, which could cause our stock price or trading volume to decline.

Under our amended and restated certificate of incorporation, HRG and its affiliates, including in some circumstances, any of our directors and officers who is also a director, officer, employee, member or partner of HRG and its affiliates, have no obligation to offer us corporate opportunities.

The policies relating to corporate opportunities and transactions with HRG are set forth in our amended and restated certificate of incorporation, address potential conflicts of interest between us, on the one hand, and HRG and its affiliates on the other hand. Our certificate of incorporation provides that HRG and its affiliates, including in some circumstances, any of our directors and officers who is also a director, officer, employee, member or partner of HRG and its affiliates, will not have any obligation to present to us, and HRG may separately pursue, or present to other of its subsidiaries, corporate opportunities of which they become aware, even if those opportunities are ones that we would have pursued if granted the opportunity. This includes FSRCI, which may, for example, be interested in pursuing acquisitions of blocks of business or insurance companies that we may also be interested in pursuing. By becoming one of our shareholders, holders of our common stock will be deemed to have notice of and have consented to these provisions of our certificate of incorporation. Although these provisions are designed to resolve conflicts between us and HRG and our respective affiliates fairly, conflicts may not be so resolved.

Future offerings of debt or equity securities that rank senior to our common stock may adversely affect the market price of our common stock.

If, in the future, we decide to issue debt or equity securities that rank senior to our common stock, it is likely that such securities will be governed by an indenture or other instrument containing covenants restricting our operating flexibility. Additionally, any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common stock and may result in dilution of the percentage ownership of the holders of our common stock. We and, indirectly, our shareholders, will bear the cost of issuing and servicing such securities. Because our decision to issue debt or equity securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, holders of our common stock will bear the risk of our future offerings reducing the market price of our common stock and diluting the value of their stock holdings in us.

Fulfilling our obligations incident to being a public company, including with respect to the requirements of and related rules under the Sarbanes-Oxley Act of 2002, is expensive and time-consuming, and any delays or difficulties in satisfying these obligations could have a material adverse effect on our future results of operations and our stock price.

Prior to our IPO in December 2013, we operated as a private company, or as a subsidiary of a public company, and were not subject to the same financial and other reporting and corporate governance requirements as a public company. Since the IPO, we became required to file annual, quarterly and other reports with the SEC. We are required to prepare and timely file financial statements that comply with SEC reporting requirements. We are also subject to other reporting and corporate governance requirements under the listing standards of the New York Stock Exchange (“NYSE”) and the Sarbanes-Oxley Act of 2002, which impose significant compliance costs and obligations upon us. The changes necessitated by being a public company require a significant commitment of additional resources and management oversight which increases our operating costs. These changes also continue to place significant additional demands on our finance and accounting staff, which may not have prior public company experience or experience working for a newly public company, and on our financial accounting and information systems. We have hired and in the future may hire additional accounting and financial staff with public company reporting experience and technical accounting knowledge. Other expenses associated with being a public company include increases in

auditing, accounting and legal fees and expenses, investor relations expenses,

44

---

Table of Contents

increased directors' fees and director and officer liability insurance costs, registrar and transfer agent fees and listing fees, as well as other expenses. As a public company, we are required, among other things, to:

- prepare and file periodic reports, and distribute other shareholder communications, in compliance with the federal securities laws and NYSE listing standards;
- define and expand the roles and the duties of our board of directors and its committees;
- institute more comprehensive compliance, investor relations and internal audit functions; and
- evaluate and maintain our system of internal control over financial reporting, and report on management's assessment thereof, in compliance with rules and regulations of the SEC and the Public Company Accounting Oversight Board.

In particular, the Sarbanes-Oxley Act of 2002 requires us to document and test the effectiveness of our internal control over financial reporting in accordance with an established internal control framework, and to report on our conclusions as to the effectiveness of our internal controls. In addition, we are required under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), to maintain disclosure controls and procedures and internal control over financial reporting. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. As described in "Part II - Item 9A. Controls and Procedures," we identified and, as of September 30, 2017, remediated a material weakness in our internal controls. With remediation, the Company's management was able to conclude that its internal control over financial reporting was effective as of September 30, 2017. If we are unable to conclude that we have effective internal control over financial reporting, investors could lose confidence in the reliability of our financial statements. This could result in a decrease in the value of our common stock. Failure to comply with the Sarbanes-Oxley Act of 2002 could potentially subject us to sanctions or investigations by the SEC, NYSE, or other regulatory authorities.

In 1992, The Committee of Sponsoring Organization of the Treadway Commission ("COSO") developed an integrated framework for the design and evaluation of organization internal controls over financial reporting. Public companies have used the framework to evaluate and document the effectiveness of the internal control systems. In May of 2013, the COSO Board adopted an updated framework which will supersede the COSO 1992 framework for year ends after December 15, 2014. The revised framework is designed to address global, more complex and technology driven companies, creates greater transparency for investors and helps to meet more regulatory oversight. As a September 30th filer, we implemented the revised framework for Fiscal Year 2015.

Even if HRG sells sufficient common stock in the future so that it is no longer our majority shareholder, anti-takeover provisions in our charter documents and Delaware law could discourage, delay or prevent a change in control of our company and may affect the trading price of our common stock.

Our certificate of incorporation and by-laws include a number of provisions that may discourage, delay or prevent a change in our management or control over us that shareholders may consider favorable in the event that HRG sells sufficient stock in the future so that it is no longer our majority shareholder. For example, our amended and restated certificate of incorporation and amended and restated by-laws:

- authorize the issuance of "blank check" preferred stock that could be issued by our board of directors to thwart a takeover attempt;
- establish a classified board of directors, as a result of which our board of directors will be divided into three classes, with members of each class serving staggered three-year terms, which prevents shareholders from electing an entirely new board of directors at an annual meeting;
- limit the ability of shareholders to remove directors;
- 
- provide that vacancies on our board of directors, including vacancies resulting from an enlargement of our board of directors, may be filled only by a majority vote of directors then in office;
- prohibit shareholders from calling special meetings of shareholders if HRG ceases to own at least 50% of the outstanding shares of our common stock;
- prohibit shareholder action by written consent, thereby requiring all actions to be taken at a meeting of the shareholders, if HRG ceases to own at least 50% of the outstanding shares of our common stock;
-

establish advance notice requirements for nominations of candidates for election as directors or to bring other business before an annual meeting of our shareholders; and

45

---

Table of Contents

require the approval of holders of at least 66 2/3% of the outstanding shares of our common stock to amend our amended and restated by-laws and certain provisions of our amended and restated certificate of incorporation if HRG ceases to own at least 50% of the outstanding shares of our common stock.

These provisions may prevent our shareholders from receiving the benefit from any premium to the market price of our common stock offered by a bidder in a takeover context. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of our common stock if the provisions are viewed as discouraging takeover attempts in the future.

Our certificate of incorporation and by-laws may also make it difficult for shareholders to replace or remove our management. These provisions may facilitate management entrenchment that may delay, deter, render more difficult or prevent a change in our control, which may not be in the best interests of our shareholders.

Many states, including the jurisdictions where our principal insurance subsidiaries FGL Insurance and FGL NY Insurance are organized (Iowa and New York, respectively), have insurance laws and regulations that require advance approval by state agencies of any direct or indirect change in control of an insurance company that is domiciled in or, in some cases, has such substantial business that it is deemed to be commercially domiciled in that state. Therefore, any person seeking to acquire a controlling interest in us would face regulatory obstacles which may delay, deter or prevent an acquisition that shareholders might consider in their best interests.

We are a “controlled company” within the meaning of the NYSE listing standards and, as a result, we qualify for, and rely on, exemptions from certain corporate governance requirements. Our stockholders do not have the same protections afforded to shareholders of companies that are subject to such requirements.

HRG directly or indirectly holds more than 50% of our common stock, so we qualify as a “controlled company” within the meaning of the corporate governance rules of the NYSE. Under these rules, a company may elect not to comply with certain corporate governance requirements, including:

- the requirement that a majority of the board of directors consist of independent directors;
- the requirement that we have a nominating and corporate governance committee that is composed entirely of independent directors with a written charter addressing the committee’s purpose and responsibilities;
- the requirement that we have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee’s purpose and responsibilities; and
- the requirement for an annual performance evaluation of the nominating and corporate governance and compensation committees.

We utilize certain of these exemptions and intend to continue to do so. As a result, we do not have a majority of independent directors, and our compensation committee and nominating and corporate governance committee do not consist entirely of independent directors, however, such board committees do perform annual performance evaluations even though they are not required to do so by NYSE listing standards.

Our certificate of incorporation designates the Court of Chancery of the State of Delaware as the exclusive forum for certain litigation that may be initiated by our shareholders, which could limit our shareholders’ ability to obtain a favorable judicial forum for disputes with us.

Our certificate of incorporation provides that the Court of Chancery of the State of Delaware will be the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed to us or our shareholders by any of our directors, officers, employees or agents, (iii) any action asserting a claim against us arising under the General Corporation Law of the State of Delaware (“DGCL”) or (iv) any action asserting a claim against us that is governed by the internal affairs doctrine. By becoming a shareholder in our company, holders of our common stock will be deemed to have notice of and have consented to the provisions of our amended and restated certificate of incorporation related to choice of forum. The choice of forum provision in our amended and restated certificate of incorporation may limit our shareholders’ ability to obtain a favorable judicial forum for disputes with us.

Our Principal Shareholder’s interests may conflict with yours.

HRG beneficially owns (directly or indirectly) approximately 80% of the outstanding shares of our common stock. As a result, HRG is in a position to exercise significant influence over all matters requiring shareholder





Table of Contents

approval for the foreseeable future, including decisions regarding extraordinary business transactions, fundamental corporate transactions, appointment of members of our management, election of directors and our corporate and management policies.

In the event that HRG reduces its beneficial ownership below 50% of our outstanding common stock, it will likely still be able to assert significant influence over our board of directors and certain corporate actions. HRG has the ability to designate for nomination for election at least a majority of our directors as long as HRG owns at least 50% of our common stock.

HRG's interests may differ from your interests, and certain actions HRG takes as our controlling shareholder or as a significant shareholder may not be favorable to you. For example, the concentration of ownership held by HRG could delay, defer or prevent a change of control of us or impede a merger, takeover or other business combination which another shareholder may otherwise view favorably. Other potential conflicts could arise, for example, over matters such as our dividend policy or transactions that we may engage in, from time to time, with other business owned by HRG Group, such as Salus and/or FSRCL.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We lease our headquarters at 601 Locust Street, Des Moines, Iowa, and sublease properties in Baltimore, Maryland and Lincoln, Nebraska for legal, claims and processing needs. Such leases expire December 2020, May 2021 and January 2022, respectively. We believe our existing facilities are suitable and adequate for our present purposes. As of January 2018, we believe that our Des Moines, Iowa, and Baltimore, Maryland, properties will be sufficient for us to conduct our operations and are planning to exit our lease in Lincoln, Nebraska on December 31, 2017.

Item 3. Legal Proceedings

See "Note 12. Commitments and Contingencies" to our audited Consolidated Financial Statements.

Item 4. Mine Safety Disclosures

Not applicable.

## PART II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is listed on the NYSE and trades under the symbol "FGL." The high and low sales prices for our common stock for each quarterly period for the last two years are shown in the following table.

	High	Low
Year ended September 30, 2017		
First Quarter	\$24.25	\$21.10
Second Quarter	27.95	23.45
Third Quarter	31.30	27.15
Fourth Quarter	31.38	30.95
Year ended September 30, 2016		
First Quarter	\$27.87	\$24.01
Second Quarter	26.55	23.99
Third Quarter	26.49	22.17
Fourth Quarter	24.30	21.42

As of October 1, 2017, there were approximately 67 holders of record of our common stock. This number does not include the stockholders for whom shares are held in a "nominee" or "street" name. In the years ended September 30, 2017 and 2016, we paid total cash dividends of \$0.26 and \$0.26, respectively, per share, on our common stock. Fiscal 2017 dividends were paid to shareholders during December 2016, March 2017, June 2017 and August 2017. Fiscal 2016 dividends were paid to shareholders during December 2015, March 2016, May 2016 and September 2016. We intend to continue to pay cash dividends on such shares so long as we have sufficient capital and/or future earnings to do so, while retaining most of our future earnings, if any, for use in our operations and the expansion of our business. Further determination as to dividend policy will be made by our board of directors, based on our future earnings, capital requirements, financial condition, future prospects and any other factors our board of directors may deem relevant.

### Stock Performance Graph

The information contained in this Stock Performance Graph section shall not be deemed to be “soliciting material” or “filed” or incorporated by reference in future filings with the SEC, or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, except to the extent that we specifically incorporate it by reference into a document filed under the Securities Act of 1933 or the Securities Exchange Act of 1934.

The following graph shows a comparison from December 13, 2013 (the date our common stock commenced trading on the NYSE) through September 30, 2017 of the cumulative total return for our common stock, the Standard & Poor's 500 Stock Index (S&P 500 Index) and the S&P 500 Life & Health Insurance Index. The graph assumes that \$100 was invested at the market close on December 13, 2013 in common stock of Fidelity & Guaranty Life, the S&P 500 Index and the S&P 500 Life & Health Insurance Index and assumes reinvestments of dividends. The stock price performance of the following graph is not necessarily indicative of future stock price performance.

## Item 6. Selected Financial Data

We have prepared the following selected financial data as of and for the years ended September 30, 2017, 2016, 2015, 2014, and 2013.

(In millions, except share data)	Fidelity & Guaranty Life Year Ended September 30,				
	2017	2016	2015	2014	2013
<b>SUMMARY OF OPERATIONS</b>					
Total operating revenues	\$1,530	\$1,139	\$961	\$1,191	\$1,347
Total benefits and expenses	1,173	964	755	979	827
Net income	\$223	\$97	\$118	\$163	\$348
<b>PER SHARE DATA (a)</b>					
Net income per common share - basic	\$3.83	\$1.67	\$2.03	\$2.91	7.40
Net income per common share - diluted	3.83	1.66	2.02	2.90	7.40
Cash dividends declared per common share (b)	0.26	0.26	0.26	1.11	1.99
Common shares outstanding	58.9	59.0	58.9	58.4	47.0
<b>BALANCE SHEET DATA</b>					
Total investments	\$23,072	\$21,025	\$19,094	\$18,802	\$16,223
Total assets	28,965	27,035	24,925	24,153	22,403
Total debt	405	400	300	300	300
Total liabilities	26,718	25,101	23,423	22,494	21,264
Total equity	2,247	1,934	1,502	1,659	1,139
Total equity excluding AOCI	1,704	1,495	1,414	1,310	1,026
Book value per share	38.13	32.80	25.51	28.39	24.23
Book value per share, excluding AOCI (c)	\$28.92	\$25.36	\$24.02	\$22.41	21.82

(a) Common shares outstanding and per share amounts give retroactive effect to our statutory conversion on August 26, 2013 and the 4,700-for-1 stock split of our shares of common stock effected on November 26, 2013.

(b) On August 9, 2013, we distributed our ownership interests in the parent company of FSRCI to HRG. As a result, FSRCI's results are not included in our results for any period after Fiscal 2013.

(c) Book value per share excluding AOCI (a non-GAAP financial measure) is based on stockholders' equity excluding the effect of AOCI and is calculated as total stockholders' equity excluding AOCI divided by the total number of shares of common stock outstanding. Since AOCI fluctuates from quarter to quarter due to unrealized changes in the fair value of available for sale investments, we believe these non-GAAP financial measures provide useful supplemental information.

Table of Contents

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Introduction

This “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of Fidelity & Guaranty Life Inc. (“FGL,” “we,” “us,” “our” and, collectively with its subsidiaries, the “Company”) should be read in conjunction with “Item 6. Selected Financial Data,” and our accompanying consolidated financial statements and related notes (the “Consolidated Financial Statements”) referred to in “Item 8. Financial Statements and Supplementary Data” of this Annual Report on Form 10-K (the “Form 10-K”). Certain statements we make under this Item 7 constitute “forward-looking statements” under the Private Securities Litigation Reform Act of 1995. See “Forward-Looking Statements” at the beginning of Part I of this Form 10-K. You should consider our forward-looking statements in light of our Consolidated Financial Statements, related notes, and other financial information appearing elsewhere in this Form 10-K and our other filings with the Securities and Exchange Commission (the “SEC”).

All references to Fiscal 2017, 2016 and 2015 refer to fiscal periods ended September 30, 2017, 2016 and 2015, respectively.

Overview

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

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

Trends and Uncertainties

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

Market Conditions

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

Interest Rate Environment

Some of our products include guaranteed minimum crediting rates, most notably our fixed rate annuities. As of September 30, 2017, the Company's reserves, net of reinsurance, and average crediting rate on our fixed rate annuities were \$4 billion and 3%, respectively. We are required to pay these guaranteed minimum crediting rates even if earnings on our investment portfolio decline, which would negatively impact earnings. In addition, we expect more policyholders to hold policies with comparatively high guaranteed rates for a longer period in a low interest rate environment. Conversely, a rise in average yield on our investment portfolio would increase earnings if the average interest rate we pay on our products does not rise correspondingly. Similarly, we expect that policyholders would be less likely to hold policies with existing guarantees as interest rates rise and the relative value of other new business offerings are increased, which would negatively impact our earnings and cash flows.



Table of Contents

See “Item 7A. Quantitative and Qualitative Disclosures about Market Risk” for a more detailed discussion of interest rate risk.

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

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

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

Demographics and macroeconomic factors are increasing the demand for our FIA and indexed universal life (“IUL”) products, for which demand is large and growing: over 10,000 people will turn 65 each day in the United States over the next 15 years. According to the U.S. Census Bureau, the proportion of the U.S. population over the age of 65 is expected to grow from 15% in 2015 to 20% in 2030.

We operate in the sector of the insurance industry that focuses on the needs of middle-income Americans. The underserved middle-income market represents a major growth opportunity for FGL. As a tool for addressing the unmet need for retirement planning, we believe that many middle-income Americans have grown to appreciate the “sleep at night protection” that annuities such as our FIA products afford. Accordingly, the FIA market grew from nearly \$12 billion of sales in 2002 to \$58 billion of sales in 2016. Additionally, this market demand has positively impacted the IUL market as it has expanded from \$100 million of annual premiums in 2002 to \$2 billion of annual premiums in 2016.

**Competition**

Our insurance subsidiaries operate in highly competitive markets. We face a variety of large and small industry participants. These companies compete for the growing pool of retirement assets driven by a number of factors, such as the continued aging of the U.S. population and the reduction in financial safety nets provided by governments and corporations. In many segments, product differentiation is difficult as product development and life cycles have shortened.

**Annuity and Life Sales**

Sales of annuities and IULs by quarter were as follows:

(dollars in millions)	Annuity Sales			IUL Sales		
	Fiscal 2017	Fiscal 2016	Fiscal 2015	Fiscal 2017	Fiscal 2016	Fiscal 2015
First Fiscal Quarter	\$648	\$489	\$903	\$17	\$13	\$7
Second Fiscal Quarter	732	601	610	14	11	7
Third Fiscal Quarter	582	832	519	9	15	10
Fourth Fiscal Quarter	588	603	434	6	17	11
Total	\$2,550	\$2,525	\$2,466	\$46	\$56	\$35

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

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

Through our insurance subsidiaries, we issue a broad portfolio of deferred annuities (fixed indexed and fixed rate annuities) and immediate annuities. A deferred annuity is a type of contract that accumulates value on a tax deferred basis and typically begins making specified periodic or lump sum payments a certain number of years





Table of Contents

after the contract has been issued. An immediate annuity is a type of contract that begins making specified payments within one annuity period (e.g., one month or one year) and typically makes payments of principal and interest earnings over a period of time.

The Company hedges certain portions of its exposure to product related equity market risk by entering into derivative transactions. We purchase derivatives consisting predominantly of call options and, to a lesser degree, futures contracts on the equity indices underlying the applicable policy. These derivatives are used to fund the statutory reserve impact of the index credits due to policyholders under the FIA contracts. The majority of all such call options are one-year options purchased to match the funding requirements underlying the FIA contracts. We attempt to manage the cost of these purchases through the terms of our FIA contracts, which permit us to change caps, spread, or participation rates, subject to certain guaranteed minimums that must be maintained. The change in the fair value of the call options and futures contracts is generally designed to offset the equity market related change in the fair value of the FIA contract's reserve liability. The call options and futures contracts are marked to fair value with the change in fair value included as a component of net investment gains (losses). The change in fair value of the call options and futures contracts includes the gains and losses recognized at the expiration of the instruments' terms or upon early termination and the changes in fair value of open positions.

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

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

Adjusted Operating Income ("AOI")

Management believes that certain non-GAAP financial measures may be useful in certain instances to provide additional meaningful comparisons between current results and results in prior operating periods. Reconciliations of such measures to the most comparable GAAP measures are included herein.

AOI is a non-GAAP economic measure we use to evaluate financial performance each period. AOI is calculated by adjusting net income to eliminate (i) the impact of net investment gains including other-than-temporary impairment ("OTTI") losses recognized in operations, but excluding gains and losses on derivatives hedging our indexed annuity policies, (ii) the effect of changes in the interest rates used to discount the FIA embedded derivative liability, (iii) the effect of change in fair value of the reinsurance related embedded derivative, and iv) the effect of class action litigation reserves, if any. All adjustments to AOI are net of the corresponding VOBA and DAC impact. The income tax impact related to these adjustments is measured using an effective tax rate of 35%, as appropriate.

While these adjustments are an integral part of the overall performance of FGL, market conditions impacting these items can overshadow the underlying performance of the business. Accordingly, we believe using a measure which excludes their impact is effective in analyzing the trends of our operations. Our non-GAAP measures may not be comparable to similarly titled measures of other organizations because other organizations may not calculate such non-GAAP measures in the same manner as we do.

Together with net income we believe AOI provides a meaningful financial metric that helps investors understand our underlying results and profitability.



Table of Contents

AOI should not be used as a substitute for net income. However, we believe the adjustments made to net income in order to derive AOI provide an understanding of our overall results of operations. For example, we could have strong operating results in a given period, yet report net income that is materially less, if during such period the fair value of our derivative assets hedging the FIA index credit obligations decreased due to general equity market conditions but the embedded derivative liability related to the index credit obligation did not decrease in the same proportion as the derivative assets because of non-equity market factors such as interest rate movements. Similarly, we could also have poor operating results in a given period yet show net income that is materially greater, if during such period the fair value of the derivative assets increases but the embedded derivative liability did not increase in the same proportion as the derivative assets. We hedge our FIA index credits with a combination of static and dynamic strategies, which can result in earnings volatility, the effects of which are generally likely to reverse over time. Our management and board of directors review AOI and net income as part of their examination of our overall financial results. However, these examples illustrate the significant impact derivative and embedded derivative movements can have on our net income. Accordingly, our management and board of directors perform a review and analysis of these items, as part of their review of our hedging results each period.

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

AUM is the sum of (i) total invested assets at amortized cost, excluding derivatives; and including (ii) related party loans and investments and (iii) cash and cash equivalents. AAUM is the sum of AUM at the end of each month in the period divided by the number of months in the period.

In addition, we regularly monitor and report the production volume metric titled "Sales". Sales are not derived from any specific GAAP income statement accounts or line items and should not be viewed as a substitute for any financial measure determined in accordance with GAAP. For GAAP purposes annuity sales are recorded as deposit liabilities (i.e. contract holder funds). Management believes that presentation of sales as measured for management purposes enhances the understanding of our business and helps depict longer term trends that may not be apparent in the results of operations due to the timing of sales and revenue recognition.

Critical Accounting Policies and Estimates

General

The preparation of financial statements in conformity with GAAP requires management to make estimates and judgments that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Critical estimates and assumptions are evaluated on an ongoing basis based on historical developments, market conditions, industry trends and other information that is reasonable under the circumstances. There can be no assurance that actual results will conform to estimates and assumptions and that reported results of operations will not be materially affected by the need to make future accounting adjustments to reflect changes in these estimates and assumptions from time to time.

We have identified the following accounting policies, judgments and estimates as critical in that they involve a higher degree of judgment and are subject to a significant degree of variability: valuation of available-for sale ("AFS") securities and derivatives, evaluation of OTTI, amortization of DAC and VOBA, reserves for future policy benefits and product guarantees, recognition of deferred income tax assets and related valuation allowances, estimates of loss contingencies and recognition of stock compensation expense.

In developing these accounting estimates and policies, we make subjective and complex judgments that are inherently uncertain and subject to material changes as facts and circumstances develop. Although variability is inherent in these

estimates, we believe the amounts provided are appropriate based upon the facts available upon preparation of our audited consolidated financial statements. We continually update and assess the facts and

Table of Contents

circumstances regarding all of these critical accounting matters and other significant accounting matters affecting estimates in our financial statements.

The above critical accounting estimates are also described in "Note 2. Significant Accounting Policies and Practices" to our audited Consolidated Financial Statements.

Valuation of AFS Securities and Derivatives

Our fixed maturity and equity securities classified as AFS are reported at fair value, with unrealized gains and losses included within accumulated other comprehensive income (loss) ("AOCI"), net of associated impact on intangibles adjustments and deferred income taxes. Unrealized gains and losses represent the difference between the cost or amortized cost basis and the fair value of these investments. We measure the fair value of our AFS securities based on assumptions used by market participants, which may include inherent risk and restrictions on the sale or use of an asset. The estimate of fair value is the price that would be received to sell an asset in an orderly transaction between market participants ("exit price") in the principal market, or the most advantageous market in the absence of a principal market, for that asset or liability. We utilize independent pricing services in estimating the fair values of AFS securities. The independent pricing services incorporate a variety of observable market data in their valuation techniques, including: reported trading prices, benchmark yields, broker-dealer quotes, benchmark securities, bids and offers, credit ratings, relative credit information and other reference data.

Table of Contents

We categorize our AFS securities into a three-level hierarchy based on the priority of the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (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. The following table presents the fair value of fixed maturity and equity securities, AFS, by pricing source and hierarchy level as of September 30, 2017 and 2016.

(dollars in millions)	As of September 30, 2017			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Fixed maturity securities and equity securities available-for-sale:				
Prices via third party pricing services	\$85	\$ 20,366	\$ —	\$20,451
Priced via independent broker quotations	—	—	1,140	1,140
Priced via other methods	—	—	293	293
Total	\$85	\$ 20,366	\$ 1,433	\$21,884
Available-for-sale embedded derivative:				
Priced via other methods	—	—	16	16
Total	\$85	\$ 20,366	\$ 1,449	\$21,900
% of Total	—	% 93	% 7	% 100

(dollars in millions)	As of September 30, 2016			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Fixed maturity securities and equity securities available-for-sale:				
Prices via third party pricing services	\$83	\$ 18,554	\$ —	\$18,637
Priced via independent broker quotations	—	—	1,199	1,199
Priced via other methods	—	—	258	258
Total	\$83	\$ 18,554	\$ 1,457	\$20,094
Available-for-sale embedded derivative:				
Priced via other methods	—	—	13	13
Salus participations, included in other invested assets:				
Priced via other methods	—	—	21	21
Total	\$83	\$ 18,554	\$ 1,491	\$20,128
% of Total	—	% 92	% 8	% 100

Management's assessment of all available data when determining fair value of the AFS securities is necessary to appropriately apply fair value accounting. The independent pricing services also take into account perceived market movements and sector news, as well as a security's terms and conditions, including any features specific to that issue that may influence risk and marketability. Depending on the security, the priority of the use of observable market inputs may change as some observable market inputs may not be relevant or additional inputs may be necessary. We generally obtain one value from our primary external pricing service. In situations where a price is not available from the independent pricing service, we may obtain broker quotes or prices from additional parties recognized to be

market participants. We believe the broker quotes are prices at which trades could be executed based on historical trades executed at broker-quoted or slightly higher prices. When quoted prices in active markets are not available, the determination of estimated fair value is based on market standard valuation methodologies, including discounted cash flows, matrix pricing, or other similar techniques. For further discussion on the valuation

Table of Contents

of Salus participations, see "Note 6. Fair Value of Financial Instruments" to our audited Consolidated Financial Statements.

We validate external valuations at least quarterly through a combination of procedures that include the evaluation of methodologies used by the pricing services, comparisons to valuations from other independent pricing services, analytical reviews and performance analysis of the prices against trends, and maintenance of a securities watch list. See "Note 4. Investments" and "Note 6. Fair Value of Financial Instruments" to our audited Consolidated Financial Statements for a more complete discussion.

Our FIA contracts permit the holder to elect to receive a credit based on an interest rate or the performance of a market index. We hedge certain portions of our exposure to equity market risk by entering into derivative transactions. In doing so, we purchase derivatives consisting of a combination of call options and futures contracts on the equity indices underlying the applicable policy. These derivatives are used to fund the index credits due to contractholders under the FIA contracts. The call options are one-, two- and three-year call options, purchased to match a majority of the funding requirements underlying the FIA contracts, with the balance of the equity exposure hedged using futures contracts. On the respective anniversary dates of the applicable FIA contracts, the market index used to compute the annual index credit under the applicable FIA contract is reset. At such time, we purchase new one-, two-, three-, or five-year call options to fund the next index credit. We attempt to manage the cost of these purchases through the terms of the FIA contracts, which permit changes to caps or participation rates, subject to certain guaranteed minimums that must be maintained. We are exposed to credit loss in the event of non-performance by our counterparties on the call options. We attempt to reduce the credit risk associated with such agreements by purchasing such options from large, well-established financial institutions as well as holding collateral when individual counterparty exposures exceed certain thresholds.

All of our derivative instruments are recognized as either assets or liabilities at fair value in our Consolidated Balance Sheets. The change in fair value of our derivative assets is recognized in our Consolidated Statements of Operations within "Net investment gains (losses)".

Certain FIA products contain an embedded derivative; a feature that permits the holder to elect an interest rate return or an equity-index linked component, where interest credited to the contract is linked to the performance of various equity indices. The FIA embedded derivative is valued at fair value and included in the liability for contractholder funds in our Consolidated Balance Sheets with changes in fair value included as a component of "Benefits and other changes in policy reserves" in our Consolidated Statements of Operations.

The fair value of derivative assets and liabilities is based upon valuation pricing models and represents what we would expect to receive or pay at the balance sheet date if we canceled the options, entered into offsetting positions, or exercised the options. The fair value of futures contracts at the balance sheet date represents the cumulative unsettled variation margin (open trade equity net of cash settlements). Fair values for these instruments are determined internally using a conventional model and market observable inputs, including interest rates, yield curve volatilities and other factors. Credit risk related to the counterparty is considered when estimating the fair values of these derivatives. However, we are largely protected by collateral arrangements with counterparties when individual counterparty exposures exceed certain thresholds. The fair values of the embedded derivatives in our FIA contracts are derived using market value of options, swap rates, mortality rates, surrender rates and non-performance spread and are classified as Level 3. See "Note 5. Derivative Financial Instruments" and "Note 6. Fair Value of Financial Instruments" to our audited Consolidated Financial Statements for a more complete discussion. The discount rate used to determine the fair value of our FIA embedded derivative liabilities includes an adjustment to reflect the risk that these obligations will not be fulfilled ("non-performance risk"). For Fiscal 2017, our non-performance risk adjustment was based on the expected loss due to default in debt obligations for similarly rated financial companies. See "Note 5. Derivative Financial Instruments" and "Note 6. Fair Value of Financial Instruments", to our audited Consolidated Financial Statements for a more complete discussion.

FGL Insurance has a modified coinsurance arrangement with Front Street Re (Cayman) Ltd. ("FSRCI"), meaning that funds are withheld by FGL Insurance. This arrangement creates an obligation for FGL Insurance to pay FSRCI at a later date, which results in an embedded derivative. This embedded derivative is considered a total return swap with contractual returns that are attributable to the assets and liabilities associated with this reinsurance arrangement. The



fair value of the total return swap is based on the change in fair value of the underlying assets held in the funds withheld portfolio. Investment results for the assets that support the coinsurance with funds withheld reinsurance arrangement, including gains and losses from sales, are passed directly to the reinsurer pursuant to contractual terms of the reinsurance arrangement. The reinsurance related embedded derivative is reported in "Other assets" if in a net gain position, or "Other liabilities", if in a net loss position, on the Consolidated

Table of Contents

Balance Sheets and the related gains or losses are reported in “Net investment gains” on the Consolidated Statements of Operations.

Evaluation of OTTI

We have a policy and process in place to evaluate securities in our investment portfolio quarterly to assess whether there has been an OTTI. This evaluation process entails considerable judgment and estimation and involves monitoring market events and other items that could impact issuers. The evaluation includes, but is not limited to, such factors as: whether the issuer is current on all payments and all contractual payments have been made as agreed; the remaining payment terms and the financial condition and near term prospects of the issuer; the lack of ability to refinance due to liquidity problems in the credit market; the fair value of any underlying collateral; the existence of any credit protection available; the intent to sell and whether it is more likely than not we would be required to sell prior to recovery for fixed maturity securities; the assessment in the case of equity securities including perpetual preferred stocks with credit deterioration that the security cannot recover to cost in a reasonable period of time; the intent and ability to retain equity securities for a period of time sufficient to allow for recovery; consideration of rating agency actions; and changes in estimated cash flows of residential mortgage-backed securities ("RMBS") and asset-backed securities ("ABS"). An extended and severe unrealized loss position on an AFS fixed income security may not have any impact on: (a) the ability of the issuer to service all scheduled interest and principal payments and (b) the evaluation of recoverability of all contractual cash flows or the ability to recover an amount at least equal to its amortized cost based on the present value of the expected future cash flows to be collected. When assessing our intent to sell a security or if it is more likely than not we will be required to sell a security before recovery of its amortized cost basis, we evaluate facts and circumstances such as, but not limited to, sales of investments to meet cash flow or capital needs

We determine whether OTTI losses should be recognized for fixed maturity and equity securities by assessing all facts and circumstances surrounding each security. Where the decline in market value of fixed maturity securities is attributable to changes in market interest rates or to factors such as market volatility, liquidity and spread widening, and we anticipate recovery of all contractual or expected cash flows, we do not consider these investments to be OTTI. For equity securities, we recognize an OTTI in the period in which we do not have the intent and ability to hold the securities until recovery of cost or we determine that the security will not recover to book value within a reasonable period of time. We determine what constitutes a reasonable period of time on a security-by-security basis by considering all the evidence available, including the magnitude of any unrealized loss and its duration. Impairment analysis of the investment portfolio involves considerable judgment, is subject to considerable variability, is established using management’s best estimate and is revised as additional information becomes available. As such, changes in or deviations from the assumptions used in such analysis can have a significant effect on the results of operations. During the twelve months ended September 30, 2017 we recognized credit-related impairment losses of \$20 on available-for-sale debt securities related to investments in First National Bank Holding Co. The Company concluded the decline in the fair value of these investments was other than temporary. See “OTTI and Watch List,” "Note 2. Significant Accounting Policies and Practices" and "Note 4. Investments" to our audited Consolidated Financial Statements for a more complete discussion.

We also have a policy and process in place to evaluate mortgage loans held in our investment portfolio to assess whether any of the loans are impaired. Mortgage loans on real estate are all commercial mortgage loans ("CMLs"). Mortgage loans are evaluated by the Company’s investment professionals, including an appraisal of loan-specific credit quality, property characteristics and market trends. Loan performance is continuously monitored on a loan-specific basis throughout the year. The Company’s review includes submitted appraisals, operating statements, rent revenues and annual inspection reports, among other items. This review evaluates whether the properties are performing at a consistent and acceptable level to secure the debt. If a mortgage loan is determined to be impaired (i.e. when it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement), the carrying value of the mortgage loan is reduced to the lower of either the present value of expected cash flows from the loan, discounted on the loan’s original purchase yield, or the fair value of the collateral. For those mortgages that are determined to require foreclosure, the carrying value is reduced to the fair value of the underlying

collateral, net of estimated costs to obtain and sell at the point of foreclosure. We also establish a valuation allowance for estimated probable credit losses for pools of loans with similar risk characteristics where a property specific or market specific risk has not been identified.

DAC and VOBA

58

---

Table of Contents

Acquisition costs that are incremental, direct costs of successful contract acquisition are capitalized as DAC. DAC consists principally of commissions. Indirect or unsuccessful acquisition costs, maintenance, product development and overhead expenses are charged to expense as incurred.

VOBA is an intangible asset that reflects the estimated fair value of in-force contracts in a life insurance company acquisition less the amount recorded as insurance contract liabilities. It represents the portion of the purchase price that is allocated to the value of the rights to receive future cash flows from the business in force at the acquisition date. DAC and VOBA are subject to loss recognition testing on a quarterly basis or when an event occurs that may warrant loss recognition.

For annuity products and IUL, DAC and VOBA are being amortized generally in proportion to estimated gross profits from net investment spread margins, surrender charges and other product fees, policy benefits, maintenance expenses, mortality net of reinsurance ceded and expense margins, and recognized gain (loss) on investments. Current and future period gross profits for FIA contracts also include the impact of amounts recorded for the change in fair value of derivatives and the change in fair value of embedded derivatives. At each valuation date, the most recent quarter's estimated gross profits are updated with actual gross profits and the assumptions underlying future estimated gross profits are evaluated for continued reasonableness. If the update of assumptions causes estimated gross profits to increase, DAC and VOBA amortization will decrease, resulting in lower amortization expense in the period. The opposite result occurs when the assumption update causes estimated gross profits to decrease. Current period amortization is adjusted retrospectively through an unlocking process when estimates of current or future gross profits (including the impact of recognized investment gains and losses) to be realized from a group of products are revised. Our estimates of future gross profits are based on actuarial assumptions related to the underlying policies' terms, lives of the policies, duration of contract, yield on investments supporting the liabilities and level of expenses necessary to maintain the policies over their entire lives. Revisions are made based on historical results and our best estimates of future experience. Estimated future gross profits vary based on a number of factors, including net investment spread margins, surrender charge income, policy persistency, policy administrative expenses and recognized gains and losses on investments including credit related OTTI losses. Estimated future gross profits are sensitive to changes in interest rates, which are the most significant component of gross profits.

Changes in assumptions can have a significant impact on DAC and VOBA, amortization rates and results of operations. Assumptions are management's best estimate of future outcomes. Several assumptions are considered significant and require significant judgment in the estimation of gross profits and are listed below. We periodically review these assumptions against actual experience and update our assumptions based on additional information that becomes available.

Assumptions related to interest rate spreads and credit losses also impact estimated gross profits for all applicable products with credited rates. These assumptions are based on the current investment portfolio yields and credit quality, estimated future crediting rates, capital markets, and estimates of future interest rates and defaults.

Other significant assumptions include estimated policyholder behavior assumptions, such as surrender, lapse, and annuitization rates. We use a combination of actual and industry experience when setting and updating our policyholder behavior assumptions, which require considerable judgment.

We perform sensitivity analyses to assess the impact that certain assumptions have on DAC and VOBA. The following table presents the estimated instantaneous net impact to income before income taxes of various assumption changes on our DAC and VOBA. The effects, increase or (decrease), presented are not representative of the aggregate impacts that could result if a combination of such changes to interest rates and other assumptions occurred.

(dollars in millions)	As of September 30, 2017
A change to the long-term interest rate assumption of -50 basis points	\$ (71 )
A change to the long-term interest rate assumption of +50 basis points	61
An assumed 10% increase in surrender rate	(6 )

Assumptions regarding shifts in market factors may be overly simplistic and not indicative of actual market behavior in stress scenarios.

Table of Contents

Lower assumed interest rates or higher assumed annuity surrender rates tend to decrease the balances of DAC and VOBA, thus decreasing income before income taxes.

Higher assumed interest rates or lower assumed annuity surrender rates tend to increase the balances of DAC and VOBA, thus increasing income before income taxes.

See "Note 2. Significant Accounting Policies and Practices", "Note 3. Significant Risks and Uncertainties" and "Note 7. Intangibles" to our audited Consolidated Financial Statements for a more complete discussion.

**Reserves for Future Policy Benefits and Product Guarantees**

The determination of future policy benefit reserves is dependent on actuarial assumptions. The principal assumptions used to establish liabilities for future policy benefits are based on our experience. These assumptions are established at issue of the contract and include mortality, morbidity, contract full and partial surrenders, investment returns, annuitization rates and expenses. The assumptions used require considerable judgment. We review overall policyholder experience at least annually and update these assumptions when deemed necessary based on additional information that becomes available. For traditional life and immediate annuity products, assumptions used in the reserve calculation can only be changed if the reserve is deemed to be insufficient. For all other insurance products, changes in assumptions will be used to calculate reserves. These changes in assumptions will also incorporate changes in risk free rates and option market values. Changes in, or deviations from, the assumptions previously used can significantly affect our reserve levels and related results of operations.

Mortality is the incidence of death amongst policyholders triggering the payment of underlying insurance coverage by the insurer. In addition, mortality also refers to the ceasing of payments on life-contingent annuities due to the death of the annuitant. We utilize a combination of actual and industry experience when setting our mortality assumptions.

A surrender rate is the percentage of account value surrendered by the policyholder. A lapse rate is the percentage of account value canceled by us due to nonpayment of premiums. We make estimates of expected full and partial surrenders of our fixed annuity products. Our surrender rate experience in Fiscal 2017 on the fixed annuity products averaged 5%, which is within our assumed ranges. Management's best estimate of surrender behavior incorporates actual experience over the entire period, as we believe that, over the duration of the policies, we will experience the full range of policyholder behavior and market conditions. If actual surrender rates are significantly different from those assumed, such differences could have a significant effect on our reserve levels and related results of operations. The assumptions used to establish the liabilities for our product guarantees require considerable judgment and are established as management's best estimate of future outcomes. We periodically review these assumptions and, if necessary, update them based on additional information that becomes available. Changes in or deviations from the assumptions used can significantly affect our reserve levels and related results of operations.

At issue, and at each subsequent valuation, we determine the present value of the cost of the guaranteed minimum withdrawal benefit ("GMWB") rider benefits in excess of benefits that are funded by the account value. We also calculate the expected value of the future rider charges for providing for these benefits. We accumulate a reserve equal to the portion of these fees that would be required to fund the future benefits less benefits paid to date. In making these projections, a number of assumptions are made and we update these assumptions as experience emerges when required. We have minimal experience to date on policyholder behavior for our GMWB products which we began issuing in 2008; as a result, future experience could lead to significant changes in our assumptions. If emerging experience deviates from our assumptions on GMWB utilizations, such deviations could have a significant effect on our reserve levels and related results of operations.

Table of Contents

Our aggregate reserves for contractholder funds, future policy benefits and product guarantees on a direct and net basis as of September 30, 2017 are summarized as follows:

(dollars in millions)	Direct	Reinsurance Recoverable	Net
Fixed indexed annuities	\$14,237	\$ (580 )	\$13,657
Fixed rate annuities	3,910	(308 )	3,602
Immediate annuities	2,845	(317 )	2,528
Universal life	1,485	(1,073 )	412
Traditional life	1,727	(1,097 )	630
Total	\$24,204	\$ (3,375 )	\$20,829

See "Note 2. Significant Account Policies and Practices" to our audited Consolidated Financial Statements for a more complete discussion.

#### Deferred Income Tax Assets and Related Valuation Allowance

Accounting Standards Codification section 740, Income Taxes (ASC 740), provides that deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry-forwards. A valuation allowance is recorded if, based on the weight of available evidence, it is more likely than not that a portion of or all deferred tax assets are not more-likely-than-not realizable. Assessing the need for, and the amount of, a valuation allowance for deferred tax assets requires management's judgment, considering all available positive and negative evidence as to the realizability of deferred tax assets.

Future realization of deferred tax assets ultimately depends on the existence of sufficient taxable income of the appropriate character (i.e., ordinary income or capital gain) in either the carryback or carry-forward period under tax law. The four sources of taxable income that may be considered in determining whether a valuation allowance is required are:

- Future reversals of existing taxable temporary differences (i.e., offset of gross deferred tax assets against gross deferred tax liabilities);
- Taxable income in prior carryback years, if carryback is permitted under tax law;
- Tax planning strategies; and
- Future taxable income exclusive of reversing temporary differences and carry-forwards.

At each reporting date, management considers new evidence, both positive and negative, that could impact management's judgment regarding the future realization of deferred tax assets. As of September 30, 2017, management gathered the following positive and negative evidence concerning the future realization of deferred tax assets:

#### Positive Evidence:

- As of September 30, 2017, we were in a cumulative income position based on pre-tax income over the prior 12 quarters;
- We are projecting significant pre-tax GAAP income from continuing operations;
- We have projected that the reversal of taxable temporary timing differences will unwind in the 20-year projection period;
- We have a history of utilizing all significant tax attributes before they expire;
- and
- Our inventory of IRC Section 382 limited attributes has been significantly reduced over the past couple years.

#### Negative Evidence:

- §382 limited carry-forwards reduce our ability to utilize tax attributes in future years; and
- Brief carryback/carry-forward period for capital losses.

## Table of Contents

Based on management's evaluation of the above positive and negative evidence, management concluded that a valuation allowance continued to be necessary for some of the Company's DTAs at September 30, 2017. The Company maintains a full valuation allowance for the DTAs of the non-life insurance companies. It also maintains a valuation allowance against all of the capital losses of the life insurance companies. For the year ended September 30, 2017, the Company recorded net valuation allowance release of \$1 related to FGL's non-life companies.

### Loss Contingencies

Loss contingencies are recorded as liabilities when it is probable that a loss has been incurred and the amount of such loss can be reasonably estimated. The outcome of existing litigation and pending or potential examinations by various taxing or regulatory authorities are examples of situations evaluated as loss contingencies. Estimating the probability and magnitude of losses is often dependent upon management's judgment of potential actions by third parties and regulators.

The establishment of litigation and regulatory reserves requires judgments concerning the ultimate outcome of pending claims against us and our subsidiaries. In applying their judgment, management utilizes opinions and estimates obtained from outside counsel to apply the appropriate accounting for contingencies. Accordingly, estimated amounts relating to certain claims have met the criteria for the recognition of a liability. Other claims for which a liability has not been recognized are reviewed on an ongoing basis in accordance with accounting guidance. A liability is recognized for all associated legal costs as incurred. Liabilities for litigation settlements, regulatory matters, legal fees and changes in these estimated amounts are not expected to have a material adverse effect on our financial position, although it is possible that the results of operations and cash flows could be materially affected by an unfavorable outcome.

If the actual cost of settling these matters, whether resulting from adverse judgments or otherwise, differs from the reserves totaling \$1 that we have accrued as of September 30, 2017, that difference will be reflected in our results of operations when the matter is resolved or when our estimate of the cost changes. See further discussion in "Note 12. Commitments and Contingencies" to our audited Consolidated Financial Statements.

### Stock Compensation

Stock compensation includes plans sponsored by FGLH, FGL's principal subsidiary, and FGL. The plans sponsored by FGLH include stock options, restricted stock units and dividend equivalent plans. All of the equity awards under the FGLH plan are settled in cash upon exercise and are included within Other Liabilities within our consolidated financial statements. The liability for these plans is valued at fair value each reporting period, and changes in fair value of the liability impact our net income (loss). Therefore, changes in the valuation assumptions of the equity awards can create volatility to our net income (loss). The primary basis for the valuation of the equity awards is the price of FGLH stock.

The plans sponsored by FGL include stock options, restricted stock, unrestricted stock and performance restricted stock units ("PRSU"). The stock option, restricted stock, and unrestricted stock awards under the FGL plan are settled in equity issuance upon exercise, with the exception of our PRSUs. The fair value of the stock awards is determined as of the date the awards are approved and communicated to the recipient and is recognized as expense over the performance or service period, which generally corresponds to the vesting period. Determining the fair value of stock options at the grant date requires judgment, including estimates for the average risk-free interest rate, expected volatility, and expected dividend yield. In fourth quarter 2016, we decided to settle our PRSUs in cash upon vesting and, therefore, reclassified these awards from equity to Other Liabilities. The liability for the PRSUs was valued at fair value upon reclassification which resulted in the recognition of additional compensation cost of \$3. A total of 634 thousand PRSUs became fully vested as of September 30, 2016 with a total cash payment of \$15 made in November 2016 based on the fair value of the award at the time of settlement, which was \$23.30 per PRSU. For our PRSUs, the attainment of performance targets is a key judgment. If the attainment of performance targets differ significantly from actual, stock-based compensation expense could be affected, which could have a material effect on our consolidated results of operations in a particular quarterly or annual period. The PRSUs granted in 2017 can only be settled in cash and, therefore, are classified as a liability plan as well, with the settlement value classified as a liability in "Other liabilities" on the Consolidated Balance Sheets. See "Note 10. Stock Compensation" to our Consolidated Financial Statements for more information on our stock compensation plans.





Table of Contents

Recent Accounting Pronouncements

Please refer to "Note 2. Significant Accounting Policies and Practices" to our audited Consolidated Financial Statements for disclosure of recent accounting pronouncements.

63

---

Table of Contents

## Results of Operations

(All amounts presented in millions unless otherwise noted)

The following tables set forth the consolidated results of operations and compare the amount of the change between the fiscal periods:

	Fiscal Year			Increase / (Decrease)	
	2017	2016	2015	2017 compared to 2016	2016 compared to 2015
<b>Revenues:</b>					
Premiums	\$42	\$70	\$58	\$(28)	\$12
Net investment income	1,005	923	851	82	72
Net investment gains (losses)	316	19	(37)	297	56
Insurance and investment product fees and other	167	127	89	40	38
Total revenues	1,530	1,139	961	391	178
<b>Benefits and expenses:</b>					
Benefits and other changes in policy reserves	843	791	578	52	213
Acquisition and operating expenses, net of deferrals	137	119	113	18	6
Amortization of intangibles	193	54	64	139	(10)
Total benefits and expenses	1,173	964	755	209	209
Operating income	357	175	206	182	(31)
Interest expense	(24)	(22)	(24)	(2)	2
Income before income taxes	333	153	182	180	(29)
Income tax expense	(110)	(56)	(64)	(54)	8
Net income	\$223	\$97	\$118	\$126	\$(21)

Annuity sales during Fiscal 2017 and Fiscal 2016 were \$2,550 and \$2,525, respectively, including FIA sales of \$1,868 and \$1,832, respectively. FIA sales in the current year reflect continued strong and productive partnerships with our IMO's. Fiscal 2017 and Fiscal 2016 reflect a \$136 and \$157 funding agreement, respectively, with Federal Home Loan Bank ("FHLB"), under an investment spread strategy. These funding agreements are reflected as an institutional spread based product. Sales of multi-year guarantee annuities ("MYGA") were \$546 in Fiscal 2017 as compared to \$536 in Fiscal 2016. We view MYGA volume and funding agreements as opportunistic and therefore these volumes will fluctuate from period to period. Indexed universal life sales during Fiscal 2017 and Fiscal 2016 were \$46 and \$56, respectively. The decline in IUL sales during Fiscal 2017 reflects our focus on quality of new business and pricing discipline to achieve profitability and capital targets.

Annuity sales during Fiscal 2016 and Fiscal 2015 were \$2,525 and \$2,466, respectively, including \$1,832 and \$2,179, respectively. As expected, FIA sales were down from the near record level achieved in the prior year as we have intentionally moderated volume to sustain a disciplined approach for new business profitability and capital management. Sales of MYGA were \$536 in Fiscal 2016 as compared to \$287 in Fiscal 2015. During third quarter of Fiscal 2016, we entered into a \$157 funding agreement with FHLB, under an investment spread strategy. This funding agreement is reflected as an institutional spread based product. We view MYGA volume and funding agreements as opportunistic and therefore these volumes will fluctuate from period to period. Indexed universal life sales during Fiscal 2016 and Fiscal 2015 were \$56 and \$35, respectively. The strong growth in the current period reflects the Company's ongoing efforts to steadily grow indexed universal life sales through its network of core middle-market focused IMO's.

## Revenues

Premiums

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

64

---

Table of Contents

Premiums decreased \$28, or 40%, from Fiscal 2016 to Fiscal 2017 primarily due to the retroactive reinstatement of a reinsurance treaty with a third party reinsurer during Fiscal 2017 with a partial offset in benefits and other changes in policy reserves. Also contributing to the decrease was higher life-contingent immediate annuity premiums during Fiscal 2016, resulting from an increase in deferred annuity policies reaching the required annuitization period.

Premiums increased \$12, or 21%, from Fiscal 2015 to Fiscal 2016 primarily due to an increase in life-contingent immediate annuity premiums resulting from an increase in deferred annuity policies reaching their required annuitization period during Fiscal 2016.

Net investment income

Below is a summary of the major components included in net investment income for Fiscal 2017, Fiscal 2016, and Fiscal 2015:

	Fiscal Year			Increase / (Decrease)	
	2017	2016	2015	2017 compared to 2016	2016 compared to 2015
Fixed maturity securities, available-for-sale	\$953	\$869	\$799	\$84	\$ 70
Equity securities, available-for-sale	41	32	33	9	(1 )
Commercial mortgage loans, related party loans, invested cash, short term investments, and other investments	33	40	39	(7 )	1
Gross investment income	1,027	941	871	86	70
Investment expense	(22 )	(18 )	(20 )	(4 )	2
Net investment income	\$1,005	\$923	\$851	\$82	\$ 72

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

	Fiscal Year			Increase / (Decrease)		
	2017	2016	2015	2017 compared to 2016	2016 compared to 2015	
Yield on AAUM (at amortized cost)	4.95	% 4.92	% 4.80	% 0.03	% 0.12	%
Less: Interest credited and option cost	(2.53 )	)% (2.65 )	)% (2.83 )	)% 0.12	)% 0.18	)%
Net investment spread	2.42	% 2.27	% 1.97	% 0.15	% 0.30	%
AAUM	\$20,324	\$18,738	\$17,722	\$1,586	\$1,016	

The increase in net investment income ("NII") of \$82, or 9%, from Fiscal 2016 to Fiscal 2017 was primarily due an increase in AAUM (volume). The volume increase period over period resulted in net investment income growth of \$78, with the remaining \$4 driven by an increase in earned yields (rate).

The increase in AAUM of \$2 billion or 8% from Fiscal 2016 to Fiscal 2017 was primarily due to new business sales over the past year and stable in-force retention trends.

The increase in net investment income of \$72, or 8%, from Fiscal 2015 to Fiscal 2016 was primarily due to increases in AAUM (volume) and earned yields (rate). The volume and rate increases period over period resulted in net investment income growth of \$49 and \$23, respectively. The increase in earned yields was primarily due to higher overall portfolio yields from repositioning activities completed over the past year as well as an increase in income from tender offer consideration and bond prepayment income.

The increase in AAUM of \$1 billion or 6% from Fiscal 2015 to Fiscal 2016 was primarily due to annuity sales and FHLB institutional spread based sales over the past year and stable in force retention trends.



Table of Contents

Net investment gains (losses)

Below is a summary of the major components included in net investment gains (losses) for Fiscal 2017, Fiscal 2016, and Fiscal 2015:

	Fiscal Year			Increase / (Decrease)	
	2017	2016	2015	2017 compared to 2016	2016 compared to 2015
Net realized (losses) gains on available-for-sale securities	\$(16 )	\$(14 )	\$(22 )	\$(2 )	\$ 8
Realized and unrealized gains (losses) on certain derivative instruments	348	82	(107)	266	189
Change in fair value of reinsurance related embedded derivative	(16 )	(49 )	92	33	(141 )
Net investment gains (losses)	\$316	\$19	\$(37)	\$297	\$ 56

Fiscal 2017 compared to Fiscal 2016

The increase in net investment losses on available-for-sale securities of \$2 from Fiscal 2016 to Fiscal 2017 was primarily due to a decrease in trading gains year over year. Fiscal 2017 net realized losses on available-for-sale securities of \$16 include \$6 of net trading gains and \$22 of impairment losses, primarily related to available-for-sale debt securities related to investments in First National Bank Holding Co. Comparatively, Fiscal 2016 net realized losses on available-for-sale securities of \$14 include \$22 of net trading gains, \$8 on recovery of the RadioShack loan participation previously impaired in 2015, and \$44 of impairment losses, primarily related to loan participations and Salus CLO. Refer to impairment disclosures in "Note 4. Investments" to our audited Consolidated Financial Statements for additional details.

Net realized and unrealized gains on certain derivative instruments increased \$266 from Fiscal 2016 to Fiscal 2017. See the table below for primary drivers of this increase.

Partially offsetting the increase in net investment gains on available-for-sale securities and derivative instruments from Fiscal 2016 to Fiscal 2017 was a \$33 period over period increase in fair value of reinsurance related embedded derivative, which is based on the change in fair value of the underlying assets held in the funds withheld ("FWH") portfolio. Specifically, the reinsurance related embedded derivative decreased \$16 during Fiscal 2017 resulting from an increase in the net unrealized gain position of the FSRCI FWH portfolio during the year, primarily due to improvements in the commodities and high yield bonds and emerging market securities, offset by higher Treasury yields in response to Federal Reserve interest rate increases. Comparatively, the reinsurance related embedded derivative increased \$49 in the Fiscal 2016 resulting from an increase in the net unrealized gain position of the FSRCI FWH portfolio during the year, primarily due to generally positive capital market and commodities price movements during the current year.

Fiscal 2016 compared to Fiscal 2015

The increase in net investment gains on available-for-sale securities of \$8 from Fiscal 2015 to Fiscal 2016 was primarily due a decrease in impairments year over year, partially offset by a decrease in net realized gains, as Fiscal 2015 reflected trading gains from our tax planning strategy initiated in 2014. Fiscal 2016 net realized losses on available-for-sale securities includes \$44 of net impairments, primarily related to loan participations and Salus CLO. Comparatively, Fiscal 2015 net realized losses on available-for-sale securities includes of \$82 of net impairments primarily related to direct and indirect investments in RadioShack Corporation ("RSH"), which filed for bankruptcy in February 2015, as well as Salus CLO Equity investment. Refer to impairment disclosures in "Note 4. Investments" to our audited Consolidated Financial Statements for additional details.

Net realized and unrealized gains on certain derivative instruments increased \$189 from Fiscal 2015 to Fiscal 2016. See the table below for primary drivers of this increase.

Partially offsetting the decrease in net investment gains on available-for-sale securities and derivative instruments from Fiscal 2015 to Fiscal 2016 was a \$141 period over period decrease in fair value of reinsurance related embedded derivative, which is based on the change in fair value of the underlying assets held in the funds withheld ("FWH") portfolio. Specifically, the reinsurance related embedded derivative decreased \$49 during Fiscal 2016 resulting from

an increase in the net unrealized gain position

66

---



Table of Contents

of the FSRCI FWH portfolio during the year, primarily due to generally positive capital market and commodities price movements during the current year. Comparatively, the reinsurance related embedded derivative decreased \$92 in Fiscal 2015 as a result of a decrease in fair value of the FWH portfolio primarily due to an increase in credit spreads during a period characterized by increased volatility in the capital markets. The impact of reinsurance related embedded derivative gains (losses) is largely offset in stockholders' equity as the change in the net unrealized gains (losses) on the FSRCI FWH portfolio is included in AOCI.

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

The components of the realized and unrealized gains on certain derivative instruments hedging our indexed annuity and universal life products are as follows:

	Fiscal Year			Increase / (Decrease)	
	2017	2016	2015	2017 compared to 2016	2016 compared to 2015
<b>Call Options:</b>					
Gains (losses) on option expiration	\$212	\$(89)	\$114	\$301	\$(203)
Change in unrealized gains (losses)	126	163	(214)	(37)	377
<b>Futures contracts:</b>					
Gains (losses) on futures contracts expiration	7	5	(6)	2	11
Change in unrealized gains (losses)	3	3	(1)	—	4
Total net change in fair value	\$348	\$82	\$(107)	\$266	\$189

Change in S&P 500 Index during the period 16 % 13 % (3) %

Realized gains and losses on certain derivative instruments are directly correlated to the performances of the indices upon which the call options and futures contracts are based and the value of the derivatives at the time of expiration compared to the value at the time of purchase. Additionally, the fair value of call options are primarily driven by the underlying performance of the S&P 500 index relative to the S&P index on the policyholder buy dates during each respective year.

The increases in certain derivative instruments from Fiscal 2016 to Fiscal 2017 and from Fiscal 2015 to Fiscal 2016 were primarily due to the change in net realized and unrealized gains/(losses) on call options and future contracts during the respective years as well as timing of option purchases and expirations. The S&P 500 Index increased 16% during Fiscal 2017, increased 13% during Fiscal 2016, and decreased 3% during Fiscal 2015 (the percentages noted are a fiscal period over period comparison of the growth of the S&P 500 Index only and do not reflect the change for each option buy date).

The average index credits to policyholders were as follows:

	Fiscal Year			Increase / (Decrease)	
	2017	2016	2015	2017 compared to 2016	2016 compared to 2015
Average Crediting Rate	4 %	1 %	4 %	3 %	(3) %
<b>S&amp;P 500 Index:</b>					
Point-to-point strategy	4 %	1 %	4 %	3 %	(3) %
Monthly average strategy	3 %	1 %	4 %	2 %	(3) %
Monthly point-to-point strategy	4 %	— %	3 %	4 %	(3) %

Edgar Filing: Fidelity & Guaranty Life - Form 10-K

3 year high water mark            13% 16% 24% (3)% (8 )%

Actual amounts credited to contractholder fund balances may differ from the index appreciation due to contractual features in the FIA contracts (caps, spreads and participation rates) which allow the Company to manage the cost of the options purchased to fund the annual index credits.

67

---

Table of Contents

The credits for Fiscal 2017, Fiscal 2016 and Fiscal 2015 were based on comparing the S&P 500 Index on each issue date in these respective periods to the same issue date in the respective prior year periods. Favorable volatility at different points in these periods caused an increase in crediting rates in the point-to-point, monthly point-to-point strategies due to higher equity returns in Fiscal 2017 and Fiscal 2015. Unfavorable volatility caused a decline in crediting rates due to lower equity returns in Fiscal 2016.

Insurance and investment product fees and other

Below is a summary of the major components included in Insurance and investment product fees and other for Fiscal 2017, Fiscal 2016, and Fiscal 2015:

	Fiscal Year			Increase / (Decrease)	
	2017	2016	2015	2017 compared to 2016	2016 compared to 2015
Insurance and investment product fees and other:					
Surrender charges	\$34	\$22	\$19	\$12	\$3
Cost of insurance fees and other income	133	105	70	28	35
Total insurance and investment product fees and other	\$167	\$127	\$89	\$40	\$38

Insurance and investment product fees and other consists primarily of the cost of insurance, policy rider fees and surrender charges assessed against policy withdrawals in excess of the policyholder's allowable penalty-free amounts (up to 10% of the prior year's value, subject to certain limitations).

The \$40 and \$38 increases in total insurance and investment product fees and other in Fiscal 2017 and Fiscal 2016, respectively, were primarily due to increases in rider fees on FIA policies as well as increases in cost of insurance ("COI") charges on IUL policies over the past year. Specifically, guaranteed minimum withdrawal benefit ("GMWB") rider fees increased \$18 from Fiscal 2015 to Fiscal 2016 and \$16 from Fiscal 2016 and Fiscal 2017. This growth is a result of growth in benefit base, which is partially offset by a corresponding increase in income rider reserves (included in Benefits and other changes in policy reserves). GMWB rider fees are based on the policyholder's benefit base and are collected at the end of the policy year. The COI charges on IUL policies also increased \$15 and \$12 during Fiscal 2016 and Fiscal 2017, respectively, due to continued growth in the life business over the past two years.

Benefits and expenses

Benefits and other changes in policy reserves

Below is a summary of the major components included in Benefits and other changes in policy reserves for Fiscal 2017, Fiscal 2016, and Fiscal 2015:

	Fiscal Year			Increase / (Decrease)	
	2017	2016	2015	2017 compared to 2016	2016 compared to 2015
FIA market value option liability change	\$151	\$174	\$(219)	\$(23)	\$393
FIA present value future credits & guarantee liability change	(145)	96	101	(241)	(5)
Index credits, interest credited & bonuses	649	316	524	333	(208)
Annuity payments	152	164	176	(12)	(12)
Other policy benefits and reserve movements	36	41	(4)	(5)	45
Total benefits and other changes in policy reserves	\$843	\$791	\$578	\$52	\$213

The FIA market value option liability increased \$151 during Fiscal 2017, increased \$174 during Fiscal 2016 and decreased \$219 during Fiscal 2015, respectively. The decrease of \$23 from Fiscal 2016 to Fiscal 2017 and increase of \$393 from Fiscal 2015 to Fiscal 2016 was driven by the corresponding change in fair value of FIA options during the respective periods. In general, a decrease or increase in market value of derivative assets hedging FIA index credits will result in a corresponding decrease or increase in the market value option liability, respectively. See table in the

net investment gains/losses discussion above for summary and discussion of net unrealized gains (losses) on certain derivative instruments.

68

---

Table of Contents

The FIA present value of future credits and guarantee liability decreased \$145, and increased \$96 and \$101 during Fiscal 2017, Fiscal 2016, and Fiscal 2015, respectively. The change in longer duration risk free rates year over year decreased reserves by \$167, increased reserves by \$97, and increased reserves by \$83 during Fiscal 2017, Fiscal 2016, Fiscal 2015 and respectively. Additionally, the reserve increase for Fiscal 2017, Fiscal 2016, and Fiscal 2015 included increases of \$33, \$22, and \$18 respectively, related to annual surrender assumption update which impacted the FIA embedded derivative reserve calculation.

Index credits, interest credited & bonuses increased \$333 from Fiscal 2016 to Fiscal 2017 and decreased \$208 from Fiscal 2015 to Fiscal 2016. The year over year fluctuations from Fiscal 2016 to Fiscal 2017 and Fiscal 2015 to Fiscal 2016 were primarily due to changes in the amount of index credits on FIA policies reflecting the fluctuation in performance of the S&P 500 Index relative to the S&P 500 Index level on the policyholder buy dates and related changes in realized gains from options and futures which fund FIA index credits. Fixed interest credits remained in line with historical experience in Fiscal 2017, 2016 and 2015.

Other policy benefits and reserve movements decreased \$5 from Fiscal 2016 to Fiscal 2017 and \$45 from Fiscal 2015 to Fiscal 2016. The decrease from Fiscal 2016 to Fiscal 2017 was primarily due to a decrease in life contingent immediate annuity reserves due to increased annuitizations during Fiscal 2016. The reserve increase from Fiscal 2015 to Fiscal 2016 was due to an increase in GMWB reserves in the current year due to continued growth in FIA policies with the rider, as well as an increase in life contingent immediate annuity reserves due to increased annuitizations during Fiscal 2016.

Acquisition and operating expenses, net of deferrals

Below is a summary of the major components included in acquisition and operating expenses, net of deferrals for Fiscal 2017, Fiscal 2016, and Fiscal 2015:

	Fiscal Year			Increase / (Decrease)	
	2017	2016	2015	2017 compared to 2016	2016 compared to 2015
Acquisition and operating expenses, net of deferrals:					
General expenses	\$ 120	\$ 107	\$ 106	\$ 13	\$ 1
Acquisition expenses	310	325	298	(15 )	27
Deferred acquisition costs	(293 )	(313 )	(291 )	20	(22 )
Total acquisition and operating expenses, net of deferrals	\$ 137	\$ 119	\$ 113	\$ 18	\$ 6

The increase in acquisition and operating expenses, net of deferrals, during Fiscal 2017 compared to Fiscal 2016 reflects an increase in general expenses related to employee headcount growth, as well as increased merger transaction cost and LTIP expense.

Gross acquisition expenses decreased \$15 from Fiscal 2017 compared to Fiscal 2016 due to lower commissions driven by lower IUL sales in Fiscal 2017.

The increase in acquisition and operating expenses, net of deferrals, during Fiscal 2016 compared to Fiscal 2015 reflects an increase in general expenses related to employee headcount growth, nearly offset by lower long term incentive plan costs year over year. Gross acquisition expenses increased \$27 from Fiscal 2016 compared to Fiscal 2015 due to higher commissions driven by increased MYGA and IUL sales. This increase was partially offset by a corresponding increase in deferrals of \$22.

Table of Contents

## Amortization of intangibles

Below is a summary of the major components included in amortization of intangibles for Fiscal 2017, Fiscal 2016, and Fiscal 2015:

	Fiscal Year			Increase / (Decrease)	
	2017	2016	2015	2017 compared to 2016	2016 compared to 2015
Amortization of intangibles related to:					
Unlocking	\$(30 )	\$(27 )	\$(23 )	\$(3 )	\$(4 )
Interest	(57 )	(45 )	(34 )	(12 )	(11 )
Amortization	280	126	121	154	5
Total amortization of intangibles	\$193	\$54	\$64	\$139	\$(10 )

Amortization of intangibles is based on historical, current and future expected gross margins (pre-tax operating income before amortization). Fiscal 2017 results included \$30 of favorable unlocking, primarily from equity market fluctuations and aforementioned annual surrender assumption updates. Comparatively, Fiscal 2016 results included \$27 of favorable unlocking. The year over year increase in amortization of \$154 was primarily due to higher actual gross profits ("AGPs") on the DAC lines of business (LOBs), excluding the impact of the reinsurance related embedded derivative. The year over year increase in AGPs during 2017 was primarily driven by an increase in net investment gains, net investment income (see net investment gains and net investment income discussions above) and an increase in the risk free rate which served to decrease reserves (see benefit and reserve discussion above). Interest increased year-over-year due to continued growth of our in force book of business.

Fiscal 2016 results included favorable unlocking and amortization adjustments of \$27 primarily from equity market fluctuations and aforementioned annual assumption updates. Also contributing to the year over year increase was lower overall gross margins in Fiscal 2016 primarily due to higher actual gross profits ("AGPs") on the DAC lines of business (LOBs), excluding the impact of the reinsurance related embedded derivative. The year over year increase in AGPs during 2016 was primarily driven by an increase in net investment income (see net investment income discussion above) and lower net losses on available for sale securities (see net investment gain/(loss) discussion above), partially offset by an increase in FIA reserves due to market movements in risk free rates (see benefit and reserve discussion above). Interest increased year-over-year due to continued growth of our in force book of business. Other items affecting net income

## Interest expense

The interest expense and amortization of debt issuance costs of the Company's debt for Fiscal 2017, 2016 and 2015, respectively, were as follows:

	Fiscal Year			Increase / (Decrease)	
	2017	2016	2015	2017 compared to 2016	2016 compared to 2015
Interest expense and amortization related to:					
Debt	\$19	\$21	\$23	\$(2)	\$(2)
Revolving credit facility	5	1	1	4	—
Total interest expense	24	22	24	2	(2)

Fiscal 2017 interest expense included interest incurred on the \$105 revolving credit facility outstanding on which the company drew \$100 during the fourth fiscal quarter of 2016 and \$5 during the second fiscal quarter of 2017. The increase in interest on the revolving credit facility was partially offset by a decrease in amortization of capitalized debt issuance costs related to the \$300 of outstanding 6.375% senior notes (the "Senior Notes") issued by FGLH in March 2013.

•

Fiscal 2016 interest expense decreased \$2 compared to Fiscal 2015 due to the amortization of capitalized debt issuance costs related to the Senior Notes which were fully amortized in March of 2016.

Table of Contents

## Income tax expense

Below is a summary of the major components included in Income tax expense (benefit) for Fiscal 2017, Fiscal 2016, and Fiscal 2015:

	Fiscal Year			Increase / (Decrease)	
	2017	2016	2015	2017 compared to 2016	2016 compared to 2015
Income before taxes	\$333	\$153	\$182	\$180	\$ (29 )
Income tax before valuation allowance	111	125	63	(14 )	62
Change in valuation allowance	(1 )	(69 )	1	68	(70 )
Income tax	\$110	\$56	\$64	\$54	\$ (8 )
Effective rate	33 %	37 %	35 %	(4 )%	2 %

Income tax expense for Fiscal 2017 is \$110, net of a valuation allowance release of \$1, compared to income tax expense of \$56 for Fiscal 2016, net of a valuation allowance release of \$69. The increase in income tax expense of \$54 from Fiscal 2016 to Fiscal 2017 was primarily due to an increase in pre-tax income of \$180 year over year, partially offset by an increase in favorable permanent adjustments, including low income housing tax credits and dividends received deduction.

Income tax expense for Fiscal 2016 was \$56, net of a valuation allowance release of \$69, compared to income tax expense of \$64 for Fiscal 2015, inclusive of a valuation allowance expense of \$1. The decrease in income tax expense of \$8 from Fiscal 2015 to Fiscal 2016 was primarily due to a decrease in pre-tax income of \$29 year over year. The valuation allowance release for Fiscal 2016 is related to the removal of the valuation allowance against life company capital loss deferred tax assets that expired and were written off in the first quarter of 2016, and therefore had no net impact to the overall tax expense.

In assessing the recoverability of our deferred tax assets, we regularly consider the guidance outlined within Accounting Standards Codification (“ASC”) Topic 740, “Income Taxes”. The guidance requires an assessment of both positive and negative evidence in determining the realizability of deferred tax assets. A valuation allowance is required to reduce our deferred tax asset to an amount that is more likely than not to be realized. In determining the net deferred tax asset and valuation allowance, we are required to make judgments and estimates related to projections of future profitability. These judgments include the following: the timing and extent of the utilization of net operating loss carry-forwards, the reversals of temporary differences, and tax planning strategies. We have recorded a partial valuation allowance of \$49 against our gross deferred tax assets of \$767 as of September 30, 2017.

We maintain a valuation allowance against the deferred tax assets of our non-life insurance company subsidiaries. Our non-life insurance company subsidiaries have a history of losses and insufficient sources of future income necessary to recognize any portion of their deferred tax assets. The remaining unutilized capital loss carryforwards of our life companies expired on December 31, 2015. The deferred tax assets and valuation allowance associated with those carryforwards were written off at December 31, 2015. As of September 30, 2017, there is no valuation allowance placed against the deferred tax assets of the life companies.

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





Table of Contents

## AOI

The table below shows the adjustments made to reconcile net income to our AOI:

	Fiscal Year			Increase / (Decrease)	
	2017	2016	2015	2017 compared to 2016	2016 compared to 2015
Reconciliation from Net Income to AOI:					
Net income	\$223	\$97	\$118	\$126	\$ (21 )
Adjustments to arrive at AOI:					
Effect of investment losses (gains), net of offsets	13	9	13	4	(4 )
Effect of change in FIA embedded derivative discount rate, net of offsets	(95 )	54	56	(149 )	(2 )
Effect of change in fair value of reinsurance related embedded derivative, net of offsets	11	37	(69 )	(26 )	106
Effects of class action litigation reserves, net of offsets	—	—	(1 )	—	1
Tax impact of adjusting items	25	(35 )	1	60	(36 )
AOI	\$177	\$162	\$118	\$15	\$ 44

AOI increased \$15 from \$162 to \$177 in Fiscal 2017. The current year results included approximately \$18 net benefit from lower DAC amortization from unlocking and equity market fluctuations, and annual assumption review, \$5 net favorable single premium immediate annuity ("SPIA") and other reserve adjustments, and \$4 bond prepayment income and lower tax expense, partially offset by \$11 higher expense related to the pending merger transaction and legacy incentive compensation plans. Comparatively, Fiscal 2016 AOI included approximately \$17 of net favorable adjustments, related to lower DAC amortization and reserve changes, primarily due to equity market fluctuations and annual assumption updates; \$7 of net favorable performance in the immediate annuity product line and other reserve movements; and \$6 of bond prepayment income; partially offsetting these favorable items were \$4 of expenses related to merger transaction costs and \$2 of stock compensation expense related to our Performance Restricted Stock Units which were reclassified from an equity plan to a liability plan in the fourth quarter of 2016 (refer to "Note 10 Stock Compensation" to our audited Consolidated Financial Statements for additional details).

AOI increased \$44 from \$118 to \$162 in Fiscal 2016. Fiscal 2016 AOI included approximately \$17 of net favorable adjustments related to lower DAC amortization and reserve changes, primarily due to equity market fluctuations and annual assumption updates; \$7 of net favorable performance in the immediate annuity product line and other reserve movements; and \$6 of bond prepayment income. Partially offsetting these favorable items was \$4 of expenses related to merger transaction costs and \$2 of stock compensation expense related to our Performance Restricted Stock Units which were reclassified from an equity plan to a liability plan in the fourth quarter of 2016 (refer to "Note 10 Stock Compensation" to our audited Consolidated Financial Statements for additional details). Comparatively, Fiscal 2015 AOI included approximately \$16 of net favorable adjustments, primarily related to annual actuarial assumption review and prepayment income; partially offset by net unfavorable adjustments of approximately \$14 primarily related to mortality experience on life contingent immediate annuity policies as well as legacy incentive compensation and strategic review related expenses.

Table of Contents

Investment Portfolio

(All dollar amounts presented in millions unless otherwise noted)

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

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

As of September 30, 2017 and 2016, the fair value of our investment portfolio was approximately \$23 billion and \$21 billion, respectively, and was divided among the following asset class and sectors:

September 30, 2017		September 30, 2016	
Fair Value	Percent	Fair Value	Percent
Fixed maturity securities, available for sale:			
United States Government securities:			
\$1,107	— %	\$243	1 %
United States Government sponsored entities:			
\$1,726	8 %	\$1,717	8 %
United States municipalities, states and territories:			
\$1,806	25 %	\$5,463	26 %
Manufacturing and construction:			
\$1,018	4 %	\$863	4 %

and mining Utilities, energy and related sectors	10	%	1,881	9	%
Wholesale/retail trade	6	%	1,277	6	%
Services, media and other	10	%	1,856	9	%
Hybrid securities	6	%	1,386	7	%
Non-agency residential mortgage-backed securities	5	%	1,247	6	%
Commercial mortgage-backed securities	4	%	864	4	%
Asset-backed securities	13	%	2,499	12	%
Total fixed maturity available for sale securities	92	%	19,411	93	%
Equity securities (a)	3	%	683	3	%
Commercial mortgage loans	2	%	614	3	%
Other (primarily derivatives)	3	%	334	1	%
Total investments	100	%	\$21,042	100	%

(a) Includes investment grade non-redeemable preferred stocks (\$613 and \$577, respectively) and Federal Home Loan Bank of Atlanta common stock (\$43 and \$40, respectively).

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



Table of Contents

As of September 30, 2017 and 2016, our fixed maturity available-for-sale ("AFS") securities portfolio was approximately \$21 billion and \$19 billion, respectively. The following table summarizes the credit quality, by Nationally Recognized Statistical Ratings Organization ("NRSRO") rating, of our fixed income portfolio:

Rating	September 30, 2017		September 30, 2016	
	Fair Value	Percent	Fair Value	Percent
AAA	\$1,624	8 %	\$1,509	8 %
AA	1,970	9 %	1,933	10 %
A	5,762	27 %	5,126	27 %
BBB	9,582	45 %	8,404	43 %
BB (a)	1,056	5 %	1,017	5 %
B and below (b)	1,160	6 %	1,422	7 %
Total	\$21,154	100 %	\$19,411	100 %

(a) Includes \$40 and \$67 at September 30, 2017 and 2016, respectively, of non-agency residential mortgage-backed securities ("RMBS") that carry a National Association of Insurance Commissioners ("NAIC") 1 designation.

(b) Includes \$919 and \$1,047 at September 30, 2017 and 2016, respectively, of non-agency RMBS that carry a NAIC 1 designation.

As of September 30, 2017 and 2016, included in our fixed maturity AFS securities portfolio are the collateral assets of the funds withheld coinsurance agreement with FSRCI of approximately \$1 billion. The following table summarizes the credit quality, by NRSRO rating, of FSRCI fixed income portfolio:

Rating	September 30, 2017		September 30, 2016	
	Fair Value	Percent	Fair Value	Percent
AAA	\$ 65	8 %	\$ 90	10 %
AA	35	4 %	58	7 %
A	90	11 %	84	10 %
BBB	227	28 %	247	28 %
BB	194	24 %	155	18 %
B and below	202	25 %	238	27 %
Total	\$ 813	100 %	\$ 872	100 %

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

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

The NAIC has adopted revised designation methodologies for non-agency RMBS, including RMBS backed by subprime mortgage loans and for commercial mortgage-backed securities ("CMBS"). The NAIC's objective with the revised designation methodologies for these structured securities was to increase accuracy in assessing expected losses and to use the improved assessment to determine a more appropriate capital requirement for such structured securities. The NAIC designations for structured securities, including subprime and Alternative A-paper ("Alt-A"), RMBS, are

based upon a comparison of the bond's amortized cost to the NAIC's loss expectation for each security. Securities where modeling does not generate an expected loss in all scenarios are given the highest designation of NAIC 1. A large percentage of our RMBS securities carry a NAIC 1 designation while the NRSRO rating indicates below investment grade. The revised methodologies reduce regulatory reliance on rating agencies

Table of Contents

and allow for greater regulatory input into the assumptions used to estimate expected losses from such structured securities. In the tables below, we present the rating of structured securities based on ratings from the revised NAIC rating methodologies described above (which in some cases do not correspond to rating agency designations). All NAIC designations (e.g., NAIC 1-6) are based on the revised NAIC methodologies.

The tables below present our fixed maturity securities by NAIC designation as of September 30, 2017 and 2016:

September 30, 2017

NAIC Designation	Amortized Cost	Fair Value	Percent of Total Fair Value
1	\$10,358	\$10,989	52 %
2	8,283	8,757	41 %
3	1,181	1,209	6 %
4	144	139	1 %
5	94	57	— %
6	3	3	— %
Total	\$20,063	\$21,154	100 %

September 30, 2016

NAIC Designation	Amortized Cost	Fair Value	Percent of Total Fair Value
1	\$10,052	\$10,678	55 %
2	7,209	7,534	39 %
3	885	866	5 %
4	277	255	1 %
5	94	75	— %
6	4	3	— %
Total	\$18,521	\$19,411	100 %

The tables below present the collateral assets of the funds withheld coinsurance agreement with FSRCI which were included in our fixed maturity securities as of September 30, 2017 and 2016:

September 30, 2017

NAIC Designation	Amortized Cost	Fair Value	Percent of Total Fair Value
1	\$238	\$238	29 %
2	202	204	25 %
3	207	206	25 %
4	126	126	16 %
5	42	37	5 %
6	3	2	— %
Total	\$818	\$813	100 %



Edgar Filing: Fidelity & Guaranty Life - Form 10-K

NAIC Designation	September 30, 2016		Percent	
	Amortized Cost	Fair Value	of Total Fair Value	
1	\$308	\$307	35	%
2	202	206	24	%
3	159	153	17	%
4	159	154	18	%
5	58	49	6	%
6	4	3	—	%
Total	\$890	\$872	100	%

75

---

Table of Contents

Investment Industry Concentration

The tables below present the top ten industry categories of our AFS securities, including the fair value and percent of total AFS securities fair value as of September 30, 2017 and 2016:

Top 10 Industry Concentration	September 30, 2017	
	Fair Value	Percent of Total Fair Value
Banking	\$2,827	13 %
ABS collateralized loan obligation ("CLO")	2,166	10 %
Municipal	1,957	9 %
Life insurance	1,409	6 %
Electric	1,121	5 %
Property and casualty insurance	1,000	5 %
Whole loan collateralized mortgage obligation ("CMO")	836	4 %
Other financial institutions	778	4 %
CMBS	776	3 %
ABS other	712	3 %
Total	\$13,582	62 %

Top 10 Industry Concentration	September 30, 2016	
	Fair Value	Percent of Total Fair Value
Banking	\$2,448	12 %
ABS CLO	2,084	10 %
Municipal	1,985	10 %
Life insurance	1,200	6 %
Electric	1,096	5 %
Property and casualty insurance	966	5 %
Whole loan CMO	909	5 %
Other financial institutions	825	4 %
CMBS	740	4 %
Pipelines	480	2 %
Total	\$12,733	63 %

Table of Contents

The amortized cost and fair value of fixed maturity AFS securities by contractual maturities as of September 30, 2017 and 2016, as applicable, are shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations.

	September 30, 2017		September 30, 2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Corporate, Non-structured Hybrids, Municipal and U.S. Government securities:				
Due in one year or less	\$342	\$342	\$261	\$263
Due after one year through five years	1,765	1,825	1,863	1,919
Due after five years through ten years	3,225	3,377	3,233	3,407
Due after ten years	8,987	9,689	7,710	8,346
Subtotal	\$14,319	\$15,233	\$13,067	\$13,935
Other securities which provide for periodic payments:				
Asset-backed securities	\$2,852	\$2,885	\$2,528	\$2,499
Commercial-mortgage-backed securities	974	978	850	864
Structured hybrids	774	795	749	751
Residential mortgage-backed securities	1,144	1,263	1,327	1,362
Subtotal	\$5,744	\$5,921	\$5,454	\$5,476
Total fixed maturity available-for-sale securities	\$20,063	\$21,154	\$18,521	\$19,411
Non-Agency RMBS Exposure				

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

The fair value of our investments in subprime and Alt-A RMBS securities was \$279 and \$690 as of September 30, 2017, respectively, and \$322 and \$717, respectively, as of September 30, 2016.

During the fiscal quarter ended June 30, 2015, the Company received notice that we are entitled to receive a settlement as a result of our ownership of certain residential mortgage-backed securities that were issued by Countrywide Financial Corporation ("Countrywide"), an entity which was later acquired by Bank of America Corporation. An \$18 cash settlement was received in the fiscal quarter ended June 30, 2016 for a majority of the Countrywide securities, and another \$2 was expected to be paid in the third fiscal quarter of 2017; however, the two bonds involved are a part of ongoing litigation, and the settlement proceeds have been escrowed pending resolution of this process. The trustee and settlement administrator indicate timing of a resolution is unknown. Please refer to "Note 4. Investments" to our audited Consolidated Financial Statements for additional details.

Table of Contents

The following tables summarize our exposure to subprime and Alt-A RMBS by credit quality using NAIC designations, NRSRO ratings and vintage year as of September 30, 2017 and September 30, 2016:

NAIC Designation:	September 30, 2017		September 30, 2016	
	Fair Value	Percent of Total	Fair Value	Percent of Total
1	949	98 %	1,026	99 %
2	13	1 %	2	— %
3	7	1 %	4	— %
4	—	— %	7	1 %
5	—	— %	—	— %
6	—	— %	—	— %
Total	969	100 %	1,039	100 %

## NRSRO:

AAA	16	2 %	13	1 %
AA	11	1 %	8	1 %
A	38	4 %	47	5 %
BBB	51	5 %	27	3 %
BB and below	853	88 %	944	90 %
Total	969	100 %	1,039	100 %

## Vintage:

2007	206	21 %	210	20 %
2006	361	37 %	381	37 %
2005 and prior	402	42 %	448	43 %
Total	969	100 %	1,039	100 %

## ABS Exposure

As of September 30, 2017, our asset-backed security ("ABS") exposure was largely composed of CLOs, which comprised 75% of all ABS holdings. These exposures are generally senior tranches of CLOs which have leveraged loans as their underlying collateral. The remainder of our ABS exposure was largely diversified by underlying collateral and issuer type, including automobile and home equity receivables.

The following tables summarize our ABS exposure. The non-CLO exposure represents 25% of total ABS assets, or 3% of total invested assets. As of September 30, 2017, the CLO and non-CLO positions were trading at a net unrealized gain (loss) position of \$23 and \$11, respectively.

The non-CLO exposure as of September 30, 2016 represented 17% of total ABS assets, or 2%, of total invested assets. As of September 30, 2016, the CLO and non-CLO positions were trading at a net unrealized loss position of \$25 and \$4, respectively.

Asset Class	September 30, 2017		September 30, 2016	
	Fair Value	Percent	Fair Value	Percent
ABS CLO	\$2,166	75 %	\$2,084	83 %
ABS auto	4	— %	13	1 %
ABS credit card	3	— %	—	— %
ABS other	712	25 %	402	16 %
Total ABS	\$2,885	100 %	\$2,499	100 %



Table of Contents

## Commercial Mortgage Loans

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

Loan-to-value ("LTV") and debt service coverage ("DSC") ratios are measures commonly used to assess the risk and quality of CMLs. The LTV ratio, calculated at time of origination, is expressed as a percentage of the amount of the loan relative to the value of the underlying property. An LTV ratio in excess of 100% indicates the unpaid loan amount exceeds the value of the underlying collateral. The DSC ratio, based upon the most recently received financial statements, is expressed as a percentage of the amount of a property's net income (loss) to its debt service payments. A DSC ratio of less than 1.0 indicates that property's operations do not generate sufficient income to cover debt payments. These ratios are utilized as part of the review process described above. We normalize our DSC ratios to a 25-year amortization period for purposes of our general loan allowance evaluation.

	Debt-Service Coverage Ratios				Total Amount	% of Total	Estimated Fair Value	% of Total
	1.00	>1.25 - 1.25	<1.00	N/A(a)				
September 30, 2017								
LTV Ratios:								
Less than 50%	\$222	\$ —	\$ —	—\$ 1	\$ 223	41 %	\$ 226	41 %
50% to 60%	232	—	—	—	232	42 %	233	42 %
60% to 75%	86	7	—	—	93	17 %	93	17 %
Commercial mortgage loans	\$540	\$ 7	\$ —	—\$ 1	\$ 548	100%	\$ 552	100%
September 30, 2016								
LTV Ratios:								
Less than 50%	\$158	\$ 18	\$ —	—\$ 1	\$ 177	29 %	\$ 181	29 %
50% to 60%	189	—	—	—	189	32 %	194	32 %
60% to 75%	230	—	—	—	230	39 %	239	39 %
Commercial mortgage loans	\$577	\$ 18	\$ —	—\$ 1	\$ 596	100%	\$ 614	100%

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

As of September 30, 2017, our mortgage loans on real estate portfolio had a weighted average DSC ratio of 2.1 times, and a weighted average LTV ratio of 51%.

Table of Contents

## Unrealized Losses

The amortized cost and fair value of the fixed maturity securities and the equity securities that were in an unrealized loss position as of September 30, 2017 and 2016 were as follows:

	September 30, 2017			
	Number of securities	Amortized Cost	Unrealized Losses	Fair Value
Fixed maturity securities, available for sale:				
United States Government full faith and credit	7	\$ 26	\$ —	\$26
United States Government sponsored agencies	27	29	(1 )	28
United States municipalities, states and territories	33	212	(10 )	202
Corporate securities:				
Finance, insurance and real estate	76	465	(7 )	458
Manufacturing, construction and mining	24	227	(18 )	209
Utilities, energy and related sectors	59	379	(38 )	341
Wholesale/retail trade	53	238	(6 )	232
Services, media and other	79	512	(22 )	490
Hybrid securities	19	342	(16 )	326
Non-agency residential mortgage backed securities	38	102	(4 )	98
Commercial mortgage backed securities	64	395	(10 )	385
Asset backed securities	120	797	(5 )	792
Total fixed maturity available for sale securities	599	3,724	(137 )	3,587
Equity securities	12	47	(2 )	45
Total	611	\$ 3,771	\$ (139 )	\$3,632

	September 30, 2016			
	Number of securities	Amortized Cost	Unrealized Losses	Fair Value
Fixed maturity securities, available for sale:				
United States Government full faith and credit	2	\$ —	\$ —	\$—
United States Government sponsored agencies	29	30	(1 )	29
United States municipalities, states and territories	18	111	(4 )	107
Corporate securities:				
Finance, insurance and real estate	56	349	(16 )	333
Manufacturing, construction and mining	29	224	(31 )	193
Utilities, energy and related sectors	72	444	(47 )	397
Wholesale/retail trade	32	181	(7 )	174
Services, media and other	60	378	(31 )	347
Hybrid securities	29	500	(47 )	453
Non-agency residential mortgage backed securities	141	612	(27 )	585
Commercial mortgage backed securities	46	235	(9 )	226
Asset backed securities	211	1,765	(45 )	1,720
Total fixed maturity available for sale securities	725	4,829	(265 )	4,564
Equity securities	11	130	(4 )	126
Total	736	\$ 4,959	\$ (269 )	\$4,690

The gross unrealized loss position on the available-for-sale fixed and equity portfolio as of September 30, 2017, was \$139, an improvement of \$130 from \$269 as of September 30, 2016. Most components of the portfolio exhibited price improvement as LIBOR rates increased based on the Federal Reserve rate hikes which caused the value of floating

rate securities, to increase, primarily related to non-agency residential mortgage-backed securities, asset-backed securities, and hybrid securities. This was aided by strong overall economic fundamentals that drove demand for riskier assets including high yield bonds and emerging market securities. The total book value of all securities in an unrealized loss position decreased by 24%, to \$3,771 from \$4,959, with the average market value/

80

---



Table of Contents

book value of this group showing modest improvement to 96% from 95%. In aggregate, corporate bonds represented 65% of the total unrealized loss position, up from 49% as of September 30, 2016.

Our municipal bond exposure is a combination of general obligation bonds (fair value of \$336 and an amortized cost of \$300 as of September 30, 2017) and special revenue bonds (fair value of \$1,390 and amortized cost of \$1,273 as of September 30, 2017).

Across all municipal bonds, the largest issuer represented 7% of the category, less than 1% of the entire portfolio and is rated NAIC 1. Our focus within municipal bonds is on NAIC 1 rated instruments, and 93% of our municipal bond exposure is rated NAIC 1.

The amortized cost and fair value of fixed maturity securities and equity securities (excluding U.S. Government and U.S. Government-sponsored agency securities) in an unrealized loss position greater than 20% and the number of months in an unrealized loss position with fixed maturity investment grade securities (NRSRO rating of BBB/Baa or higher) as of September 30, 2017 and 2016, were as follows:

	September 30, 2017			September 30, 2016		
	Number of securities	Amortized Cost Value	Gross Unrealized Losses	Number of securities	Amortized Cost Value	Gross Unrealized Losses
<b>Investment grade:</b>						
Less than six months	—	\$ —	\$ —	—	\$ —	\$ —
Six months or more and less than twelve months	—	—	—	—	—	—
Twelve months or greater	—	—	—	6	125	(29 )
Total investment grade	—	—	—	6	125	(29 )
<b>Below investment grade:</b>						
Less than six months	—	—	—	—	—	—
Six months or more and less than twelve months	1	1	—	3	9	(2 )
Twelve months or greater	15	108	(50 )	23	142	(62 )
Total below investment grade	16	109	(50 )	26	151	(64 )
Total	16	\$ 109	\$ (50 )	32	\$ 276	\$ (93 )

**OTTI and Watch List**

At September 30, 2017 and 2016, our watch list included 18 and 35 securities, respectively, in an unrealized loss position with an amortized cost of \$109 and \$276, unrealized losses of \$50 and \$93, and a fair value of \$59 and \$183, respectively. As part of the cash flow testing analysis, we evaluated each of these securities to assess the following:

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

Based on our analysis, these securities demonstrated that the September 30, 2017 and 2016 carrying values were fully recoverable.

There were 4 and 8 structured securities with a fair value of \$0 and \$6, respectively, on the watch list to which we had potential credit exposure as of September 30, 2017 and 2016. Our analysis of these structured securities, which included cash flow testing results, demonstrated the September 30, 2017 and 2016 values were fully recoverable.

Table of Contents

Exposure to Sovereign Debt

Our investment portfolio had no direct exposure to European sovereign debt as of September 30, 2017 and 2016. As of September 30, 2017 and September 30, 2016, the Company also had no material exposure risk related to financial investments in Puerto Rico.

Available-For-Sale Securities

For additional information regarding our AFS securities, including the amortized cost, gross unrealized gains (losses), and fair value of AFS securities as well as the amortized cost and fair value of fixed maturity AFS securities by contractual maturities as of September 30, 2017, refer to "Note 4. Investments", to our audited Consolidated Financial Statements.

Net Investment Income and Net Investment Gains

For discussion regarding our net investment income and net investment gains refer to "Note 4. Investments" to our audited Consolidated Financial Statements.

Concentrations of Financial Instruments

For detail regarding our concentration of financial instruments refer to "Note 3. Significant Risks and Uncertainties" to our audited Consolidated Financial Statements.

Derivatives

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

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

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

See "Note 5. Derivative Financial Instruments" to our audited Consolidated Financial Statements for additional information regarding our derivatives and our exposure to credit loss on call options.

Table of Contents

## Liquidity and Capital Resources

## Liquidity and Cash Flow

Liquidity refers to the ability of an enterprise to generate adequate amounts of cash from its normal operations to meet cash requirements with a prudent margin of safety. Our principal sources of cash flow from operating activities are insurance premiums, and fees and investment income, however, sources of cash flows from investing activities also result from maturities and sales of invested assets. Our operating activities provided cash of \$237, \$365 and \$35 in 2017, 2016 and 2015, respectively. When considering our liquidity and cash flow, it is important to distinguish between the needs of our insurance subsidiaries and the needs of the holding company, FGL. As a holding company with no operations of its own, FGL derives its cash primarily from its insurance subsidiaries and FGLH, a downstream holding company that provides additional sources of liquidity. Dividends from our insurance subsidiaries flow through FGLH to FGL.

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

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

## Discussion of Consolidated Cash Flows

Presented below is a table that summarizes the cash provided or used in our activities and the amount of the respective increases or decreases in cash provided or used from those activities between the fiscal periods:

(dollars in millions)

	Fiscal Year			Increase / (Decrease)	
	2017	2016	2015	2017 compared to 2016	2016 compared to 2015
Cash provided by (used in):					
Operating activities	\$237	\$365	\$35	\$(128)	\$330
Investing activities	(1,217)	(1,186)	(1,024)	(31)	(162)
Financing activities	1,001	1,183	915	(182)	268
Net increase (decrease) in cash and cash equivalents	\$21	\$362	\$(74)	\$(341)	\$436

## Operating Activities

Cash provided by operating activities totaled \$237 for Fiscal 2017 as compared to cash provided by operating activities of \$365 for Fiscal 2016. The \$128 decline was principally due to an increase of \$107 in cash taxes paid primarily related to the reinsurance agreement the Company entered into with Hannover Re, effective January 1, 2017. Please refer to "Note 13. Reinsurance" to our audited Consolidated Financial Statements for additional details regarding this insurance treaty.

Cash provided by operating activities totaled \$365 for Fiscal 2016 as compared to cash provided by operating activities of \$35 for Fiscal 2015. The \$330 improvement was principally due to an increase of \$239 in cash and short-term collateral from our derivative counterparties, and a \$79 increase of investment income receipts period over period.

## Investing Activities

Cash used in investing activities was \$1,217 for Fiscal 2017, as compared to cash used in investing activities of \$1,186 for Fiscal 2016. The \$31 increase in cash used in investing activities is principally due to a \$34 increase

Table of Contents

in purchases of fixed maturity securities and other investments, net of cash proceeds from sales, maturities and repayments. This increase was partially offset by a \$4 decrease in capital expenditures.

Cash used in investing activities was \$1,186 for Fiscal 2016, as compared to cash used in investing activities of \$1,024 for Fiscal 2015. The \$162 increase in cash used in investing activities is principally due to a \$127 increase in purchases of fixed maturity securities and other investments, net of cash proceeds from sales, maturities and repayments.

Financing Activities

Cash provided by financing activities was \$1,001 for Fiscal 2017 compared to cash provided by financing activities of \$1,183 for Fiscal 2016. The \$182 decrease in cash provided by financing activities was primarily related to the a \$95 decrease in cash during 2017 due to a \$100 draw on a revolving credit facility during Fiscal 2016, compared to a draw of \$5 during Fiscal 2017. The remaining decrease was largely related to the issuance of investment contracts and pending new production, including annuity and universal life insurance contracts, net of redemptions and benefit payments, which decreased \$85 in Fiscal 2017 compared to Fiscal 2016.

Cash provided by financing activities was \$1,183 for Fiscal 2016 as compared to cash provided by financing activities of \$915 for Fiscal 2015. The \$268 increase in cash provided by financing activities was primarily related to the issuance of investment contracts and pending new production, including annuity and universal life insurance contracts, net of redemptions and benefit payments and a \$100 increase in cash due to a draw on a revolving credit facility.

Sources of Cash Flow

Dividends from Insurance Subsidiaries, Statutory Capital and Risk-Based Capital

The Company's insurance subsidiaries are restricted by state laws and regulations as to the amount of dividends they may pay to their parent without regulatory approval in any year, the purpose of which is to protect affected insurance policyholders, depositors or investors. Any dividends in excess of limits are deemed "extraordinary" and require approval. Based on statutory results as of December 31, 2016, in accordance with applicable dividend restrictions, the Company's subsidiaries could pay "ordinary" dividends of \$107 to FGLH in 2017, less any dividends paid during the immediately preceding 12 month period. The Company did not declare or pay any dividends to FGLH during the 12 month period ended September 30, 2017. Therefore, FGL Insurance is able to declare an ordinary dividend up to \$107 with respect to its 2016 statutory results, subject to management's discretion.

FGL Insurance and FGL NY Insurance are subject to minimum RBC requirements established by the insurance departments of their applicable state of domicile. The formulas for determining the amount of RBC specify various weighting factors that are applied to financial balances and levels of premium activity based on the perceived degree of risk. Regulatory compliance is determined by a ratio of TAC, as defined by the NAIC, to RBC requirements, as defined by the NAIC. FGL Insurance and FGL NY Insurance exceeded the minimum RBC requirements that would require regulatory or corrective action for all periods presented herein. RBC is an important factor in the determination of the financial strength ratings of FGL Insurance.

FGL Insurance and FGL NY Insurance are required to prepare statutory financial statements in accordance with statutory accounting practices prescribed or permitted by the insurance department of the state of domicile of the respective insurance subsidiary. Statutory accounting practices primarily differ from GAAP by charging policy acquisition costs to expense as incurred, establishing future policy benefit liabilities using different actuarial assumptions as well as valuing investments and certain assets and accounting for deferred taxes on a different basis. Certain assets that are not admitted under statutory accounting principles are charged directly to surplus. Statutory capital and surplus of FGL Insurance and our other insurance subsidiaries is as follows for the periods presented:

(dollars in millions)

As of            As of  
September    September

Edgar Filing: Fidelity & Guaranty Life - Form 10-K

Subsidiary Name:	30, 2017	30, 2016
Fidelity & Guaranty Life Insurance Company	\$ 1,528	\$ 1,320
Fidelity & Guaranty Life Insurance Company of New York	70	62
Raven Reinsurance Company	100	210

84

---

Table of Contents

We monitor the ratio of our insurance subsidiaries' TAC to company action level risk-based capital ("CAL"). A ratio in excess of either (i) 100% or (ii) 150% if there is a negative trend, indicates that the insurance subsidiary is not required to take any corrective actions to increase capital levels at the direction of the applicable state of domicile. The ratio of TAC to CAL for FGL Insurance and FGL NY Insurance is set out below for the periods presented:

(dollars in millions)	As of September 30, 2017			As of September 30, 2016		
	CAL	TAC	Ratio	CAL	TAC	Ratio
Fidelity & Guaranty Life Insurance Company	\$380	\$1,667	439%	\$345	\$1,436	417%
Fidelity & Guaranty Life Insurance Company of New York	9	74	832%	10	66	694%

**Debt**

In March 2013, FGLH issued \$300 aggregate principal amount of 6.375% Senior Notes due April 1, 2021, at par value pursuant to the indenture, dated as of March 27, 2013, between FGLH, certain of its subsidiaries from time to time parties thereto and Wells Fargo Bank, National Association, as Trustee (the "Trustee"), and the first supplemental indenture dated as of March 27, 2013, between FGLH, certain of its subsidiaries from time to time parties thereto and the Trustee. The Senior Notes bear interest at a rate of 6.375% per annum. Interest on the Senior Notes is payable semi-annually in cash in arrears on April 1 and October 1 of each year, commencing October 1, 2013. As of September 30, 2017, FGLH had outstanding \$300 aggregate principal amount of the Senior Notes.

As of August 26, 2014, FGLH, as borrower, and the Company as guarantor, entered into a three-year \$150 unsecured revolving credit facility (the "Credit Agreement") with certain lenders and RBC Capital Markets and Credit Suisse Securities (USA) LLC, acting as joint lead arrangers. The loan proceeds from the Credit Agreement may be used for working capital and general corporate purposes. On September 30, 2016, the Company drew \$100 on the revolver and the total drawn as of September 30, 2017 was \$105. During July 2017, the terms of the current facility were extended through August 26, 2018. Various financing options are available within the credit facility, including overnight and term based borrowing. In each case, a margin is ascribed based on the Debt to Capitalization ratio of the Company. The \$105 and \$100 balances drawn on the revolver carried interest rates equal to 4.24% and 5.50%, as of September 30, 2017 and September 30, 2016, respectively.

**Debt Covenants**

The Credit Agreement contains a number of covenants that, among other things, limit or restrict the ability of FGLH and its subsidiaries to incur debt and issue certain capital stock, incur liens, make certain asset dispositions or dispositions of subsidiary stock, enter into transactions with affiliates, change the nature of its business, enter into mergers, consolidations or transfers of all or substantially all assets, declare or pay dividends, redeem stock or prepay certain indebtedness (including the Senior Notes), make investments, modify certain agreements, enter into restrictive agreements or change its accounting policies. The Credit Agreement also contains certain affirmative covenants, including financial and other reporting requirements. In addition, under the Credit Agreement, FGLH is required to comply with the following financial maintenance covenants at the end of each fiscal quarter: (1) our total shareholders' equity (as defined in the Credit Agreement) shall not be less than the sum of (a) \$910, (b) 50% of Consolidated Net Income (as defined in the Credit Agreement) since the closing date and (c) 50% of all equity issuances of FGL since the closing date and (2) debt to total capitalization (as defined in the Credit Agreement) shall not be more than 35%. As of the date of this filing, FGLH is in compliance with all such covenants.

The indenture governing the Senior Notes contains a number of covenants that, among other things, limit or restrict FGLH's ability and the ability of FGLH's restricted subsidiaries to incur debt, incur liens, make certain asset dispositions or dispositions of subsidiary stock, enter into transactions with affiliates, enter into mergers, consolidations or transfers of all or substantially all assets, declare or pay dividends, redeem stock or prepay certain indebtedness, make investments or enter into restrictive agreements. The indenture governing the Senior Notes also contains certain affirmative covenants, including financial and other reporting requirements. Most of these covenants will cease to apply for so long as the Senior Notes have investment grade ratings from both Moody's and S&P. As of the date of this filing, FGLH is in compliance with all such covenants.

Credit Ratings

85

---



Table of Contents

The indicative credit ratings published by the primary rating agencies are set forth below. Securities are rated at the time of issuance so actual ratings may differ from the indicative ratings. There may be other rating agencies that also provide credit ratings, which we do not disclose in our reports. Our current financial strength ratings of our principal insurance subsidiaries are described in “Part I - Item 1. Business - Ratings”.

The long-term credit rating scales of A.M. Best, Fitch, Moody’s and S&P are as follows:

	Financial Strength Rating Scale	Senior Unsecured Notes Credit Rating Scale
Rating Agency		
A.M. Best(1)	“A++” to “S”	“aaa to rs”
S&P(2)	“AAA” to “R”	“AAA to D”
Moody's(3)	“Aaa” to “C”	“Aaa to C”
Fitch(4)	“AAA” to “C”	“AAA to D”

A.M. Best’s financial strength rating is an independent opinion of an insurer’s financial strength and ability to meet its ongoing insurance policy and contract obligations. It is based on a comprehensive quantitative and qualitative evaluation of a company’s balance sheet strength, operating performance and business profile. A.M. Best’s long-term credit ratings reflect its assessment of the ability of an obligor to pay interest and principal in accordance with the terms of the obligation. Ratings from “aa” to “ccc” may be enhanced with a “+” (plus) or “-” (minus) to indicate whether credit quality is near the top or bottom of a category. A.M. Best’s short-term credit rating is an opinion to the ability of the rated entity to meet its senior financial commitments on obligations maturing in generally less than one year.

S&P’s insurer financial strength rating is a forward-looking opinion about the financial security characteristics of an insurance organization with respect to its ability to pay under its insurance policies and contracts in accordance with their terms. A “+” or “-” indicates relative standing within a category. An S&P credit rating is an assessment of default risk, but may incorporate an assessment of relative seniority or ultimate recovery in the event of default.

Short-term issuer credit ratings reflect the obligor’s creditworthiness over a short-term time horizon. Moody’s financial strength ratings are opinions of the ability of insurance companies to repay punctually senior policyholder claims and obligations. Moody’s appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category. Moody’s long-term credit ratings are opinions of the relative credit risk of fixed-income obligations with an original maturity of one year or more. They address the possibility that a financial obligation will not be honored as promised. Moody’s short-term ratings are opinions of the ability of issuers to honor short-term financial obligations.

Fitch’s financial strength ratings provide an assessment of the financial strength of an insurance organization. The IFS Rating is assigned to the insurance company’s policyholder obligations, including assumed reinsurance obligations and contract holder obligations, such as guaranteed investment contracts. Within long-term and short-term ratings, a “+” or a “-” may be appended to a rating to denote relative position within major rating categories.

A downgrade of our debt ratings could affect our ability to raise additional debt with terms and conditions similar to our current debt, and accordingly, likely increase our cost of capital. In addition, a downgrade of these ratings could make it more difficult to raise capital to refinance any maturing debt obligations, to support business growth at our insurance subsidiaries and to maintain or improve the current financial strength ratings of our principal insurance subsidiaries described in “Part I - Item 1. Business - Ratings”. All of our ratings are subject to revision or withdrawal at any time by the rating agencies, and therefore, no assurance can be given that we can maintain these ratings. Each rating should be evaluated independently of any other rating.

Preferred Stock

Under our amended and restated certificate of incorporation, our board of directors has the authority, without further action by our shareholders, to issue up to 50,000 thousand shares of preferred stock in one or more series and to fix the designation, powers, preferences and the relative participating, optional or other special rights and

Table of Contents

the qualifications, limitations and restrictions of each series, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, liquidation preferences and the number of shares constituting any series. Currently, no shares of our authorized preferred stock are outstanding. Because the board of directors has the power to establish the preferences and rights of the shares of any series of preferred stock, it may afford holders of any preferred stock preferences, powers and rights, including voting and dividend rights, senior to the rights of holders of our common stock, which could adversely affect the holders of the common stock and could delay, discourage or prevent a takeover of us even if a change of control of our company would be beneficial to the interests of our shareholders.

**FHLB**

We are currently a member of the Federal Home Loan Bank of Atlanta (“FHLB”) and are required to maintain a collateral deposit that backs any funding agreements issued. We have the ability to obtain funding from the FHLB based on a percentage of the value of our assets, subject to the availability of eligible collateral. Collateral is pledged based on the outstanding balances of FHLB funding agreements. The amount of funding varies based on the type, rating and maturity of the collateral posted to the FHLB. Generally, U.S. government agency notes and mortgage-backed securities are pledged to the FHLB as collateral. Market value fluctuations resulting from changes in interest rates, spreads and other risk factors for each type of asset are monitored and additional collateral is either pledged or released as needed.

Our borrowing capacity under these credit facilities does not have an expiration date as long as we maintain a satisfactory level of creditworthiness based on the FHLB’s credit assessment. As of September 30, 2017 and 2016, we had \$659 and \$584 in non-putable funding agreements, respectively, included under contract owner account balances on our consolidated balance sheet. As of September 30, 2017 and 2016, we had assets with a market value of approximately \$729 and \$649, respectively, which collateralized the FHLB funding agreements. Assets pledged to the FHLB are included in fixed maturities, AFS, on our consolidated balance sheets.

**Collateral-Derivative Contracts**

Under the terms of our ISDA agreements, we may receive from, or deliver to, counterparties collateral to assure that all terms of the ISDA agreements will be met with regard to the Credit Support Annex (“CSA”). The terms of the CSA call for us to pay interest on any cash received equal to the federal funds rate. As of September 30, 2017 and 2016, \$381 and \$128 collateral was posted by our counterparties as they did not meet the net exposure thresholds. Collateral requirements are monitored on a daily basis and incorporate changes in market values of both the derivatives contract as well as the collateral pledged. Market value fluctuations are due to changes in interest rates, spreads and other risk factors.

Table of Contents

## Uses of Cash Flow

## Contractual Obligations

The following table summarizes, as of September 30, 2017, our contractual obligations that were fixed and determinable and the payments due under those obligations in the following periods.

(dollars in millions)	Payment Due by Fiscal Period (b)				
	Total	2018	2019 and 2020	2021 and 2022	After 2022
Annuity and universal life products (a)	\$31,694	\$2,293	\$4,395	\$4,431	\$20,575
Operating leases	7	2	4	1	—
Debt	300	—	—	300	—
Revolving credit facility	105	105	—	—	—
Interest expense	77	19	38	19	—
Total	\$32,183	\$2,419	\$4,437	\$4,751	\$20,575

Amounts shown in this table are projected payments through the year 2030 which we are contractually obligated to pay our annuity and IUL policyholders. The payments are derived from actuarial models which assume a level interest rate scenario and incorporate assumptions regarding mortality and persistency, when applicable. These assumptions are based on our historical experience, but actual amounts will differ.

## Return of Capital to Common Stockholders

One of the Company's primary goals is to provide a return to our common stockholders through share price accretion, dividends and stock repurchases. In determining dividends, the Board of Directors takes into consideration items such as current and expected earnings, capital needs, rating agency considerations and requirements for financial flexibility. The amount and timing of share repurchase depends on key capital ratios, rating agency expectations, the generation of free cash flow and an evaluation of the costs and benefits associated with alternative uses of capital.

In Fiscal 2017, four equal dividend payments of \$4 were paid to shareholders outstanding during December 2016, March 2017, June 2017, and August 2017. In Fiscal 2016, four equal dividend payments of \$4 were paid to shareholders outstanding during December 2015, March 2016, May 2016, and August 2016. Fiscal 2015 four equal dividend payments of \$4 were paid to shareholders outstanding during December 2014, March 2015, May 2015, and August 2015. We intend to continue to pay cash dividends on such shares so long as we have sufficient capital and/or future earnings to do so, while retaining most of our future earnings, if any, for use in our operations and the expansion of our business.

On September 2, 2014, the Company's Board of Directors authorized the repurchase of up to 500 thousand shares of the Company's outstanding shares of common stock over the next twelve months. As of September 30, 2017, the share repurchase program has been completed and a total of 569 thousand shares of common stock have been repurchased at cost for a total cost of \$13, which are held in treasury, of which 500 thousand shares were pursuant to the repurchase program and 69 thousand shares were acquired to satisfy employee income tax withholding pursuant to the Company's stock compensation plan.

## Off-Balance Sheet Arrangements

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

The F&G Stock Purchase Agreement between FGL (previously, HFG) and OM Group (UK) Limited (“OMGUK”) included a Guarantee and Pledge Agreement, which created a security interest in the equity of FGLH and FGLH’s equity interest in FGL Insurance for the benefit of OMGUK in the event that FGL failed to perform certain obligations under the F&G Stock Purchase Agreement. In the third quarter of 2015, in connection with the

Table of Contents

settlement of the litigation amongst the Company, HRG and OMGUK, the Guarantee and Pledge Agreement was terminated and the Company was released from its obligations thereunder. For additional information see "Note 12. Commitments and Contingencies" to our audited Consolidated Financial Statements.

As of August 26, 2014 FGLH, a wholly-owned subsidiary of FGL, as borrower, and the Company as guarantor, entered into a three-year \$150 unsecured revolving credit facility (the "Credit Agreement") with certain lenders and RBC Capital Markets and Credit Suisse Securities (USA) LLC, acting as joint lead arrangers. The loan proceeds from the Credit Agreement may be used for working capital and general corporate purposes. On September 30, 2016, the Company drew \$100 on the revolver and the total drawn as of September 30, 2017 was \$105. During July 2017, the terms of the current facility were extended through August 26, 2018.

During the third quarter of Fiscal 2015, we made two investments that required us to execute commitments for additional future investment. The Company committed to fund a \$75 investment in a business development company over a four year period, and has funded \$42 as of September 30, 2017, resulting in a \$33 remaining commitment as of September 30, 2017. Additionally, the Company committed to fund a \$35 investment in a limited partnership fund over three years, \$17 of which was funded as of September 30, 2017, resulting in an \$18 remaining commitment as of September 30, 2017. During the fiscal quarter ended December 31, 2016, FGL executed a commitment to invest in two additional limited partnerships for \$20 and \$60, \$32 of which was funded as of September 30, 2017, resulting in a remaining commitment of \$48. During the fiscal quarter ended March 31, 2017, FGL executed a commitment to invest in an additional limited partnership for \$75, \$25 of which was funded as of September 30, 2017, resulting in a remaining commitment of \$50. During the fiscal quarter ended September 30, 2017, we executed two additional commitments to invest in private placement loans for \$18 and \$10, none of which was funded at September 30, 2017. Please refer to "Note 4. Investments" to our audited Consolidated Financial Statements for additional details on these new investments and "Note 12. Commitments and Contingencies" to our audited Consolidated Financial Statements for additional details of these unfunded commitments.

We have other unfunded investment commitments as result of the timing of when investments are executed compared to the timing of when they are required to be funded. Please refer to "Note 12. Commitments and Contingencies" to our audited Consolidated Financial Statements for additional details on unfunded investment commitments.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Market Risk Factors

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

Enterprise Risk Management

We place a high priority to risk management and risk control. As part of our effort to ensure measured risk taking, management has integrated risk management in our daily business activities and strategic planning. We have comprehensive risk management, governance and control procedures in place and have established a dedicated risk management function with responsibility for the formulation of our risk appetite, strategies, policies and limits. The risk management function is also responsible for monitoring our overall market risk exposures and provides review, oversight and support functions on risk-related issues. Our risk appetite is aligned with how our businesses are managed and how we anticipate future regulatory developments.

Our risk governance and control systems enable us to identify, control, monitor and aggregate risks and provide assurance that risks are being measured, monitored and reported adequately and effectively in accordance with the following three principles:

- Management of the business has primary responsibility for the day-to-day management of risk.

The risk management function has the primary responsibility to align risk taking with strategic planning through risk tolerance and limit setting.

Table of Contents

The internal audit function provides an ongoing independent and objective assessment of the effectiveness of internal controls, including financial and operational risk management.

The Chief Risk Officer (“CRO”) heads our risk management process and reports directly to our Chief Executive Officer (“CEO”). Our Enterprise Risk Committee discusses and approves all risk policies and reviews and approves risks associated with our activities. This includes volatility (affecting earnings and value), exposure (required capital and market risk) and insurance risks.

We have implemented several limit structures to manage risk. Examples include, but are not limited to, the following:

• At-risk limits on sensitivities of regulatory capital to the capital markets provide the fundamental framework to manage capital markets risks including the risk of asset / liability mismatch;

• Duration and convexity mismatch limits;

• Credit risk concentration limits; and

• Investment and derivative guidelines.

We manage our risk appetite based on two key risk metrics:

Regulatory Capital Sensitivities: the potential reduction, under a range of moderate to extreme capital markets stress scenarios, of the excess of available statutory capital above the minimum required under the NAIC regulatory RBC methodology; and

Earnings Sensitivities: the potential reduction in results of operations over a 30 year time horizon under the same moderate to extreme capital markets stress scenario. Maintaining a consistent level of earnings helps us to finance our operations, support our capital requirements and provide funds to pay dividends to stockholders.

Our risk metrics cover the most important aspects in terms of performance measures where risk can materialize and are representative of the regulatory constraints to which our business is subject. The sensitivities for earnings and statutory capital are important metrics since they provide insight into the level of risk we take under stress scenarios. They also are the basis for internal risk management.

We are also subject to cash flow stress testing pursuant to regulatory requirements. This analysis measures the effect of changes in interest rate assumptions on asset and liability cash flows. The analysis includes the effects of:

• The timing and amount of redemptions and prepayments in our asset portfolio;

• Our derivative portfolio;

• Death benefits and other claims payable under the terms of our insurance products;

• Lapses and surrenders in our insurance products;

• Minimum interest guarantees in our insurance products; and

• Book value guarantees in our insurance products.

**Interest Rate Risk**

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

The profitability of most of our products depends on the spreads between interest yield on investments and rates credited on insurance liabilities. We have the ability to adjust the rates credited, primarily caps and credit rates, on the majority of the annuity liabilities at least annually, subject to minimum guaranteed values. In addition, the majority of the annuity products have surrender and withdrawal penalty provisions designed to encourage persistency and to help ensure targeted spreads are earned. However, competitive factors, including the impact of



Table of Contents

the level of surrenders and withdrawals, may limit our ability to adjust or maintain crediting rates at the levels necessary to avoid a narrowing of spreads under certain market conditions.

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

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

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

The duration of the investment portfolio, excluding cash and cash equivalents, derivatives, policy loans, common stocks and the collateral assets of the funds withheld coinsurance agreement with FSRCI as of September 30, 2017, is summarized as follows:

(dollars in millions)

Duration	Amortized Cost	% of Total	
0-4	\$ 7,888	38	%
5-9	6,164	30	%
10-14	4,950	24	%
15-19	1,611	8	%
20-25	18	—	%
Total	\$ 20,631	100	%

**Credit Risk and Counterparty Risk**

We are exposed to the risk that a counterparty will default on its contractual obligation resulting in financial loss. The major source of credit risk arises predominantly in our insurance operations’ portfolios of debt and similar securities. The fair value of our fixed maturity portfolio totaled \$21 billion and \$19 billion at September 30, 2017 and 2016, respectively. Our credit risk materializes primarily as impairment losses. We are exposed to occasional cyclical economic downturns, during which impairment losses may be significantly higher than the long-term historical average. This is offset by years where we expect the actual impairment losses to be substantially lower than the long-term average. Credit risk in the portfolio can also materialize as increased capital requirements as assets migrate into lower credit qualities over time. The effect of rating migration on our capital requirements is also dependent on the economic cycle and increased asset impairment levels may go hand in hand with increased asset related capital requirements.

We attempt to manage the risk of default and rating migration by applying disciplined credit evaluation and underwriting standards and limiting allocations to lower quality, higher risk investments. In addition, we diversify our

exposure by issuer and country, using rating based issuer and country limits. We also set investment constraints

91

---

Table of Contents

that limit our exposure by industry segment. To limit the impact that credit risk can have on earnings and capital adequacy levels, we have portfolio-level credit risk constraints in place. Limit compliance is monitored on a daily or, in some cases, monthly basis.

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

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

Counterparty	Credit Rating (Fitch/Moody's/S&P) (a)	September 30, 2017			September 30, 2016				
		Notional Amount	Fair Value	Collatera l	Net Credit Risk	Notiona Amount	Fair Value	Collatera l	Net Credit Risk
Merrill Lynch	A*/A+	\$3,164	\$ 144	\$ 105	\$ 39	\$2,302	\$ 55	\$ 10	\$ 45
Deutsche Bank	A-/A3/A-	972	32	32	—	1,620	46	12	34
Morgan Stanley	*/A1/A+	1,556	82	87	(5 )	2,952	87	58	29
Barclay's Bank	A*/A1/A-	2,163	73	74	(1 )	1,389	39	—	39
Canadian Imperial Bank of Commerce	AA-/Aa3/A+	2,459	82	83	(1 )	1,623	49	48	1
Total		\$10,314	\$ 413	\$ 381	\$ 32	\$9,886	\$ 276	\$ 128	\$ 148

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

We also have credit risk related to the ability of reinsurance counterparties to honor their obligations to pay the contract amounts under various agreements. To minimize the risk of credit loss on such contracts, we diversify our exposures among many reinsurers and limit the amount of exposure to each based on credit rating. We also generally limit our selection of counterparties with which we do new transactions to those with an "A-" credit rating or above or that are appropriately collateralized and provide credit for reinsurance. When exceptions are made to that principle, we ensure that we obtain collateral to mitigate our risk of loss. The following table presents our reinsurance recoverable balances and financial strength ratings for our five largest reinsurance recoverable balances as of September 30, 2017:

Parent Company/Principal Reinsurers	Reinsurance Recoverable (in millions)	Financial Strength Rating		
		AM Best	S&P	Moody's
Wilton Reinsurance	\$1,535	A+	Not Rated	Not Rated
Front Street Re	1,016	Not Rated	Not Rated	Not Rated
Scottish Re	158	Not Rated	Not Rated	Not Rated
Security Life of Denver	147	A	A	A2
London Life	101	A	Not Rated	Not Rated

Table of Contents

In the normal course of business, certain reinsurance recoverables are subject to reviews by the reinsurers. We are not aware of any material disputes arising from these reviews or other communications with the counterparties as of September 30, 2017 that would require an allowance for uncollectible amounts.

Equity Price Risk

We are primarily exposed to equity price risk through certain insurance products, specifically those products with GMWB. We offer a variety of FIA contracts with crediting strategies linked to the performance of indices such as the S&P 500 Index, Dow Jones Industrials or the NASDAQ 100 Index. The estimated cost of providing GMWB incorporates various assumptions about the overall performance of equity markets over certain time periods. Periods of significant and sustained downturns in equity markets, increased equity volatility or reduced interest rates could result in an increase in the valuation of the future policy benefit or policyholder account balance liabilities associated with such products, resulting in a reduction in our net income. The rate of amortization of intangibles related to FIA products and the cost of providing GMWB could also increase if equity market performance is worse than assumed. To economically hedge the equity returns on these products, we purchase derivatives to hedge the FIA equity exposure. The primary way we hedge FIA equity exposure is to purchase over the counter equity index call options from broker-dealer derivative counterparties approved by our internal credit department. The second way to hedge FIA equity exposure is by purchasing exchange traded equity index futures contracts. Our hedging strategy enables us to reduce our overall hedging costs and achieve a high correlation of returns on the call options purchased relative to the index credits earned by the FIA contractholders. The majority of the call options are one-year options purchased to match the funding requirements underlying the FIA contracts. These hedge programs are limited to the current policy term of the FIA contracts, based on current participation rates. Future returns, which may be reflected in FIA contracts' credited rates beyond the current policy term, are not hedged. We attempt to manage the costs of these purchases through the terms of our FIA contracts, which permit us to change caps or participation rates, subject to certain guaranteed minimums that must be maintained.

The derivatives are used to fund the FIA contract index credits and the cost of the call options purchased is treated as a component of spread earnings. While the FIA hedging program does not explicitly hedge GAAP income volatility, the FIA hedging program tends to mitigate a significant portion of the GAAP reserve changes associated with movements in the equity market and risk-free rates. This is due to the fact that a key component in the calculation of GAAP reserves is the market valuation of the current term embedded derivative. Due to the alignment of the embedded derivative reserve component with hedging of this same embedded derivative, there should be a reasonable match between changes in this component of the reserve and changes in the assets backing this component of the reserve.

However, there may be an interim mismatch due to the fact that the hedges which are put in place are only intended to cover exposures expected to remain until the end of an indexing term. To the extent index credits earned by the contractholder exceed the proceeds from option expirations and futures income, we incur a raw hedging loss.

See "Note 5. Derivative Financial Instruments" to our audited Consolidated Financial Statements for additional details on the derivatives portfolio.

Fair value changes associated with these investments are intended to, but do not always, substantially offset the increase or decrease in the amounts added to policyholder account balances for index products. When index credits to policyholders exceed option proceeds received at expiration related to such credits, any shortfall is funded by our net investment spread earnings and futures income. For Fiscal 2017, the annual index credits to policyholders on their anniversaries were \$387. Proceeds received at expiration on options related to such credits were \$389. Shortfalls, if any, are funded by futures income and our net investment spread earnings.

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

Sensitivity Analysis

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

93

---

## Table of Contents

### Interest Rate Risk

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

If interest rates were to increase 100 basis points from levels at September 30, 2017, the estimated fair value of our fixed maturity securities would decrease by approximately \$1,441 of which \$45 relates to the FSRCI funds withheld assets. The fair values of the reinsurance related embedded derivative would increase by the amount of the FSRCI funds withheld assets and be reflected in the Company's Consolidated Statement of Operations. The impact on shareholders' equity of such decrease, net of income taxes (assumes a 35% tax rate) and intangibles adjustments, and the change in reinsurance related derivative would be a decrease of \$631 in AOCI and a decrease of \$594 in total shareholders' equity. If interest rates were to decrease by 100 basis points from levels at September 30, 2017, the estimated impact on the FIA embedded derivative liability of such a decrease would be an increase of \$218.

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

### Equity Price Risk

Assuming all other factors are constant, we estimate that a decline in equity market prices of 10% would cause the market value of our equity investments to decrease by approximately \$77, our call option investments to decrease by approximately \$23 based on equity positions and our FIA embedded derivative liability to decrease by approximately \$39 as of September 30, 2017. Because our equity investments are classified as AFS, the 10% decline would not affect current earnings except to the extent that it reflects OTTI. These scenarios consider only the direct effect on fair value of declines in equity market levels and not changes in asset-based fees recognized as revenue, or changes in our estimates of total gross profits used as a basis for amortizing DAC and VOBA.

### Item 8. Financial Statements and Supplementary Data

The Reports of Independent Registered Public Accounting Firms, the Company's consolidated financial statements and notes to the Company's consolidated financial statements appear in a separate section of this Form 10-K (beginning on Page F-2 following Part IV). The index to the Company's consolidated financial statements appears on Page F-1.

### Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

### Item 9A. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

An evaluation was performed under the supervision and participation of the Company's management, including the CEO and Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this report. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that, as of September 30, 2017, the Company's disclosure controls and procedures were effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and is accumulated and communicated to the



## Table of Contents

Company's management, including the Company's CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

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

## Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company, as such term is defined in Exchange Act Rule 13a-15(f). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only with proper authorizations; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. These inherent limitations are an intrinsic part of the financial reporting process. Therefore, although the Company's management is unable to eliminate this risk, it is possible to develop safeguards to reduce it. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management, under the supervision of and with the participation of the CEO and CFO, assessed the effectiveness of the Company's internal control over financial reporting as of September 30, 2017 based on criteria for effective control over financial reporting described in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 2013. Based on this assessment the Company's management concluded that its internal control over financial reporting was effective as of September 30, 2017 in accordance with the COSO criteria. The Company's independent registered public accounting firm, KPMG LLP, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting, which is included on page F-3 of this Form 10-K.

## Changes in Internal Controls Over Financial Reporting

During the quarter ended September 30, 2017, the Company's management identified a deficiency in the design and operation of a control over the accuracy of data inputs and approval of updates to certain economic rate table inputs which impacted the valuation of the Company's FIA contract reserve liability for the quarters ended March 31, 2017 and June 30, 2017. The control deficiency resulted in an immaterial misstatement of our previously issued interim financial statements which was corrected in the quarter ended September 30, 2017. Management has concluded the deficiency constituted a material weakness in internal control over financial reporting during the quarters ended March 31, 2017 and June 30, 2017. We evaluated the controls associated with the economic rate table and valuation of the Company's FIA contract reserve liability and designed a remediation plan to strengthen the control over the economic rate table review. During the quarter ended September 30, 2017, management implemented the remediation plan, tested the enhanced control over the economic rate table review and concluded the deficiency has been remediated. Except with respect to the changes in connection with our implementation of the remediation plan discussed above, the Company's management, including the CEO and CFO, concluded that no significant changes in the Company's internal controls over financial reporting (as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f))



occurred during the quarter ended September 30, 2017 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

Limitations on the Effectiveness of Controls

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

Item 9B. Other Information

None.

## PART III

Dollar amounts in the accompanying sections of this Part III are presented in whole dollar amounts, unless otherwise noted

## Item 10. Directors, Executive Officers and Corporate Governance

## Directors

Our certificate of incorporation provides for the division of our board into three classes of as nearly equal number of directors as possible. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the directors. The term of each class of directors is three years, with the term for one class expiring each year in rotation. As a result, one class of directors is elected at each annual stockholders meeting for a term of three years, to hold office until their successors are elected and qualified or until their earlier death, removal or resignation.

The following table sets forth information about our directors. The respective age of each individual in the table below is as of September 30, 2017.

NAME	POSITION	CLASS	AGE
James M. Benson*	Director	I	70
Christopher J. Littlefield	Chief Executive Officer, President and Director	I	51
Andrew A. McKnight	Director	II	39
William P. Melchionni*	Director	II	72
Joseph S. Steinberg	Chairman and Director	II	73
William J. Bawden*	Director	III	70
L. John H. Tweedie	Director	III	72

\* Independence director.

Our nominating and corporate governance committee proposes nominees for election to our board and such nominees are reviewed and approved by the entirety of our board. Our nominating and corporate governance committee and our board recommend that each nominee for director be elected at our annual meeting. Under our certificate of incorporation, our board of directors consists of such number of directors as may be determined from time to time by resolution of our board. Any vacancies or newly created directorships may be filled only by the affirmative vote of a majority of our directors then in office, even if less than a quorum, or by a sole remaining director, and the elected person will serve the remainder of the term of the class to which he or she is appointed. Each director will hold office until his or her successor has been duly elected and qualified or until his or her earlier death, resignation or removal. Our board of directors is led by our non-executive Chairman, Mr. Steinberg. Our board of directors has determined that Messrs. Bawden, Benson and Melchionni are independent within the meaning of the federal securities laws and the New York Stock Exchange (“NYSE”) Rules.

## Class I Directors - Terms Expiring 2018

James M. Benson has served as one of our directors since October 2014 and is a member of the Audit Committee, Compensation Committee and Affiliate Transaction Committee. Mr. Benson has over 40 years of industry experience and is a nationally recognized expert in the fields of financial services and insurance. He has served as President and Chief Executive Officer of Benson Botsford, LLC, since 2006, and has been a director there since 2010. Since 2006, Mr. Benson has served on the board of Sapient Corp. Since 1995 he has served on the board of Hospital for Special Surgery. He serves on the board of Valmark Securities, Inc., and from 2010 until

2013 he was a board member of Aviva USA Corp. He was President and Chief Executive Officer of John Hancock Life Insurance Company, a division of Manulife Financial, from 2002 to 2006. Prior to joining Hancock in 2002, he was President of MetLife, Inc.'s Individual Business enterprise. During his tenure at MetLife, he was Chairman, President and Chief Executive Officer of New England Financial as well as Chairman, President and Chief Executive Officer of GenAmerica Financial Corporation. Before joining MetLife in 1997, he held the dual position of President and Chief Operating Officer of the Equitable Companies, Inc., and was Chief Executive Officer of its flagship life insurance operation, Equitable Life Assurance. Mr. Benson received his undergraduate degree from the University of Illinois and an M.B.A. from the University of Southern California. We believe Mr. Benson's industry experience well qualifies him to serve on our board of directors.

Christopher J. Littlefield has served as one of our directors since April 1, 2015. Mr. Littlefield joined the Company as our President in October 2014 and assumed the position of Chief Executive Officer in May 2015. Mr. Littlefield has extensive financial services and public company experience, having served as President and Chief Executive Officer from February 2009 to October 2013 and Chief Operating Officer from February 2008 to September 2009 of Aviva USA Corporation, a provider of indexed universal life and indexed annuity products. He served as Executive Vice-President-General Counsel and Secretary from January 2006 to February 2008 of AmerUs Group Co., a provider of individual life insurance and annuity products, which was acquired by Aviva plc in November 2006. He also served as Senior Vice-President and General Manager-Food Products from November 2004 to January 2006 and Senior Vice-President-General Counsel and Secretary from January 1998 to January 2006 of The Dial Corporation. Mr. Littlefield received a B.S. in Business Administration, cum laude, from University of Arizona and a J.D. with high distinction from the University of Iowa.

#### Class II Directors - Terms Expiring 2019

Andrew A. McKnight was named one of our directors in April 2017 and serves on the compensation and nominating and corporate governance committees. Mr. McKnight has been a Partner and Managing Director at Fortress Investment Group LLC ("Fortress") since 2005. Mr. McKnight serves on the investment committee for the Credit Funds and co-heads the Management Committee of Fortress. Mr. McKnight also currently serves on Board of Directors of HRG Group, Inc. ("HRG"), the Company's parent company, and Ligado Networks. Mr. McKnight was formerly a Managing Director at Fir Tree Partners. Prior to joining Fir Tree Partners, Mr. McKnight was in the Leveraged Finance group at Goldman, Sachs & Co. We believe that Mr. McKnight's investment management experience well qualifies him to serve on our board of directors.

William P. Melchionni has served as one of our directors since 2012. Mr. Melchionni currently works as an independent consultant for a number of financial services companies. For 17 years, he served in a number of senior roles for Credit Suisse, an investment bank, in the investment advisory business. Prior to Credit Suisse, Mr. Melchionni worked for Salomon Brothers for 12 years as a director. He played professional basketball with the Philadelphia 76ers and New York Nets. He received a Bachelor of Science in Economics from Villanova University. We believe that Mr. Melchionni's asset management experience well qualifies him to serve on our board of directors.

Joseph S. Steinberg has served as one of our directors since February 2015 and was appointed as Chairman of our board in March 2015. Since December 2014, Mr. Steinberg has served as the Chairman of the Board of Directors of the Company's majority shareholder, HRG. Mr. Steinberg is Chairman of the board of directors of Leucadia National Corporation ("Leucadia"), which is a significant stockholder of HRG. He has served as a director of Leucadia since December 1978 and as President from January 1979 until March 1, 2013, when he became the Chairman of the Leucadia board of directors. Mr. Steinberg has served as Chairman of the board of directors of HomeFed Corporation since 1999 and as a HomeFed director since 1998. Mr. Steinberg also serves on the board of directors of Crimson Wine Group, Ltd. Mr. Steinberg has served as a director of Jefferies Group, LLC since April 2008. Mr. Steinberg previously served as a director of Mueller Industries, Inc. from September 2011 to September 2012. We believe Mr. Steinberg's managerial and investing experience in a broad range of businesses well qualifies him to serve on our board of directors.

#### Class III Directors - Terms Expiring 2020

William J. Bawden has served as one of our directors and chairman of our audit committee since 2013. Mr. Bawden previously served as a member of the board of directors of Aviva USA Corporation, a life and annuity insurance company, where he also chaired the audit committee and was a member of the risk committee. He is a retired partner

of PricewaterhouseCoopers LLP (“PwC”), in which role he served the insurance industry for many years. While at PwC, Mr. Bawden led the PwC Canadian insurance practice from 1995 to 2007, was chairman of the world insurance partner leadership team from 1987 to 1993, and was co-chairman of the firm’s U.S. insurance

practice from 1987 to 1992. He also has been a member of several AICPA and Canadian standards setting committees that focused on insurance accounting and reporting. Mr. Bawden has a B.S. and M.B.A. from Indiana University. We believe that Mr. Bawden's extensive accounting and insurance qualifications and experience well qualify him to serve as a member of our board of directors.

L. John H. Tweedie has served as one of our directors since 2011. Mr. Tweedie serves as CEO and is responsible for setting and executing the strategy of FSRCI. Over a period of 35 years, Mr. Tweedie has managed businesses that provide individual life and annuities and property & casualty in both domestic and international markets. Most recently, he served as President and CEO of Northstar Re, a start-up, from 2002 to 2009. Prior to his retirement in 2001, Mr. Tweedie served as a Senior Executive Vice President for Metropolitan Life (then the majority owner of Reinsurance Group of America, Incorporated), in charge of corporate actuarial, corporate controllers and international operations. His tenure at Metropolitan Life included positions as Chief Actuary, President and CEO of Canadian Operations and Executive Officer for International Operations. In addition, Mr. Tweedie oversaw RGA operations and served on the RGA board of directors until his retirement. Mr. Tweedie rejoined the Canadian RGA board of directors in 2010. Mr. Tweedie received his Bachelor of Commerce degree from the University of Manitoba in 1966 and became a fellow of the Canadian Institute of Actuaries and the Society of Actuaries in 1971. We believe that Mr. Tweedie's extensive actuarial, financial and executive experience well qualifies him to serve on our board of directors.

Executive Officers  
The following sets forth certain information with respect to our executive officers, as of September 30, 2017. All officers of our company serve at the discretion of our board.

NAME	AGE	POSITION
Christopher J. Littlefield	51	President, Chief Executive Officer, and Director
Rajesh Krishnan	46	Executive Vice President and Chief Investment Officer
Eric L. Marhoun	55	Executive Vice President, General Counsel and Secretary
Dennis R. Vigneau	50	Executive Vice President and Chief Financial Officer
Rosanne Boehm	59	Senior Vice President, Human Resources
John D. Currier	47	Senior Vice President, Chief Actuary
Christopher S. Fleming	49	Senior Vice President, Operations and Technology
Diana J. Hickert-Hill	56	Senior Vice President, Marketing, Investor Relations and Communications
John P. O'Shaughnessy	61	Senior Vice President, Business Development
John A. Phelps, II	57	Senior Vice President and Chief Distribution Officer
Mark Wiltse	50	Chief Accounting Officer
Wendy J.B. Young	53	Senior Vice President and Chief Risk Officer

Christopher J. Littlefield - For Mr. Littlefield's biographical information please refer to the above description located under "Directors--Class I Directors - Terms Expiring 2018."

Rajesh Krishnan is our Executive Vice President and Chief Investment Officer and is responsible for all aspects of our investment portfolio. Mr. Krishnan joined our company in 2009, as Senior Vice President and Chief Investment Officer, and led the restructuring of the Company's fixed income portfolio. Following our acquisition of our direct subsidiary, Fidelity & Guaranty Life Holdings, Inc. ("FGLH"), Mr. Krishnan led the development of in-house asset management capabilities including the establishment of the Company's Baltimore-based trading desk, and was promoted to Executive Vice President in August 2012. Prior to joining Old Mutual US Life, Mr. Krishnan spent 14 years with Wellington Management Company, an investment management company, in Boston, Massachusetts, where he was most recently a Fixed Income Portfolio Manager and Associate Partner focusing on managing bond portfolios for a wide range of insurance clients. Mr. Krishnan is a Chartered Financial Analyst and a member of the Boston Security Analysts Society. He holds a Bachelor of Arts degree from Harvard College.

Eric L. Marhoun joined our company in 2007 as Senior Vice President and General Counsel. Mr. Marhoun was promoted to Executive Vice President in November 2013. In his current position, Mr. Marhoun oversees Legal and Compliance matters for the U.S. life and annuity businesses of HRG. Mr. Marhoun has 29 years of legal experience in U.S. and non-U.S. insurance markets. Mr. Marhoun was previously Senior Vice President and General



Counsel to Old Mutual US Life and managed the Legal and Compliance departments for the U.S. and Bermuda life and annuity businesses of Old Mutual plc of the United Kingdom from 2007 to 2011. Prior to joining Old Mutual US Life, Mr. Marhoun was Vice President, Lead Group Counsel and Secretary of American Express Financial Advisors, Inc., a financial services company, from 1995 to 2006 where he oversaw the legal operations of the insurance division of American Express. He was also Of Counsel with Lord, Bissell & Brook in 2006 and an Associate with the firm at the beginning of his career. Mr. Marhoun received his J.D., cum laude, from DePaul University College of Law and is admitted to practice law in the states of Illinois, Minnesota, Wisconsin and Georgia as well as various federal courts.

Dennis R. Vigneau joined our company as Senior Vice President in January 2014 and began serving as our Chief Financial Officer in February 2014. During Fiscal 2015, Mr. Vigneau was promoted to Executive Vice President. Mr. Vigneau brings extensive public company experience, having served as Senior Vice President and Chief Financial Officer from November 2010 to March 2013 at Kemper Corporation, a multi-line insurance holding company offering life, health, auto, and homeowners insurance, Senior Vice President and Chief Financial Officer and Deputy Chief Financial Officer from August 2008 to May 2010 at American Life Insurance Company, an insurance company subsidiary during such time of American International Group operating primarily in the foreign life insurance market, and Senior Vice President and Chief Financial Officer, Retirement and Protection division of Genworth Financial, a life and health insurance company, from January 2007 to July 2008. Mr. Vigneau received his Bachelor of Science degree in Accounting from New Hampshire College, summa cum laude.

Rosanne Boehm joined our company as Assistant Vice President, Organization Development in 2008 and was promoted to Vice President, Human Resources in April 2011. She was promoted to Senior Vice President, Human Resources in August 2012. She is responsible for all of the Company's human resources and talent management strategies and initiatives. Ms. Boehm has more than 25 years of domestic and international human resources experience in the financial services, manufacturing and government services industries. Prior to joining our company, Ms. Boehm held human resources leadership positions with companies including Honeywell Technology Solutions, Northrop Grumman and PACE Incorporated and has experience with both large and small, union and non-union as well as multi-location organizations. Ms. Boehm holds a Bachelor of Science degree in Business Administration/Human Resources from Columbia Union College as well as a Graduate Certification in Organization Development from Johns Hopkins University. She holds an active accreditation as Senior Professional in Human Resources (SPHR) from the Human Resources Certification Institute and a Fellow-Life Management Institute (Level 1) from LOMA. Ms. Boehm is a member of the Society of Human Resources Management and the Organization Development Network, and holds a number of professional certifications in the use of various human resources assessment tools and instruments.

John D. Currier Jr. joined the Company as Deputy Chief Actuary in May 2015 and was named Chief Actuary in October 2016. Mr. Currier has more than 25 years of experience in the insurance industry. Prior to joining our company, he served briefly as Chief Operating Officer and Chief Actuary of the Life Companies of Farm Bureau Financial Services. He served with Aviva USA, a provider of indexed universal life and indexed annuity products, as Executive Vice President and Chief Actuary of Aviva USA (formerly AmerUs Group) from March 2010 to June 2013, Chief Product Officer from February 2008 to February 2010, and Senior Vice President of Annuity Product Development from August 2005 to February 2010. Prior to Aviva USA, he served in a variety of product development and management positions with INF US Financial Services and Conseco, Inc.. Mr. Currier began his insurance career as a consulting actuary with Beckley & Associates on a wide range of actuarial projects. Mr. Currier holds a bachelor's degree Cum Laude from Butler University, is a Fellow of the Society of Actuaries and a Member of the American Academy of Actuaries.

Christopher S. Fleming joined our company in November 2011 as Senior Vice President, Operations and Technology. Prior to joining our company, he was Head of Corporate Six Sigma & Strategic Cost Management at ING North American Insurance Corporation, a \$1.7 billion operating expenses and 7,000 employee retirement, investment and insurance company. Prior to his tenure at ING, Mr. Fleming served as Chief Operating Officer for ING Central Europe Insurance-a region that generated double-digit top-line growth and served eight million clients. Mr. Fleming also previously held leadership roles at General Electric and American General holding Senior Vice President and Vice President roles, respectively. Mr. Fleming earned his Bachelor of Science degree in Business Administration, majoring in Finance and Economics from The Ohio State University. Additionally, he is a Six Sigma Master Black



Belt.

Diana J. Hickert-Hill joined our company in September 2017 as Senior Vice President, Marketing, Investor Relations and Communications. She has served in multiple executive positions in the insurance industry and brings substantial experience in investor relations, brand strategy, marketing and communications. Prior to joining our

100

---

company, Ms. Hickert-Hill served as Vice President, Investor Relations and Corporate Identity with Kemper Corporation from 2007 to 2011. Ms. Hickert-Hill's previous positions include tenures as Vice President, Investor Relations and Vice President Customer Experience for Genworth Financial, and Global Finance Quality Leader for GE Financial Assurance. Ms. Hickert-Hill earned a Bachelor of Science degree in Chemical Engineering from the University of South Florida and also holds a Six Sigma Quality Leader and Master Black Belt certification with a concentration in Finance.

John P. O'Shaughnessy joined our company in January 2008 as Vice President, Special Projects and currently serves as Senior Vice President, Business Development. Mr. O'Shaughnessy assumed responsibility for our asset/liability model development and product review. In April 2009, Mr. O'Shaughnessy was promoted to Vice President and Chief Insurance Risk Officer. In this expanded role, Mr. O'Shaughnessy oversaw our company's entire actuarial function including reinsurance relationships and product development. Two years later in April 2011, Mr. O'Shaughnessy was named Chief Actuary and Chief Risk Officer-reporting directly to the CEO. In October 2016, Mr. O'Shaughnessy was appointed to the position of Senior Vice President, Business Development. Prior to joining our company in 2009, Mr. O'Shaughnessy served as Vice President and Actuary, Product Development at Great American Financial from 2004 to 2009. While at Great American Financial, he designed and developed a complete suite of annuity products as the Company re-entered the fixed indexed annuity marketplace. This included providing risk adjusted evolution of existing and proposed products and working with several producer groups to develop proprietary products for niche markets. Prior to his position at Great American Financial, Mr. O'Shaughnessy held positions at Lincoln Financial from 2002 to 2004, Travelers in 2001, Sage from 2000 to 2001 and Nationwide Financial from 1989 to 2000. Mr. O'Shaughnessy is a Member of the American Academy of Actuaries as well as a Fellow of the Society of Actuaries. He earned his Bachelor of Science from Columbus State University and his Master of Arts (Mathematics) from the University of Louisville.

John A. Phelps, II is our Senior Vice President and Chief Distribution Officer. In 2000, Mr. Phelps joined FGL Insurance as National Life Sales Director and in 2002 was promoted to Vice President, Brokerage Life Sales. In 2003, Mr. Phelps was promoted to Vice President, Life Distribution. In 2006, Mr. Phelps was promoted to the position of Senior Vice President, Sales & Marketing, overseeing all life & annuity product development and distribution channels. In 2009, Mr. Phelps was named Chief Distribution Officer and continues to function in this role today. During his 32-year career in the industry, Mr. Phelps has served as a personal producer and general agent and has held executive sales and marketing positions with home office insurance companies as well as having served on the ACLI Life Insurance Committee, the LIMRA Distribution Leaders Round Table Committee and LIMRA Brokerage Committee. Mr. Phelps obtained his Masters of Science Management degree from The American College and holds a Bachelor of Science degree in Economics from Manchester College.

Mark Wiltse joined our company in January 2016 as Chief Accounting Officer. From October 2013 to December 2015, Mr. Wiltse served as Senior Vice President, Chief Financial Officer at Accordia Life and Annuity Company, an insurer offering indexed universal life insurance. From May 2011 to October 2013, he served as Business Manager to CEO at Aviva USA, an insurer offering life insurance, long-term savings products and fund management services. From November 2007 to May 2011 he served as Vice President, Financial Reporting at Aviva USA.

Wendy J.B. Young joined the Company in 2000 as Actuary and currently serves as Chief Risk Officer. During her tenure with the Company, she was promoted to Senior Vice President and has assumed ever increasing responsibilities, including leading the Financial Planning & Analysis area. Ms. Young has been instrumental in many of the major financial projects over the past several years, including our issuance of senior notes. In February 2014, Ms. Young moved into her current position where she is responsible for risk management across the organization which includes ERM, internal controls, and internal audit. Ms. Young has over 28 years of experience as an actuary in the insurance industry. Prior to joining the Company, Ms. Young served for 10 years at the Acacia Group, a life and annuity company holding various actuarial roles, ending as 2nd Vice President and Associate Actuary responsible for statutory reporting and projections for regulatory filings. Ms. Young began her career in Ernst & Young's insurance practice performing auditing and consulting functions. Ms. Young has extensive experience across all aspects of the life actuarial practice area, particularly in financial reporting, capital planning, analysis and M&A. This experience prepared her to be an integral part of the finance leadership team at our company. She holds a Bachelor of Science in Insurance with a concentration in Actuarial Science from The Pennsylvania State University. Ms. Young is a Member

of the American Academy of Actuaries as well as a Fellow in the Society of Actuaries.  
Section 16(a) Beneficial Ownership Reporting Compliance

101

---

Section 16(a) of the Exchange Act requires our directors, executive officers, and any persons who beneficially own more than 10% of our common stock to file with the SEC initial reports of ownership and reports of changes in ownership of our common stock. Such reporting persons are also required by the SEC's regulations to furnish us with copies of all forms they file with the SEC pursuant to Section 16(a) of the Exchange Act. Based solely on the reports received by us and on the representations of the reporting persons, we believe that the reporting persons have complied with all applicable filing requirements during Fiscal 2017.

## CORPORATE GOVERNANCE

### Controlled Company

As of September 30, 2017, HRG owned approximately 80% of our common stock, representing a majority of the voting power of our outstanding common stock. As a result, we are a "controlled company" within the meaning of the NYSE corporate governance standards. Accordingly, we rely on exemptions from certain corporate governance requirements. Specifically, as a controlled company, we are not required to have (1) a majority of independent directors, (2) a nominating and corporate governance committee composed entirely of independent directors or (3) a compensation committee composed entirely of independent directors.

### Director Independence

Our board has determined that Messrs. Bawden, Benson and Melchionni are independent directors under NYSE Rules. Under NYSE Rules, no director qualifies as independent unless our board affirmatively determines that the director has no material relationship with our company. Based upon information requested from and provided by each director concerning their background, employment and affiliations, including commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships, our board has determined that each of the independent directors named above has no material relationship with our company, nor has any such person entered into any material transactions or arrangements with our company or its subsidiaries, either directly or as a partner, stockholder or officer of an organization that has a relationship with our company, and is therefore independent under NYSE Rules.

### Corporate Governance Guidelines and Code of Ethics and Business Conduct

Our board has adopted Corporate Governance Guidelines to assist in the exercise of its responsibilities. These guidelines reflect our board's commitment to monitor the effectiveness of policy and decision making both at our board and management level, with a view to enhancing stockholder value over the long term. The Corporate Governance Guidelines address, among other things, our board and board committee composition and responsibilities, director qualifications standards and selection of the Chairman of the Board and our Chief Executive Officer. Our board has adopted a Code of Business Conduct and Ethics that applies to directors and all of our employees, including our senior executive and financial officers, which include our principal executive officer, principal financial officer, principal accounting officer, and persons performing similar functions. A copy of the Code of Business Conduct and Ethics is available on our website. We will promptly disclose any future amendments to this code on our website as well as any waivers from this code for executive officers and directors. Copies of this code also are available in print from our corporate secretary upon request. Inquiries should be directed to the Investor Relations Department at Fidelity & Guaranty Life, Two Ruan Center, 601 Locust Street, 14th Floor, Des Moines, IA 50309.

### Board and Committee Meetings

The board held a total of 25 meetings during Fiscal 2017. Other standing committees of our board consist of an audit committee, a compensation committee and a nominating and corporate governance committee. The audit, compensation and nominating and corporate governance committees held eighteen, five and two meetings, respectively, during Fiscal 2017. The board and the directors recognize the importance of director attendance at

board and committee meetings. Attendance at board and committee meetings was at least 75% for each director. The company does not have a formal policy regarding the attendance of directors at annual meetings of stockholders, but we strongly encourage all of our directors to attend.

#### Meetings of Independent Directors

We generally hold executive sessions at each board and committee meeting. The Chairman of the Board presides over executive sessions of the entire board and the chairman of each committee presides over the executive session of that committee.

#### Board Structure and Risk Oversight

Mr. Steinberg serves as the Chairman of the Board and Mr. Littlefield serves as our Chief Executive Officer. The board has no policy with respect to the separation of the offices of Chairman and Chief Executive Officer. The board believes it is important to retain the flexibility to allocate the responsibilities of the offices of the Chairman and Chief Executive Officer in any way that is in the best interests of our company at a given point in time. Our board believes that we benefit from this structure and, based upon the extensive experience of each such individual, Mr. Steinberg's continuation as our Chairman and Mr. Littlefield's continuation as our Chief Executive Officer is in the best interests of our stockholders.

Our management is responsible for understanding and managing the risks that we face in our business, and our board is responsible for overseeing management's overall approach to risk management. Our board also is assisted by our nominating and corporate governance committee with, among other things, its oversight of risk. Our board receives reports on the operations of our businesses from members of management of our company and its subsidiaries, as appropriate, and discusses related risks. Our board also fulfills its oversight role through the operations of our nominating and corporate governance committee, audit committee and compensation committee. As appropriate, these committees of our board provide periodic reports to our board on their activities. Our audit committee is responsible for oversight of corporate finance and financial reporting related risks, including those related to our accounting, auditing and financial reporting practices. Our compensation committee is responsible for the oversight of our compensation policies and practices, including conducting annual risk assessments of our compensation policies and practices. Our nominating and corporate governance committee is responsible for assisting our board with the oversight of risks and reviewing and making recommendations to our board regarding our overall corporate governance, including board and committee composition, board nominees, size and structure and director independence, our corporate governance profile and ratings, and our political participation and contributions.

#### Governance Documents Availability

We have posted our Corporate Governance Guidelines, Code of Business Conduct and Ethics, audit committee charter, compensation committee charter and nominating and corporate governance committee charter on our website under the heading "Corporate Governance" at [www.fglife.com](http://www.fglife.com). We intend to disclose any amendments to, and, if applicable, any waivers of, these governance documents on that section of our website. These governance documents are also available in print without charge to any stockholder of record that makes a written request to our company. Inquiries should be directed to the Investor Relations Department at Fidelity & Guaranty Life, Two Ruan Center, 601 Locust Street, 14th Floor, Des Moines, IA 50309.

#### INFORMATION ABOUT COMMITTEES OF OUR BOARD

Our board maintains an audit committee, a compensation committee, a nominating and corporate governance committee and an affiliate transaction committee. The composition and responsibilities of each committee are described below.

#### Audit Committee

Our audit committee is responsible for, among other things, assisting our board of directors in overseeing and reviewing our accounting and financial reporting and other internal control processes, the audits of our financial statements, the qualifications and independence of our independent registered public accounting firm, the effectiveness of our internal control over financial reporting, and the performance of our internal audit function and independent registered public accounting firm. Our audit committee reviews and assesses the qualitative aspects of our financial reporting, our processes to manage business and financial risks, and our compliance with significant applicable legal and regulatory requirements. Our audit committee is directly responsible for the appointment, compensation, retention and oversight of our independent registered public accounting firm. The members of our audit committee are Messrs. Bawden, Benson and Melchionni. All members of the audit committee are independent within the meaning of the federal securities laws and the meaning of the NYSE Rules. Each member of the audit committee meets the requirements for financial literacy under the applicable rules and regulations of the SEC and the NYSE, and our board has determined that Mr. Bawden is an “audit committee financial expert,” as that term is defined by the applicable rules of the SEC. Our board of directors has approved a written charter under which the audit committee operates. A copy of the charter is available without charge on our website.

#### Compensation Committee

The compensation committee is responsible for, among other things, reviewing and approving the compensation and benefits of our CEO, other executive officers and directors, authorizing and ratifying stock option grants and other incentive arrangements, and authorizing employment and related agreements. The members of our compensation committee are Messrs. Benson, McKnight, Melchionni and Steinberg. Our board of directors has approved a written charter under which the compensation committee operates. A copy of the charter is available without charge on our website.

The compensation committee has the authority to delegate any of its responsibilities to sub-committees as the compensation committee may deem appropriate, provided that the sub-committees are composed entirely of directors satisfying the independence standards then applicable to the compensation committee generally. The compensation committee has delegated to a sub-committee its responsibility with respect to (i) the approval of acquisitions and dispositions of company securities by officers and directors of the Company for purposes of Section 16(b) of the Exchange Act and (ii) the grant or award of certain “qualified performance-based compensation” within the meaning of Section 162(m) to certain officers of the Company under the Fidelity & Guaranty Life 2013 Stock Incentive Plan, as amended (the “Omnibus Plan”) and the Fidelity & Guaranty Life Section 162(m) Employee Incentive Plan (the “162(m) Plan”). The members of the sub-committee are Messrs. Benson and Melchionni.

#### Nominating and Corporate Governance Committee

Our nominating and corporate governance committee is responsible for, among other things, identifying and recommending candidates to the board of directors for election to our board of directors, reviewing the composition of the board of directors and its committees, developing and recommending to the board of directors the criteria for evaluating director candidates, overseeing board of directors evaluations, and recommending director compensation to our compensation committee.

Our nominating and corporate governance committee may use a variety of means to identify nominees. The committee has the authority to hire consultants and search firms for the purpose of identifying candidates. The board seeks members from diverse professional backgrounds who combine a broad spectrum of experience and expertise with a reputation for integrity. Individuals will be considered for nomination to the board based on their business and professional experience, judgment, diversity, age, skills and background. Pursuant to our Corporate Governance Guidelines adopted in December 2013, individuals over the age of 72 will generally not stand for election or re-election to the board.

The committee will consider candidates recommended by stockholders in the same manner that it considers candidates identified through other sources. The name of any recommended candidate for director, together with a brief biographical sketch, a document indicating the candidate’s willingness to serve if elected, and evidence of the nominating stockholder’s ownership of company stock must be sent in care of the corporate secretary to the



following address: Two Ruan Center, 601 Locust Street, 14th Floor, Des Moines, IA 50309. A stockholder who wishes to nominate a candidate must follow the procedures described in Section 1.12 of our bylaws, which is entitled “Notice of Stockholder Proposals and Nominations.”

The members of our nominating and corporate governance committee are Messrs. McKnight, Tweedie and Steinberg. Our board has approved a written charter under which the nominating and corporate governance committee operates. A copy of the charter is available without charge on our website.

#### Affiliate Transaction Committee

The affiliate transaction committee has the responsibility for the review and approval of transactions with related persons as set forth in the rules and regulations of the SEC as well as “affiliate transactions” that require approval pursuant to the covenants set forth in the indenture governing the our company’s senior notes. The members of our affiliate transaction committee are Messrs. Benson and Melchionni and three non-voting, non-director members, namely our Chief Investment Officer, our Chief Financial Officer and our General Counsel.

### Item 11. Executive Compensation

#### EXECUTIVE COMPENSATION

##### Compensation Discussion and Analysis

This compensation discussion and analysis provides an overview and analysis of our executive compensation program, including a discussion of our compensation philosophy. The discussion below is intended to help provide an understanding of the detailed information in the compensation tables and related narrative disclosure below. We discuss the material elements of our compensation program and the material factors considered by the compensation committee in making compensation decisions. Our analysis focuses on the compensation of the following individuals, who are our named executive officers (“NEOs”), as defined by SEC regulations:

NAME	POSITION
Christopher J. Littlefield	President, Chief Executive Officer, and Director
Rajesh Krishnan	Executive Vice President and Chief Investment Officer
Eric L. Marhoun	Executive Vice President, General Counsel and Secretary
Dennis R. Vigneau	Executive Vice President and Chief Financial Officer
John P. O’Shaughnessy*	Senior Vice President, Business Development

##### Philosophy and Objectives

Our compensation programs are based on the following objectives:

- Attract and retain highly qualified executives and employees;
- Align our incentives with stockholder interests;
- Drive performance and results; and
- Support our culture.

To meet these objectives, our compensation programs include:

- Base salary;
- Short-term cash incentives;
- Long-term equity incentives;
- Opportunities for career development; and
- Competitive benefits.



Market and industry practices are taken into account when developing compensation programs. Third-party market industry surveys and compensation data from other public companies are utilized when reviewing compensation. We consider our peer group to be companies in our industry that are similar in size to us, that have business models similar to ours and that compete with us for customers, labor and capital.

Our goal is to align total compensation to the competitive market within our peer group while being mindful of internal equity. Salaries are reviewed annually in a process correlated to our performance management program and a competitive base salary market review. Incentives are the primary motivators to achieve business goals and strong business or individual performance can result in above-market incentives.

#### Process

**Our Compensation Committee.** Our compensation committee is responsible for reviewing and approving the compensation and benefits strategy for our employees, including our NEOs, authorizing and ratifying equity grants and other incentive arrangements, and authorizing employment and related agreements. The compensation committee has the full authority of the board of directors to make compensation decisions relating to our NEOs.

**Role of Executive Officers.** Although our compensation committee has the authority to make final decisions with respect to executive compensation, our Senior Vice President, Human Resources in partnership with our Chief Executive Officer, drive the design and implementation of all executive compensation programs. The goal is to ensure that the design of our compensation programs supports our overall strategy. Except for his own compensation, the Chief Executive Officer has final management-level review of any compensation program or individual element of compensation for our NEOs before they are reviewed by the compensation committee. The Chief Executive Officer and our other NEOs do not participate in discussions regarding their own compensation.

**Review and Assessment of Compensation Policies.** Prior to establishing our executive compensation program for Fiscal 2017, the compensation committee and our management reviewed our executive compensation policies and practices. The compensation committee also conducts on-going assessments of our compensation structure. The committee retained Fred W. Cook & Co. (“Cook”) to serve as our executive compensation consultant and to assist and advise the compensation committee in connection with executive compensation policies and practices. Cook reviewed the structure and mechanics of the various components of our executive compensation programs and practices. In order to obtain a complete view of the competitive market for talent, Cook considered data from publicly available peer company proxy statements, and, as a secondary view of the market, considered data from published survey sources, which includes industry peers from privately held and publicly traded organizations. In particular, Cook analyzed two key elements: pay magnitude and pay practices. Pay magnitude relates to overall base pay delivery, base salaries, annual and long-term incentive targets and payouts. Pay practices is the assessment of the design attributes of other organizations’ incentive plans that provide perspectives on performance measurement, the mix of long-term incentive vehicles, vesting and stockholding requirements.

Cook completed an assessment indicating that the current compensation structure is sound and well-balanced, and demonstrated alignment between company performance and executive compensation.

**Survey Comparison Data.** In order to provide peer comparison data, Cook utilizes survey data from multiple sources. The primary survey source is LOMA. A secondary source of a broad-based financial services industry survey was used where appropriate matches were not found for specific roles in the LOMA data. Cook utilizes a comparison of peer data of same or similar size assets under management in the category of \$4 billion to \$10 billion in assets. There were 22 companies that participated in the LOMA survey:

- ♣American Family Insurance
- ♣Modern Woodmen of America
- ♣Ameritas Life Insurance Corp.
- ♣Mutual of Omaha
- ♣CNO Financial Group, Inc.
- ♣National Life Group
- ♣COUNTRY Financial
- ♣Ohio National Financial Services

•

CUNA Mutual  
Group  
OneAmerica Financial Partners

106

---

Delaware Life  
 Phoenix Companies  
 Erie Insurance Group  
 Southern Farm Bureau Life Insurance Company  
 FBL Financial Group, Inc.  
 Symetra  
 Fidelity & Guaranty Life  
 • The Standard (StanCorp Financial Group)  
 Foresters Financial  
 Woodmen of the World Life  
 Hannover Life Reassurance Co. of America  
 Zurich North America

#### Elements of Our Executive Compensation Program

For Fiscal 2017, the compensation program for our NEOs consisted of the following key elements:

- Base salary;
- Short-term incentive compensation;
- Long-term incentive compensation; and
- Benefits and perquisites.

Each of these elements is considered critical to our executive compensation program. Set forth below is a discussion of each element of compensation, the rationale for each element, and how each element fits into our overall compensation philosophy.

**Base Salary.** We provide a base salary to our NEOs to compensate them for their services rendered on a day-to-day basis during the year. Base salaries are set to attract and retain executives with qualities necessary to ensure our short-term and long-term financial success. We strive to set base salary levels that are competitive to the salaries of executives in similar positions with similar responsibilities at comparable companies. We target our base salaries to be competitive with our market relative to comparable companies. The determination of a NEO's base salary is based on market compensation rates and individual factors, including personal performance and contribution, experience in the role, scope of responsibility and overall impact on the business. The base salaries of our NEOs are reviewed annually and adjusted when necessary to reflect market conditions as well as individual roles and performance.

The table below shows base salaries for Fiscal 2017, which were the same as those reported for Fiscal 2016.

Name	Fiscal 2017 Base Salary
Christopher J. Littlefield	\$800,000
Rajesh Krishnan	350,000
Eric L. Marhoun	350,000
Dennis R. Vigneau	440,000
John P. O'Shaughnessy	325,000

**Short-Term Incentives.** In order to promote our "pay for performance" culture, we pay annual cash incentives to our NEOs for achieving performance targets that support our corporate goals. The Chief Executive Officer and our executive team develop an annual business plan that includes objectives for the next year to drive short- and long-term business performance. The compensation committee reviews these objectives and establishes performance targets. Performance against plan objectives are reviewed and approved by the compensation committee to establish the bonus pool for each performance period. Short-term incentive payouts require that minimum targets be satisfied and allow for recognition of individual performance and contribution toward those goals.

Effective January 1, 2014, our Employee Incentive Compensation Plan (the “EICP”), an annual cash-based bonus plan, was amended and restated, and will continue to be used for awards not intended to qualify as “performance-based compensation” under Section 162(m). Also effective January 1, 2014, the Company established the 162(m) Plan for cash awards intended to qualify as performance-based compensation. The 162(m) Plan was created to attract and retain the best available executive officers to be responsible for the management, growth, and success of the Company’s business and to provide an incentive for such individuals to exert their best efforts on behalf of the Company and its stockholders.

**EICP**

For Fiscal 2017, the EICP included a corporate performance component and an individual performance component, each weighted at 50%. The corporate performance component of the EICP included the following metrics:

2017 Objectives	Weighting
Achieve our financial plan	60%
Corporate Initiatives, consisting of:	40%
Protect and grow our core business by executing on our acquisition and leveraging our capabilities for additional distribution	
Enhance the FGL experience through digital strategies	
Strengthen our foundation by executing on third-party administration strategy and improving infrastructure and disaster recovery capabilities	
 Weighting Total	 100%

The compensation committee approved the percentage of base salary paid for performance at the target levels depicted below. If a minimum performance measure is satisfied, depending on actual performance, bonus payments under the EICP could range from 50% to 150% of target. As a result of the corporate performance against our goals for Fiscal 2017, the bonus pool for determining individual executive incentive awards was 140.2% of target. The awards will be paid in December 2017.

Name	2017 Target Bonus (% of Base Salary Earnings)	Actual Bonus Earned (% of Base Salary Earnings)
Christopher J. Littlefield <sup>(1)</sup>	N/A	N/A
Rajesh Krishnan <sup>(1)</sup>	N/A	N/A
Eric L. Marhoun <sup>(1)</sup>	N/A	N/A
Dennis R. Vigneau	60%	114%
John P. O’Shaughnessy <sup>(1)</sup>	N/A	N/A

<sup>(1)</sup> Messrs. Littlefield, Krishnan, Marhoun and O’Shaughnessy are participants in our 162(m) Plan.

**162(m) Plan**

The compensation committee, in its sole discretion, has the authority to select the officers (including officers who are directors) that participate in the 162(m) Plan, to establish the performance goals, and to determine the amounts of incentive compensation bonus payable to any participant. Awards will be paid to a participant as a result of the satisfaction of performance goals in each performance period, which may consist of one or more Fiscal years designated by the compensation committee in which a performance goal must be satisfied in order for the award or a portion thereof to be payable. Prior to each performance period, the compensation committee



will establish a performance goal or goals for each participant and the payout formula for purposes of determining the award payable to such participant upon the attainment of the performance goal. At the time the performance goals are approved by the compensation committee, their outcome must be substantially uncertain. Neither the performance goals nor the payout formula may be changed following their establishment, except that the compensation committee has the authority to adjust such goals and formulas during a performance period for such reasons as it deems equitable to the extent permitted while still satisfying the requirements for qualified performance based compensation under Section 162(m).

The performance goals for Fiscal 2017 approved by the compensation committee included the following measures:

- Sales
- New Business Internal Rate of Return
- GAAP After-Tax Adjusted Operating Income
- Risk-Based Capital

For Fiscal 2017, the target percentages of base salary to be paid for performance are as follows:

Name	2017	
	Target Bonus (% of Base Salary Earnings)	Actual Bonus Earned (% of Base Salary Earnings)
Christopher J. Littlefield	150%	140%
Rajesh Krishnan	150%	122%
Eric L. Marhoun	75%	60%
Dennis R. Vigneau <sup>(1)</sup>	N/A	N/A
John P. O'Shaughnessy	60%	50%

<sup>(1)</sup> Mr. Vigneau, our Chief Financial Officer, is not a Covered Employee for Section 162(m) purposes and therefore instead participates in our EICP.

The compensation committee approved the performance of the 162(m) Plan metrics at 133.6%. Incentive payments under the 162(m) Plan will be made in December 2017.

Long-Term Incentives. We believe that equity-based awards link compensation levels with performance results and ensure sustained alignment with stockholder interests. Additionally, we believe equity awards provide an important retention tool for our NEOs, because the awards are subject to multi-year vesting. In furtherance of these objectives, we grant equity-based awards, including stock options, restricted stock and performance restricted stock units ("Performance RSUs") to our NEOs and other employees.

The target long-term incentive awards are based on a percentage of base salary as well as the number of options or shares offered to be granted. This target is based on the executive's position and level in the organization. For our NEOs, the targets are as follows:

Position Title	Long-Term Incentive Award (% of Base Salary)
Chief Executive Officer	100%
Executive Vice President	70%
Senior Vice President	70%

Options and Restricted Shares

In Fiscal 2015, our compensation committee approved grants of options and restricted shares to our NEOs. For Fiscal 2016 and 2017, this practice was suspended with respect to all NEOs, except for Mr. Littlefield, in light of the restrictions contained in the Anbang Merger Agreement. The Anbang Merger Agreement was terminated



on April 17, 2017. On May 24, 2017, the Company entered into the Merger Agreement with CF Corp., which includes restrictions regarding granting of equity awards to our employees other than Mr. Littlefield. For Fiscal 2016, the compensation committee approved grants to Mr. Littlefield of 26,406 shares of restricted stock and 118,809 stock options. These awards vest in three equal annual installments on December 1, 2016, 2017 and 2018, subject to continued employment through such dates. For Fiscal 2017, the compensation committee also approved grants to Mr. Littlefield of 29,121 shares of restricted stock and 46,692 stock options. These awards vest in three equal installments on December 1, 2017, 2018 and 2019, subject to continued employment through such dates.

#### Performance RSUs

In Fiscal 2017, the compensation committee approved a grant of Performance RSUs to all of our NEOs. We granted the Performance RSUs to further incentivize our NEOs to increase stockholder value and to align the compensation of our NEOs with the long term growth and profitability of our company. The Performance RSUs also have retentive value, because our NEOs must remain employed by us to realize the value of the awards. The agreements governing the Performance RSUs contain a performance period of October 1, 2016 through September 30, 2019 and performance metrics, which include a minimum threshold target, and stretch goals and maximum earnings for two key metrics, GAAP after-tax annual operating income and adjusted book value per share. The payout percentage for reaching these achievement levels are as follows:

Achievement Level Against Target	Payout Percentage
Minimum	70%
Target	100%
Maximum	200%

The number of Performance RSUs granted to each NEO are:

Name	Performance RSUs Granted
Christopher J. Littlefield	75,630
Rajesh Krishnan	58,824
Eric L. Marhoun	42,018
Dennis R. Vigneau	58,824
John O'Shaughnessy	42,018

Upon a change in control prior to September 30, 2019, the NEOs will become vested in all of their Performance RSUs, subject to their continuous employment.

The prior grants of Performance RSUs, made in Fiscal 2014 and 2015, were fully vested and settled in cash on November 18, 2016. Following the end of the performance periods on September 30, 2016, the performance measures were evaluated by the independent sub-committee of our compensation committee. The sub-committee determined the extent to which the performance measures were met, and the number of Performance RSUs earned and vested. Performance RSUs were not deemed to have been earned until the sub-committee completed its determination and certified that the performance measures had been attained.



With respect to Mr. Littlefield's Performance RSUs, for each of the two years in the performance period, the number of Performance RSUs as of the grant date was multiplied by 50%, multiplied by the applicable percentage based on attained annual operating income and ROE, which was credited to Mr. Littlefield's account. At the end of the two-year performance period, the number of Performance RSUs in Mr. Littlefield's account were adjusted so that the total number of Performance RSUs were determined as the sum of the following:

Fiscal Year	Percentage of Credited - Performance RSUs based on Annual Operating Income	Percentage of Credited - Performance RSUs based on ROE	Percentage of Credited-Performance RSUs Each Year
2015	50%	50%	50%
2016	50%	50%	50%

With respect to the Performance RSUs of our other NEOs, for each of the three years in the performance period, the number of Performance RSUs as of the grant date was multiplied by 33 1/3%, multiplied by the applicable percentage based on attained annual operating income and ROE, which were credited to each NEO's account. At the end of the three-year performance period, the number of Performance RSUs in each NEO's account were adjusted so that the total number of Performance RSUs were determined as the sum of the following:

Fiscal Year	Percentage of Credited - Performance RSUs based on Annual Operating Income	Percentage of Credited - Performance RSUs based on ROE	Percentage of Credited-Performance RSUs Each Year
2014	50%	50%	33 1/3%
2015	50%	50%	33 1/3%
2016	50%	50%	33 1/3%

The independent sub-committee approved the following achievement against target for the following performance periods:

Fiscal Year	Annual Operating Income Percentage Achieved	Return on Equity (ROE) Percentage Achieved	Total Combined
2014	87.1%	162.1%	124.6%
2015	118.0%	100.0%	109.0%
2016	160.0%	132.0%	146.0%

Based on our performance over the applicable periods ending September 30, 2016, and the target opportunity granted, our NEOs earned the following:

Name	Performance RSUs Granted	Number of Performance RSUs Earned	Cash Settlement
Christopher J. Littlefield	32,036	40,846	\$951,712
Rajesh Krishnan	72,150	91,294	2,127,150
Eric L. Marhoun	72,150	91,294	2,127,150
Dennis R. Vigneau	72,150	91,294	2,127,150
John O'Shaughnessy	72,150	91,294	2,127,150

### 2017 Incentive Awards

Each of our NEOs, other than Mr. Littlefield, is party to an incentive award letter with the Company, dated February 1, 2017. The incentive award letters provide for the grant of a cash award in lieu of the December 2015 and December 2016 ordinary course discretionary long-term equity incentive awards that we were not permitted to make to our executive officers under the terms of the Anbang Merger Agreement. The 2017 incentive awards were granted in recognition of the continued commitment and contributions of our NEOs during this period. These incentive awards will vest in installments on December 1, 2017, December 3, 2018 and December 2, 2019, subject to the NEO's continued employment through the applicable vesting date. They will also vest in full if the NEO's employment is terminated by us without "cause" prior to December 2, 2019 or if the NEO's position is eliminated and the NEO is not offered "comparable employment" before the first anniversary of the completion of the Merger.

The amount of each incentive award is set forth in the following table:

Name	December 2017	December 2018	December 2019	Total
Rajesh Krishnan	\$116,667	\$116,667	\$58,333	\$291,667
Eric L. Marhoun	116,667	116,667	58,333	291,667
Dennis R. Vigneau	146,667	146,667	73,333	366,667
John O'Shaughnessy	86,667	86,667	43,333	216,667

### Transaction Incentive Awards

In recognition of their contributions toward the closing of a change in control transaction, each of our NEOs is party to a transaction bonus award letter with the Company, dated April 7, 2017. The transaction bonus award letters provide that if the NEO remains employed through the completion of a change in control transaction, then the NEO will receive a lump sum cash transaction bonus payable within 30 days following the completion of the transaction. The retention bonus will not be paid if the NEO's employment terminates for any reason prior to the completion of a transaction. The award amounts for Mr. Littlefield, Mr. Krishnan, Mr. Marhoun, Mr. Vigneau and Mr. O'Shaughnessy are \$800,000, \$100,000, \$110,000, \$300,000 and \$165,000 respectively.

### Retention Awards

Each of our NEOs, other than Mr. Littlefield, is party to a retention award letter with the Company, dated April 20, 2017. The retention award letters provide that if a change in control transaction occurs on or before December 31, 2017 and the NEO remains employed through the first anniversary of the completion of the transaction, then the NEO will receive a lump sum cash retention payment in an amount equal to a specified percentage of the NEO's annual base salary as in effect on April 20, 2017. The retention bonus will also become payable to the NEO upon a termination of the NEO's employment by us without "cause" prior to the first anniversary of the completion of a transaction or if the NEO's position is eliminated and the NEO is not offered "comparable employment" before the first anniversary of the completion of a transaction.

The amount of each retention award is set forth in the following table:

Name	Retention Award
Rajesh Krishnan	\$350,000
Eric L. Marhoun	350,000
Dennis R. Vigneau	440,000
John O'Shaughnessy	325,000

In lieu of a Retention Award, Mr. Littlefield will receive a discretionary cash award of \$1 million if a change in control transaction occurs. The amount is payable within 30 days following the completion of the transaction and is in recognition of Mr. Littlefield's contributions to completing the transaction.

**Benefits and Perquisites.** Our NEOs are eligible to participate in our tax-qualified 401(k) defined contribution plan and our health and welfare plans on the same basis as our other salaried employees. Our NEOs also participate in a limited number of perquisite programs.

**401(k) Plan.** Under the 401(k) Plan, our company will match 100% of a participant's contributions up to five percent of compensation, subject to the limits specified in the Internal Revenue Code (the "Code"). For years prior to calendar year 2013, the employer match vests ratably over three years of employment. Effective January 1, 2013, the employer match vests immediately. The 401(k) plan also allows for annual discretionary profit sharing contributions, which historically have been 2% of earnings, subject to limits under the Code. Any profit sharing contributions are immediately vested.

**Nonqualified Deferred Compensation Arrangements.** We permit our NEOs to defer on an elective basis a specified portion of their base salaries and performance-based bonus compensation, if any. See the narrative description following the table entitled "Nonqualified Deferred Compensation" below for more information surrounding the terms of the nonqualified deferred compensation plan.

**Health and Welfare Benefits.** We also offer a package of insurance benefits to all salaried employees, including our NEOs, including health, vision and dental insurance, basic life insurance, accidental death and dismemberment insurance and short- and long-term disability insurance.

**Limited Executive Perquisites.** All of our NEOs are eligible to participate in the Executive Life Insurance Plan. Under this plan, the beneficiary of a participant who dies while employed by us is entitled to a lump sum payment equal to three times his annual base salary at the time of hire. Our NEOs are also offered executive physicals at our cost once biannually. The value of these executive perquisites is reflected in the "All Other Compensation" column of the Summary Compensation Table below.

We maintain no defined benefit pension plans or retiree medical plans.

#### Employment Agreements

We believe that having employment agreements with our NEOs is beneficial to us because they provide retentive value, subject the executives to key restrictive covenants, and generally provides us with a competitive advantage in the recruiting process over companies that do not offer employment agreements. In October 2014, we entered into an employment agreement with Mr. Littlefield, and, in connection with Mr. Littlefield's assumption of the role of Chief Executive Officer, we amended and restated his employment agreement in May 2015. In November 2013, we entered into amended and restated employment agreements with Messrs. Krishnan and O'Shaughnessy, and a new employment agreement with Mr. Marhoun. In January 2014, we entered into an employment agreement with Mr. Vigneau. These employment agreements include the specific terms set forth in greater detail below in "-Narrative to Summary Compensation Table and Grants of Plan-Based Awards Table."

### Stock Ownership Guidelines

During Fiscal 2014, the compensation committee approved stock ownership guidelines that require certain of our executive officers to acquire and retain a minimum number of shares of our common stock. The purpose of the guidelines is to align the interests of the executive officers with the interests of our stockholders and to promote our commitment to sound corporate governance. Under the guidelines, executive officers have three years to accumulate the minimum holding amount, which is a multiple of base salary, as follows:

Participant	Multiple of Base Salary
Chief Executive Officer	4x
President	2x
Executive Vice President	2x
Chief Actuary	1x
Chief Distribution Officer	1x
Chief Financial Officer	1x
Chief Risk Officer	1x

Participants are required to maintain the minimum holding amount so long as they serve in an executive position covered by the guidelines. Shares of common stock that count toward the minimum holding amount include:

- shares owned outright by the participant or his or her immediate family members residing in the same household,
- shares of restricted stock, whether vested or not,
- shares earned as part of a Performance RSU under a plan that pays out in shares,
- shares acquired upon option exercises, and
- other shares granted under the Omnibus Plan or similar equity award plan.

The compensation committee may, in its discretion, amend, waive or suspend the guidelines to take into account changes in our common stock, our compensation philosophy, or other factors it deems relevant.

### Impact of Tax Considerations

With respect to taxes, Section 162(m) imposes a \$1 million limit on the deduction that a company may claim in any tax year with respect to compensation paid to any Covered Employee, unless certain conditions are satisfied. Certain types of performance-based compensation are generally exempted from the \$1 million limit. Performance-based compensation can include income from stock options, performance-based restricted stock, and certain formula-driven compensation that meets the requirements of Section 162(m). One of the factors that we may consider in structuring the compensation for our NEOs is the deductibility of such compensation under Section 162(m), to the extent applicable. However, this is not the driving or most influential factor. Our compensation committee may approve non-deductible compensation arrangements after taking into account several factors, including our ability to utilize deductions based on projected taxable income, and specifically reserves the right to do so.

### Relationship of Compensation Policies and Practices to Risk Management

The company believes that its compensation policies and practices are designed to promote a strong risk management culture. We have reviewed the Company's compensation programs, policies and practices for employees and have determined that those programs, policies and practices do not encourage excessive risk taking and are not reasonably likely to have a material adverse effect on the Company.

Summary Compensation Table

Name	Year	Salary (\$)	Bonus \$(1)	Stock Awards \$(2)(3)	Option Awards \$(2)	Non-Equity Incentive Plan Compensation \$(4)	Change in Pension	All Other Compensation (\$)	Total (\$)
							Value and Nonqualified Deferred Compensation Earnings (\$)		
Christopher J. Littlefield President, Chief Executive Officer and Director	2017	800,000	0	2,771,145	119,998	1,121,600	0	23,801	4,836,544
	2016	800,000	0	679,955	119,997	1,200,000	0	20,776	2,820,728
	2015	612,692	0	1,744,460	146,873	850,000	0	22,624	3,376,649
Rajesh Krishnan Executive Vice President and Chief Investment Officer	2017	350,000	58,333	1,626,484	0	428,000	0	19,848	2,482,664
	2016	350,000	0	0	0	262,500	0	20,273	632,773
	2015	350,000	0	148,772	26,255	210,000	0	26,354	761,381
Eric L. Marhoun Executive Vice President, General Counsel and Secretary	2017	350,000	58,333	1,161,798	0	210,175	0	26,197	1,806,503
	2016	350,000	0	0	0	215,338	0	30,646	595,984
	2015	350,000	0	148,772	26,255	200,000	0	56,410	781,437
Dennis R. Vigneau Executive Vice President and Chief Financial Officer	2017	440,000	73,333	1,626,484	0	500,000	0	24,508	2,664,325
	2016	440,000	0	0	0	330,000	0	24,838	794,838
	2015	429,539	0	136,014	24,006	300,000	0	21,592	911,150
John O'Shaughnessy Senior Vice President, Business Development(5)	2017	325,000	43,333	1,161,798	0	162,630	0	23,877	1,716,638
	2016	325,000	0	0	0	174,265	0	22,820	522,085
	2015	325,000	0	110,497	19,508	175,000	0	28,261	658,266

(1) Represents cash awards paid in December 2016 equal to one third of target long term incentive awards granted in 2015.

Represents the grant date fair value computed in accordance with Financial Accounting Standards Board

(2) Accounting Standards Clarification ("FASB ASC") Topic 718. Information on the assumptions used to calculate the value of awards is set forth in Note 10 to the consolidated financial statements in this Form 10-K, which is incorporated by reference herein.

Represents Performance RSUs granted to Mr. Littlefield in Fiscal 2015 and to all NEOs in Fiscal 2017 and restricted stock granted to all NEOs in Fiscal 2015 and to Mr. Littlefield in Fiscal 2016 and Fiscal 2017. For the Performance RSUs granted in Fiscal 2017, if the highest achievement level against target were attained, the amounts reported for Messrs. Littlefield, Krishnan, Marhoun, Vigneau and O'Shaughnessy would have increased by (3) \$2,091,128, \$1,626,451, \$1,161,774, \$1,626,451 and \$1,161,774, respectively. For the Performance RSUs granted to Mr. Littlefield in Fiscal 2015, if the highest achievement level against target were attained, the amount reported for Mr. Littlefield for Fiscal 2015 would have increased by \$675,000. For more detail about the potential payouts of the Performance RSUs, see the discussion within "Compensation Discussion and Analysis" under the heading "Performance RSUs."

(4) Represents amounts paid out under the 162(m) Plan for all of our NEOs, except for Mr. Vigneau, and the amounts paid out for Mr. Vigneau under the EICP.

(5) Mr. O'Shaughnessy was our Senior Vice President and Chief Actuary during Fiscal 2015 and 2016. On October 1, 2016, he was appointed to the position of Senior Vice President, Business Development.

Grants of Plan-Based Awards

The following table sets forth information concerning estimated possible payouts under non-equity and equity incentive plan awards granted in Fiscal 2017 to our NEOs. The terms and conditions applicable to these awards are described above in “Compensation Discussion and Analysis.”

Name	Grant Date	Estimated Future Payouts under Non-Equity Incentive Plan Awards	Estimated Future Payouts under Equity Incentive Plan Awards	Estimated All Other Stock Awards: Number of Shares of Stock or Units	All Other Exercise Option or Award Base Price of Option Awards (\$/Sh)	Grant Date	Fair Value of Stock and Option Awards (\$)
Christopher J. Littlefield	12/1/2016(1)	—	—	29,121	—	—	679,975
	12/1/2016(2)	—	—	—	—	46,692	257,119,998
	12/23/2016(3)	600,000	1,800,000	—	—	—	—
Rajesh Krishnan	04/07/2017(4)	—	527,543	501,260	—	—	2,091,170
	12/23/2016(3)	262,500	7,500	—	—	—	—
	04/07/2017(4)	—	415,872	47,648	—	—	1,626,484
Eric L. Marhoun	12/23/2016(3)	132,500	3,750	—	—	—	—
	04/07/2017(4)	—	294,104	4,036	—	—	1,161,798
Dennis R. Vigneau	12/23/2016(3)	132,500	6,000	—	—	—	—
	04/07/2017(4)	—	415,872	47,648	—	—	1,626,484
John P. O’Shaughnessy	12/23/2016(3)	97,500	2,500	—	—	—	—
	04/07/2017(4)	—	294,104	4,036	—	—	1,161,798

- (1) Represents restricted stock granted to Mr. Littlefield under our Omnibus Plan, which vests in three equal annual installments on December 1, 2017, 2018 and 2019, subject to continued employment through such date.
- (2) Represents non-qualified stock options granted to Mr. Littlefield under our Omnibus Plan, which vests in three equal annual installments on December 1, 2017, 2018 and 2019.
- (3) Represents a possible Fiscal 2017 payment under our 162(m) Plan or EICP.
- (4) Represents a grant of Performance RSUs that vest upon a change in control or on September 30, 2019.

Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table  
 Merger Agreement

As described in Item 1, “Overview - Our Company,” on May 24, 2017, we entered into a Merger Agreement by and among CF Corp., Parent and Merger Sub. Subject to the terms and conditions of the Merger Agreement, at the effective time of the Merger, Merger Sub will merge with and into the Company, with the Company continuing as the surviving entity, which will become an indirect, wholly owned subsidiary of CF Corp.

At the effective time of the Merger, each (i) stock option, (ii) restricted stock and (iii) Performance RSU, in each case whether vested or unvested, will become fully vested and automatically converted into the right to receive a cash payment equal to the product of (1) the number of shares subject to the award (for Performance RSUs, determined at the target performance level, as adjusted for actual number of shares earned) multiplied by (2) the Merger Consideration (less the exercise price per share in the case of Company Stock Options). In addition, at the effective time of the Merger, each FGLH stock option and restricted stock unit relating to shares of FGLH, whether vested or

unvested, will become fully vested and automatically converted into the right to receive a cash payment equal to the product of (A) the number of shares of FGLH stock subject to the award multiplied by (B) \$176.32 (less the exercise price in the case of such FGLH Stock Options), and each DER held in respect of a share of FGLH



stock, whether vested or unvested, will become fully vested and automatically converted into the right to receive a cash payment equal to the amount accrued with respect to such DER.

117

---

Employment Agreements with Named Executive Officers

Employment Agreement with Christopher J. Littlefield

On May 6, 2015, we entered into an amended and restated employment agreement with Mr. Littlefield, which is referred to herein as the “amended employment agreement.” The amended employment agreement provides for a term through September 30, 2016, subject to automatic renewal each year for an additional one-year period unless either party provides prior written notice of non-renewal. Pursuant to the amended employment agreement, Mr. Littlefield’s annual base salary was increased from \$500,000 to \$800,000. For Fiscal 2016, Mr. Littlefield was eligible for a target bonus opportunity of \$625,000, and each year thereafter will be eligible for a target bonus opportunity of 100% of his base salary, although actual bonus levels may be more or less than the target based on company and individual performance. On May 11, 2015, pursuant to the terms of the amended employment agreement, Mr. Littlefield received equity grants of 27,033 shares of restricted stock and 24,084 stock options, each of which will vest in equal annual installments on the first three anniversaries of February 1, 2015. Pursuant to the terms of the amended employment agreement, on December 1, 2015, the Company granted to Mr. Littlefield restricted stock with a grant date fair market value of \$680,000 and stock options with a grant date fair market value of \$120,000. In annual grant cycles following December 1, 2015, Mr. Littlefield will be eligible for an equity award target grant opportunity equal to 100% of his base salary, although actual grant levels may be more or less than the target based on company and individual performance. The December 1, 2015 grant will vest in equal installments over the first three anniversaries of the date of grant.

Under the amended employment agreement, we may terminate Mr. Littlefield’s employment at any time for “cause” and with two weeks’ written notice without “cause.” Mr. Littlefield may terminate his employment with 60 days written notice. Upon a termination by the Company for “cause” or by Mr. Littlefield without “good reason,” Mr. Littlefield will be entitled to salary, accrued vacation time and any earned and unpaid bonuses through the termination date (the “Accrued Obligations”). Upon a termination by the Company other than for “cause” or by Mr. Littlefield with “good reason” other than six months prior to or 18 months following a “change in control” (as defined in the Omnibus Plan), Mr. Littlefield will be entitled to receive: (i) the Accrued Obligations; (ii) a pro-rated portion of his target annual cash bonus for the year of termination, based on the number of days elapsed in the performance period prior to the date of termination and payable in a lump sum by January 31 of the year following the year of termination; and (iii) continued base salary and target bonus for twelve months.

Mr. Littlefield’s amended employment agreement provides that if, within six months prior to or 18 months following a change in control, he is terminated for “cause” or resigns with “good reason,” then he will be eligible to receive: (i) the Accrued Obligations; (ii) a pro-rated portion of his target annual cash bonus for the year of termination, based on the number of days elapsed in the performance period prior to the date of termination and payable in a lump sum by January 31 of the year following the year of termination; and (iii) an amount equal to the sum of two times his annual base salary and two times his target annual cash bonus, payable over 12 months following the date of termination.

Mr. Littlefield’s amended employment agreement further provides that if payments made to him, whether under his employment agreement or otherwise, would be subject to the excise tax imposed on “parachute payments” in accordance with Section 280G of the Code, then those payments will be reduced to the extent necessary such that no portion of the payments is subject to the excise tax, but only if the net amount of such payments, as so reduced, is greater than or equal to the net amount of such payments without such reduction.

Mr. Littlefield’s amended employment agreement generally defines “good reason” as (i) a material diminution in title, responsibilities or authorities; (ii) an assignment of duties that are materially inconsistent with his duties as the President and Chief Executive Officer of the Company; (iii) any change in the reporting structure such that he no longer reports to the Company’s Board; (iv) a relocation of his principal office or principal place of employment to a location that is outside the Des Moines, Iowa area; (v) a breach by the Company of any material terms of the employment agreement; (vi) the Company’s non-renewal of the employment agreement; or (vii) the failure of the Company to obtain the assumption (in writing or by operation of law) of its obligations under the employment agreement by any successor to all or substantially all of its business or assets upon consummation of any merger, consolidation, sale, liquidation, dissolution or similar transaction.

Mr. Littlefield’s amended employment agreement generally defines “cause” as (i) his conviction of, indictment for, or entering a plea of nolo contendere to, any felony or any other act involving fraud, theft,



misappropriation, dishonesty, or embezzlement; (ii) his commission of intentional and willful acts of misconduct that materially impair the goodwill or business of the Company or causing material damage to its or their property, goodwill, or business; (iii) his willful refusal to, or willful failure to, perform in any material respect the duties under the employment agreement; or (iv) his being barred or prohibited from serving in the insurance industry or serving as an officer of the Company.

Following any termination of employment, Mr. Littlefield will be subject to a 12-month non-solicitation covenant related to clients and independent marketing organizations of the Company; a 12-month non-competition covenant; and an 18-month non-solicitation of employees covenant.

Employment Agreements with Messrs. Krishnan, O'Shaughnessy, Marhoun and Vigneau

In November 2013, we entered into an amended and restated employment agreement with each of Messrs. Krishnan and O'Shaughnessy. In addition, in November 2013, we entered into a new employment agreement with Mr. Marhoun. In January 2014, we entered into a new employment agreement with Mr. Vigneau. Entry into the amended and restated and new employment agreements was approved by our compensation committee in November 2013. Mr. Vigneau's employment agreement was approved by our compensation committee in January 2014. The amended and restated employment agreements with each of Messrs. Krishnan and O'Shaughnessy and the new employment agreements with Messrs. Vigneau and Marhoun are referred to herein together as the "employment agreements."

The employment agreements do not have a fixed term and provide for compensation and benefits at our sole discretion. Under the employment agreements, we may terminate the executive's employment for "cause" at any time. Either we or the executive may terminate the executive's employment (other than in cases of cause, death or disability) by giving the other party three months' written notice. In the event that either party provides notice, for the duration of the three-month notice period, the executive will continue to receive the base salary that he received immediately prior to the notice and will continue to be eligible for benefits. Except as provided below, the executive will not be eligible for any bonus (either in full or pro rata) otherwise payable after the date on which notice is given, nor be eligible for any benefits after the termination date. Upon a termination of employment, the executive will have the right to elect continuation coverage under the Consolidated Omnibus Budget Reconciliation Act ("COBRA") at his expense. Under any termination, the executive will be entitled to salary, accrued and unused vacation time and accrued benefits through the termination date. Upon a termination by us other than for "cause," provided the executive signs and delivers, and does not revoke, a general release in a form acceptable to us, the executive will be entitled to receive the following severance benefits in a lump sum following the expiration of any revocation period in the release agreement: (i) severance payment equal to two weeks of base salary for every year of employment (counting service to the predecessor entity and its affiliates), subject to a minimum payment of, for Messrs. Vigneau, Krishnan, Marhoun and O'Shaughnessy, 26 weeks' and a maximum payment of 52 weeks' base salary; and (ii) if the executive properly elects COBRA coverage, we will make payments to the insurance provider equal to the amount due for the executive's COBRA coverage payments for a period of time equal to the number of weeks of severance payments (or, if sooner, until the executive is eligible to receive health benefits under another medical plan).

Upon a termination for disability, the executive will receive a pro rata bonus for the period when the executive was performing his or her regular duties on a full-time basis. Upon the executive's death, the executive's estate shall be eligible to receive the executive's bonus, if any, for the period up through the executive's death (and in the event the executive's death is prior to the end of a compensation year, the bonus will be prorated).

The employment agreements generally define "cause" as (i) the executive's breach of his obligations under the employment agreement; (ii) the executive's failure to perform duties assigned to him in a manner satisfactory to the Company; (iii) the executive's engagement in acts of dishonesty or moral turpitude, or any unlawful conduct; or (iv) the executive's engagement in conduct that is likely to affect adversely the Company's business or reputation.

Under the employment agreements, during the executive's employment and for 18 months following any termination of employment, the executive is subject to a non-solicitation covenant related to clients and employees.

In addition, during employment and for six months following any termination of employment, each executive is subject to a non-competition restrictive covenant under the employment agreements.

Outstanding Equity Awards at Fiscal Year-End

In connection with our initial public offering completed in December 2013, we adopted the Omnibus Plan and began sponsorship of various other benefit plans and compensation arrangements for our executive officers. Prior to November 2013, our wholly-owned subsidiary, FGLH, sponsored the employee benefit plans and compensation arrangements for our executives under the direction of FGLH's board of directors and compensation committee. The following table sets forth the outstanding Omnibus Plan equity awards held by our NEOs at the end of Fiscal 2017.

Name	Option Awards				Stock Awards			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Shares, Units or Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Rights That Have Not Vested (\$)
Christopher J. Littlefield	5,882(1)	2,941(1)	24.87	12/1/2021	3,418(2)	106,129	75,630(3)	2,348,312
	16,056(4)	8,028(4)	20.88	5/11/2022	9,011(4)	279,792	—	—
	39,603	79,206(5)	25.75	12/1/2022	17,604(5)	546,604	—	—
	—	46,692(6)	23.35	12/1/2023	29,121(6)	904,207	—	—
Rajesh Krishnan	14,142(7)	—	17.00	12/12/2020	—	—	58,824(3)	1,826,485
	3,432(1)	1,716(1)	24.87	12/1/2021	1,994(2)	61,914	—	—
Eric L. Marhoun	7,956(7)	—	17.00	12/12/2020	—	—	42,018(3)	1,304,659
	3,432(1)	1,716(1)	24.87	12/1/2021	1,994(2)	61,914	—	—
Dennis R. Vigneau	3,138(1)	1,569(1)	24.87	12/1/2021	1,823(2)	56,604	58,824(3)	1,826,485
John P. O'Shaughnessy	5,910(7)	—	17.00	12/12/2020	—	—	42,018(3)	1,304,659
	2,550(1)	1,275(1)	24.87	12/1/2021	1,481(2)	45,985	—	—

(1) Represents non-qualified stock options granted under our Omnibus Plan, which vest in three equal annual installments on December 1, 2015, 2016 and 2017.

(2) Represents restricted stock awards granted under our Omnibus Plan, which vest in three equal annual installments on December 1, 2015, 2016 and 2017.

(3) Represents a grant of Performance RSUs that vest upon a change in control or September 30, 2019.

(4) Represents a grant of non-qualified stock options and restricted stock under our Omnibus Plan to Mr. Littlefield, which vest in equal installments on February 1, 2016, 2017 and 2018.

(5) Represents a grant of stock options and restricted stock under our Omnibus Plan to Mr. Littlefield, which vest in equal installments on December 1, 2016, 2017 and 2018.

(6)

Edgar Filing: Fidelity & Guaranty Life - Form 10-K

Represents a grant of non-qualified stock options and restricted stock granted under our Omnibus Plan to Mr. Littlefield, which vest in three equal annual installments on December 1, 2017, 2018 and 2019.

- (7) Represents non qualified stock options granted under our Omnibus Plan, which vest in three equal annual installments on December 12, 2014, 2015 and 2016.

The following table sets forth the outstanding FGLH legacy plan awards held by our NEOs at the end of Fiscal 2017. Such awards now all settle in cash.

FGLH Option Awards

Name	Number of Securities Underlying Exercisable Options (#)	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date
Christopher J. Littlefield	—	—	—	—
Rajesh Krishnan	(1) 2,565	—	49.45	12/31/2019
Eric L. Marhoun	(2) 5,000	—	38.14	11/2/2018
Dennis R. Vigneau	(1) 5,000	—	49.45	12/31/2019
John P. O'Shaughnessy	(1) 2,110	—	49.45	12/31/2019

(1) Represents options in respect of shares of Class B common stock of FGLH granted on January 29, 2013, which vested in three equal annual installments on December 31, 2013, 2014 and 2015.

(2) Represents options in respect of shares of Class A common stock of FGLH granted on November 2, 2011, which vested in three equal annual installments on November 2, 2012, 2013 and 2014.

Option Exercises and Stock Vested

Our NEOs did not exercise any stock options in Fiscal 2017. The stock award vesting events that occurred in Fiscal 2017 are shown in the table below:

Name	FGL Stock Awards	
	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Christopher J. Littlefield	9,011	213,110
	3,418	79,810
	8,802	205,527
Rajesh Krishnan	1,994	46,560
	2,917	70,008
Eric L. Marhoun	1,994	46,560
	2,917	70,008
Dennis R. Vigneau	1,823	42,567
John P. O'Shaughnessy	1,481	34,581
	2,167	52,008

None of the outstanding FGLH option awards previously granted under the FGLH legacy plans were exercised in Fiscal 2017.





## Pension Benefits

We do not provide any defined benefit plans to our NEOs.

## Nonqualified Deferred Compensation

The following table provides information concerning the nonqualified deferred compensation of each of the participating NEOs in the Executive Nonqualified Deferred Compensation Plan of Fidelity & Guaranty Life Holdings, Inc. (the "Deferred Compensation Plan") as of September 30, 2017.

Name	Aggregate Balance at Executive Beginning of Last Fiscal Year (\$)	Contributions in Last Fiscal Year \$(1)	Registrant Contributions in Last Fiscal Year \$(2)	Aggregate Earnings in Last Fiscal Year \$(3)	Aggregate Withdrawals/ Distributions (\$)	Aggregate Balance at Last Fiscal Year End \$(4)
Christopher J. Littlefield	—	—	—	—	—	—
Rajesh Krishnan	408,140	395,524	—	66,117	—	869,781
Eric L. Marhoun	223,342	157,342	—	33,200	—	413,884
Dennis R. Vigneau	—	325,769	—	33,596	—	359,366
John P. O'Shaughnessy	170,103	32,640	—	38,337	—	241,080

(1) Amounts reported in this column are included in the Summary Compensation Table in the "Salary" and "Non-Equity Incentive Plan Compensation" columns for Fiscal 2017.

(2) Contributions have not been made by the Company after Fiscal 2013.

(3) Amounts reported in this column are not reported as compensation in the Summary Compensation Table.

(4) Amounts reported in this column were not reported as compensation in the Summary Compensation tables for previous years.

The Deferred Compensation Plan permits our participating NEOs and certain other employees to elect to defer up to 50% of their base salary and up to 100% of any performance-based non-equity incentive plan compensation. Any deferral elections are made under the Deferred Compensation Plan pursuant to a participation agreement with the NEO. We have eliminated the annual discretionary grant to each active participating NEO effective January 2013. Past employer contributions vest 20% for each year of service and are fully vested after five years of service. Deferred amounts and employer contributions are contributed to individual accounts in the FGLH Executive Deferred Compensation Plan Trust. The participants self-direct the notional investment of deferred contribution accounts in investment funds from a selection made available by our retirement committee.

The vested balance of the deferred compensation accounts will be distributed to each participating NEO upon his or her death, disability or separation from service (including retirement). Participants may elect upon initial enrollment to have accounts distributed upon a change in control event, although none of our NEOs have so elected. In-service hardship and education account withdrawals are permitted under the plan with respect to participant deferrals and employer credits.

## Potential Payments upon Termination or Change in Control

## Merger Agreement

If and when effective, the Merger contemplated by the Merger Agreement will constitute a "change in control" under various agreements between us and our NEOs. For a description of the effect of the Merger Agreement on our outstanding stock options, restricted stock, Performance RSUs, FGLH stock options and DERs, see "Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table - Merger Agreement."

## Effect of Termination or Change in Control under the Employment Agreements

For a description of the potential payments upon a termination pursuant to the employment agreements with our NEOs, see "Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table-Employment Agreements with Named Executive Officers."



#### Effect of Termination or Change in Control on Company Options

**Termination of Employment.** Under the grant agreements, upon termination of employment for any reason other than for “cause” (as defined in the grant agreements), non-vested options are forfeited, and vested options remain exercisable for up to 30 days. Upon termination of employment for cause, all unexercised options, whether vested or non vested, are forfeited.

**Change in Control.** Upon a proposed “change in control” (as defined in the Omnibus Plan), the plan provides that the compensation committee shall take such action as it deems appropriate and equitable to effectuate the purposes of the plan and to protect participants, which action may include, without limitation, any one or more of the following to the extent permitted by Section 409A of the Code: (i) acceleration of vesting; (ii) acceleration or change of the exercise and/or expiration dates of any award to require that settlement be made, if at all, prior to the change in control; (iii) cancellation of any award upon payment to the holder in cash of the fair market value of the stock subject to such award as of the date of (and, to the extent applicable, as established for purposes of) the change in control, less the aggregate exercise price, if any, of the award; and (iv) in any case where equity securities of another entity are proposed to be delivered in exchange for or with respect to stock of the Company, arrangements to have such other entity replace the awards granted under the Omnibus Plan with awards with respect to such other securities, with appropriate adjustments in the number of shares subject to, and the exercise prices under, the award.

The grant agreements provide that no cancellation, acceleration, vesting, lapse of restrictions or other payments shall occur in connection with a change in control if the compensation committee determines that the options will be honored or assumed, or materially similar (or more favorable) new awards will be granted, in connection with the change in control. If the compensation committee determines that the options will not be honored or assumed, and materially similar (or more favorable) awards will not be granted, in connection with the change in control, then the outstanding nonvested options shall vest, and all outstanding options shall remain exercisable for 30 days following the change in control, unless the compensation committee decides to cash out the options (based on the current spread) or take other actions permitted by the plan (as described above). If an amount payable would result in imposition of the excise tax under Section 4999 of the Code, then the payment shall be reduced in order to provide the maximum after-tax benefit to the grantee.

#### Effect of Termination or Change in Control on Company Restricted Stock

**Termination of Employment.** Under the grant agreements, upon termination of employment for any reason, nonvested restricted stock is forfeited.

**Change in Control.** Upon a proposed “change in control” (as defined in the Omnibus Plan), the plan provides that the compensation committee shall take such action as it deems appropriate and equitable to effectuate the purposes of the plan and to protect participants, which action may include, without limitation, any one or more of the following to the extent permitted by Section 409A of the Code: (i) acceleration of vesting; (ii) acceleration or change of the exercise and/or expiration dates of any award to require that settlement be made, if at all, prior to the change in control; (iii) cancellation of any award upon payment to the holder in cash of the fair market value of the stock subject to such award as of the date of (and, to the extent applicable, as established for purposes of) the change in control, less the aggregate exercise price, if any, of the award; and (iv) in any case where equity securities of another entity are proposed to be delivered in exchange for or with respect to stock of the Company, arrangements to have such other entity replace the awards granted under the Omnibus Plan with awards with respect to such other securities, with appropriate adjustments in the number of shares subject to, and the exercise prices under, the award.

The grant agreements provide that no acceleration of vesting shall occur in connection with a change in control if the compensation committee determines that the restricted stock agreements will be honored or assumed, or materially similar (or more favorable) new awards will be granted, in connection with the change in control. If the compensation committee determines that the restricted stock agreements will not be honored or assumed, and materially similar (or more favorable) awards will not be granted in connection with the change in control, then the outstanding restricted stock shall vest. If an amount payable would result in imposition of the excise tax under Section 4999 of the Code, then the payment shall be reduced in order to provide the maximum after-tax benefit to the grantee.

#### Effect of Termination or Change in Control on Nonqualified Deferred Compensation

For any participating NEO in our deferred compensation plan, the vested balance of the deferred compensation accounts will be distributed upon death, disability or separation from service, and, if elected upon initial enrollment, upon a change-in-control event. None of our participating NEOs have elected to have vested account balances distributed upon a change-in-control event without a separation from service. For more information on our nonqualified deferred compensation plan, see the narrative description entitled “Nonqualified Deferred Compensation.”

#### 2015 Severance Plan

On June 16, 2015, the compensation committee authorized amendments to the Company’s severance benefit policies, including the adoption of the Severance Plan. Under the terms of the Severance Plan, Messrs. Krishnan, Marhoun, Vigneau and O’Shaughnessy are eligible to receive severance payments and benefits if, within 12 months following a change in control, (a) the NEO is terminated without “cause” or (b) the NEO’s position is eliminated, the NEO is not offered “comparable employment” and the NEO voluntarily terminates employment as a result. Upon such a qualifying termination of employment, the NEO will generally be eligible to receive: (i) a lump sum payment equal to the sum of (x) 52 weeks of the NEO’s base salary, (y) the NEO’s target annual cash bonus and (z) a pro-rated portion of the NEO’s target annual cash bonus for the year of termination, based on the number of days elapsed in the performance period prior to the date of termination, generally payable in a lump sum within approximately four weeks after the NEO returns a release of claims to the Company; and (ii) subsidized health and medical insurance coverage under COBRA for 52 weeks following the date of termination.

The Severance Plan provides that if payments made to Messrs. Krishnan, Marhoun, Vigneau and O’Shaughnessy, whether under the Severance Plan or otherwise, would be subject to the excise tax imposed on “parachute payments” in accordance with Section 280G of the Code, then those payments will be reduced to the extent necessary such that no portion of the payments is subject to the excise tax, but only if the net amount of such payments, as so reduced, is greater than or equal to the net amount of such payments without such reduction.

For purposes of the Severance Plan, “cause” has the meaning set forth in the individual NEO’s employment agreement with the Company, under which cause generally means: (i) breach of the executive officer’s obligations under his or her employment agreement; (ii) failure to perform duties in a manner satisfactory to the Company, subject to the obligation of the Company to provide the executive officer with prior notice providing reasonable detail of the bases for the unsatisfactory performance and an opportunity to correct the performance deficiencies; (iii) engaging in acts of dishonesty or moral turpitude, or any unlawful conduct; or (iv) engaging in conduct that is likely to affect adversely the business and or reputation of the Company.

For purposes of the Severance Plan, “comparable employment” generally means: (i) a reduction in base salary by of more than fifteen percent; (ii) a reduction in target annual bonus of more than fifteen percent; and (iii) a relocation of primary worksite, which is more than 50 miles from the primary worksite at the time of the change in control.

Mr. Littlefield is not eligible to participate in the Severance Plan and any payments or benefits that may be provided to him upon a termination of employment will be determined solely in accordance with the terms of his employment agreement, which is discussed above, under “Employment Agreements with Named Executive Officers - Employment Agreement with Christopher J. Littlefield.”

#### 2017 Incentive Awards, Transaction Incentive Awards and Retention Awards

For a description of the effect of a termination or change in control under the 2017 incentive awards, transaction incentive awards and retention awards granted to our NEOs, see “Compensation Discussion and Analysis 2017 Incentive Awards, Transaction Incentive Awards and Retention Awards.”

Potential Payments Table

The following table sets forth the estimated amount of compensation each of our NEOs would receive under the termination or change in control provisions contained in the agreements and plans discussed above. The table assumes that such termination or change in control event occurred on September 30, 2017. The table excludes (i) amounts accrued through the termination date that would be paid in the normal course of continued employment, such as accrued but unpaid salary, (ii) vested account balances under our 401(k) plan that are generally available to all of our employees and (iii) except as indicated in the footnotes below, any post-employment benefit that is available to all of our employees and does not discriminate in favor of our NEOs. In the case of a change in control situation, we assume that the vesting of all options and restricted stock will be accelerated, even though our compensation committee has the discretion to provide for alternative treatment of the awards upon a change in control.

Name	Termination Trigger	Severance (Salary) (1)	Severance (Bonus) (2)	Equity Vesting (3)	Nonqualified Deferred Compensation (4)	Transaction Incentive Award (5)	Retention Award (6)	2017 Incentive Award (7)	Other Benefits (8)	Total (8)
Christopher J. Littlefield	Involuntary termination w/o cause (10)	\$800,000	\$1,200,000	2,757,848	—	—	—	—	49,505	4,807,352
	Voluntary termination	—	—	409,536	—	—	—	—	21,138	430,675
	Retirement (9)(10)	—	—	—	—	—	—	—	—	—
	Death (9)	—	1,200,000	782,771	—	—	—	—	21,138	2,003,909
	Disability (9)	—	1,200,000	782,771	—	—	—	—	21,138	2,003,909
	Change in control (11)	1,600,000	2,400,000	5,473,720	—	800,000	—	—	63,688	10,337,407
Rajesh Krishnan	Involuntary termination w/o cause	175,000	—	2,347,418	869,781	—	350,000	291,667	9,475	4,043,341
	Voluntary termination	—	—	520,933	869,781	—	—	—	229	1,390,943
	Retirement (9)(10)	—	—	—	—	—	—	—	—	—
	Death (9)	—	525,000	608,828	869,781	—	—	—	—	2,003,609
	Disability (9)	—	525,000	608,828	869,781	—	—	—	229	2,003,838
	Change in control (11)	350,000	1,050,000	2,419,937	—	100,000	—	—	18,721	3,938,658
Eric L. Marhoun	Involuntary termination w/o cause	175,000	—	2,667,800	413,884	—	350,000	291,667	23,297	3,921,649
	Voluntary termination	—	—	1,363,142	413,884	—	—	—	10,675	1,787,701
	Retirement (9)(10)	—	—	—	—	—	—	—	—	—
	Death (9)	—	262,500	434,886	413,884	—	—	—	—	1,111,270
	Disability (9)	—	262,500	434,886	413,884	—	—	—	10,675	1,121,945
	Change in control (11)	350,000	525,000	2,740,319	—	110,000	—	—	35,919	3,761,238
Dennis R. Vigneau	Involuntary termination w/o cause	220,000	—	1,845,878	359,366	—	440,000	366,667	36,640	3,268,551

Edgar Filing: Fidelity & Guaranty Life - Form 10-K

	Voluntary termination	—	—	19,393	359,366	—	—	—	24,758	403,517
	Retirement <sup>(9)(10)</sup>	—	—	—	—	—	—	—	—	—
	Death <sup>(9)</sup>	—	264,000	608,828	359,366	—	—	—	—	1,232,194
	Disability <sup>(9)</sup>	—	264,000	608,828	359,366	—	—	—	24,758	1,256,952
	Change in control <sup>(11)</sup>	440,000	528,000	1,912,179	—	300,000	—	—	48,522	3,228,701
	Involuntary termination w/o cause	162,500	—	1,651,083	241,080	—	325,000	216,667	21,221	2,617,550
	Voluntary termination	—	—	346,424	241,080	—	—	—	7,038	594,541
John P. O'Shaughnessy	Retirement <sup>(9)(10)</sup>	—	—	—	—	—	—	—	—	—
	Death <sup>(9)</sup>	—	195,000	434,886	241,080	—	—	—	—	870,966
	Disability <sup>(9)</sup>	—	195,000	434,886	241,080	—	—	—	7,038	878,004
	Change in control <sup>(11)</sup>	325,000	390,000	1,704,948	—	165,000	—	—	35,404	2,620,352

(1) Under the terms of the employment agreements and severance plan, severance pays out in a lump sum. Amounts payable in this column may be subject to the NEO executing and not revoking a release of claims against the Company. See "Narrative to Summary Compensation Table and Grants of Plan-Based Awards Table-Employment Agreements with Named Executive Officers."

(2) Amounts in this column include, if provided in an employment agreement with the NEO, a pro rata bonus for the year of termination upon certain types of terminations.

(3) For certain qualifying terminations and a change-in-control event, (i) the value of stock options is calculated by multiplying the number of vested options (including any unvested options that would accelerate on a qualifying termination or change-in-control event) by the excess of the fair market value of the underlying common stock on September 30, 2017 over the applicable exercise price per share and (ii) the value of restricted stock and Performance RSUs is calculated based on the fair market value of the underlying common stock on September 30, 2017. On September 30, 2017, the fair market value of a share of our common stock was \$31.05 and the fair market value of a share of FGLH common stock was \$166.81. The following table details the valuations of the outstanding unvested equity awards determined using the fair market value of the applicable stock on September 30, 2017 for qualifying terminations and/or a change in control event, assuming the accelerated vesting of all unvested awards:

Name	Company Stock Options	Company Restricted Stock Awards	Company Performance Restricted Stock Units
Christopher J. Littlefield	879,140	1,836,732	2,348,312
Rajesh Krishnan	10,605	61,914	1,826,485
Eric L. Marhoun	10,605	61,914	1,304,659
Dennis R. Vigneau	9,696	56,604	1,826,485
John O'Shaughnessy	7,880	45,985	1,304,659

(4) For any participating NEO, the vested balance of the deferred compensation accounts will be distributed upon death, disability or separation from service.

(5) Represents the amount of the transaction incentive award payable to the NEO. See "Compensation Discussion and Analysis-Elements of Our Executive Compensation Program-Transaction Incentive Awards."

(6) Represents the amount of the retention award payable to the NEO. See "Compensation Discussion and Analysis-Elements of Our Executive Compensation Program-Retention Awards."

(7) Represents the amount of the 2017 Incentive Awards payable to the NEO. See "Compensation Discussion and Analysis-Elements of Our Executive Compensation Program-2017 Incentive Awards."

(8) Amounts include any accrued vacation as of September 30, 2017, which would be paid out upon a termination. For Messrs. Krishnan, and O'Shaughnessy, this amount also includes payments by us to the insurance provider equal to the amount due for COBRA coverage payments for a period of time equal to the number of weeks of severance payments.

(9) Our stock incentive plan does not provide for accelerated vesting on death, disability or retirement.

(10) As of September 30, 2017, none of our NEOs were retirement eligible.

(11) In the case of a change in control, we assume that the vesting of all options, restricted stock and Performance RSUs will be accelerated, although our compensation committee has the discretion to provide for alternative treatment of the awards.

#### Director Compensation

The following table provides summary information concerning compensation paid or accrued by us to our directors for services rendered to us during Fiscal 2017.

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)(1)	Option Awards (\$)(2)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Omar M. Asali(3)	93,750	—	—	—	—	—	93,750
William J. Bawden	150,000	—	—	—	—	—	150,000
James M. Benson	162,500	—	—	—	—	—	162,500
	30,000	—	—	—	—	—	30,000

Kevin J. Gregson(3)							
Christopher J. Littlefield	—	—	—	—	—	—	—
Andrew A. McKnight	—	—	—	—	—	—	—
William P. Melchionni	167,500	—	—	—	—	—	167,500
Joseph S. Steinberg	178,750	—	—	—	—	—	178,750
L. John H. Tweedie	140,000	—	—	—	—	—	140,000
Thomas A. Williams(3)	37,500	—	—	—	—	—	37,500

- (1) No directors received stock awards in Fiscal 2017. A payment of cash in lieu of an equity award was granted to each director in the amount of \$50,000. The aggregate number of unvested shares of restricted stock outstanding at the end of Fiscal 2017 held by those who served as directors during Fiscal 2017 was as follows:



Name	Number of Shares of Restricted Stock
Omar M. Asali	0
William J. Bawden	854
James M. Benson	854
Kevin J. Gregson	0
Christopher J. Littlefield	59,154
Andrew A. McKnight	0
William P. Melchionni	854
Joseph S. Steinberg	0
L. John H. Tweedie	854
Thomas A. Williams	0

(2) No directors received option awards in Fiscal 2017. The aggregate number of unexercised stock options outstanding at the end of Fiscal 2017 held by those who served as directors during Fiscal 2017 was as follows:

Name	Number of Stock Options
Omar M. Asali	5,613
William J. Bawden	4,878
James M. Benson	1,470
Kevin J. Gregson	—
Christopher J. Littlefield	61,541
Andrew A. McKnight	—
William P. Melchionni	4,878
Joseph S. Steinberg	—
L. John H. Tweedie	4,878
Thomas A. Williams	—

(3) Messrs. Asali, Gregson and Williams have resigned from our board of directors on April 14, 2017, October 10, 2016 and December 21, 2016 respectively.

Our board of directors is compensated according to the rates set forth in the following table:

Annual Cash Retainer for Non-Employee Directors	Additional Annual Cash Retainers	Annual Cash Award for Non-Employee Directors <sup>1</sup>	Other
\$75,000	Chairman - \$30,000 Audit Committee Chair - \$25,000 Other Committee Chair - \$25,000	\$50,000	Reimbursement for out-of-pocket expenses in connection with meetings, board duties, etc.

Committee Members  
- \$15,000

(1) Represents a one-time cash payment of \$50,000 to be made in lieu of the \$75,000 stock awards made in Fiscal 2014, which were subject to a three year vesting period. The cash payment was made in lieu of stock awarded because the CF Corp Merger Agreement restricts FGL from making further stock issuances. The amount of the cash payment was designed to provide the directors with the same cash value they would have received in stock for service in Fiscal 2017 absent the restrictions in the Merger Agreement.

127

---

#### COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

For Fiscal 2017, our compensation committee consisted of Messrs. Asali, Benson, Gregson, McKnight, Melchionni and Steinberg. Following Mr. Asali's departure from the board on April 14, 2017, Mr. McKnight was appointed to compensation committee. Following Mr. Gregson's departure from the board on October 10, 2016, Mr. Benson was appointed to compensation committee. Except as described below, during Fiscal 2017, no member of the compensation committee served as an officer or employee of the Company or any of its subsidiaries. In addition, except as described below, during Fiscal 2017, no executive officer of the Company served as a director or as a member of the compensation committee of a company (i) one of whose executive officers served as a director or as a member of the compensation committee of our company or (ii) which employed a director of our company. Mr. Steinberg is the Chairman of the board of directors of HRG Group, Inc. ("HRG"), and as such, may have a direct or indirect interest in certain related party transactions involving HRG or its affiliates. See "Certain Relationships and Related Transactions and Director Independence."

#### Compensation Committee Report

The information contained in this report shall not be deemed to be "soliciting material" or "filed" or incorporated by reference in future filings with the SEC or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that we specifically incorporate it by reference into a document filed under the Securities Act or the Exchange Act.

Our compensation committee has reviewed and discussed the Compensation Discussion and Analysis contained in this report with our management. Based on that review and discussion, our compensation committee recommended to our board that the Compensation Discussion and Analysis be included in this report.

#### THE COMPENSATION COMMITTEE

/s/ James M. Benson

/s/ Andrew A. McKnight

/s/ William P. Melchionni

/s/ Joseph S. Steinberg

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY  
COMPENSATION PLANS

The following table presents information as of September 30, 2017, regarding our securities authorized for issuance under equity compensation plans:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders <sup>(1)</sup>	925,744	\$ 22.74	525,130
Equity compensation plans not approved by security holders <sup>(2)</sup>	3,408	\$ 17.00	0
Total	929,152	\$ 22.74	525,130

(1) Represents securities issued or issuable under our Omnibus Plan. The outstanding securities consist of options for the purchase of 360,355 shares and 565,389 Performance RSUs. The weighted-average exercise price does not take into account the Performance RSUs.

(2) Consists of options granted to compensation committee members outside our Omnibus Plan.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding beneficial ownership of our common stock as of September 30, 2017, unless otherwise noted, by (a) each person who is known to us to own beneficially more than 5% of our common stock, (b) each director and nominee for director, (c) each named executive officer and (d) the directors and executive officers as a group. The table lists voting securities, including restricted stock held by our directors and executive officers over which they have sole voting power but no investment power. Otherwise, except to the extent noted below, each person identified below has sole voting and investment power over the shares reported. Except as otherwise noted below, we know of no agreements among our stockholders which related to voting or investment power with respect to our common stock and none of the reported shares have been pledged as a security.

Edgar Filing: Fidelity & Guaranty Life - Form 10-K

Name and Address of Beneficial Owner (1)	Beneficial Ownership(1)	Percent of Class(2)
HRG Group, Inc.....	47,000,000(3)	80.4%
FS Holdco II, Ltd.....	47,000,000(3)	80.4%
William Bawden.....	18,644	(4)(5) *
James M. Benson.....	4,032	(4)(5) *
Christopher J. Littlefield.....	153,282	(4)(5) *
Andrew A. McKnight.....	0	
William Melchionni.....	13,903	(4)(5) *
Joseph S. Steinberg.....	0	*
L. John H. Tweedie.....	26,215	(4)(5) *
Rajesh Krishnan.....	27,804	(4)(5) *
Eric L. Marhoun.....	20,638	(4)(5) *
John P. O’Shaughnessy.....	15,505	(4)(5) *
Dennis R. Vigneau.....	7,842	(4)(5) *
All current directors and executive officers as a group (18 persons)	351,766	(6) *

\*Indicates less than 1% of our outstanding common stock.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to securities. Securities “beneficially owned” by a person may include securities owned by or for, among others, the spouse, children or certain other relatives of such person as well as other securities as to which (1) the person has or shares voting or investment power or has the option or right to acquire within 60 days. The same shares may be beneficially owned by more than one person. Unless otherwise noted below, the address of each beneficial owner listed in the table is Two Ruan Center, 601 Locust Street, 14<sup>th</sup> Floor, Des Moines, IA 50309.

Percentage of beneficial ownership is based on 58,424,568 shares outstanding as of September 30, 2017. Shares (2) issuable pursuant to options are deemed outstanding for computing the percentage of the person holding such options but are not deemed outstanding for computing the percentage of any other person.

Based solely on a Schedule 13D/A filed with the SEC on April 8, 2015 by HRG, and FS Holdco II Ltd., a Delaware corporation and a wholly-owned subsidiary of HRG (“FSH”, collectively, the “Reporting Persons”). The shares reported in the Schedule 13D/A are directly held by FSH. HRG does not directly own any of our company’s securities. However, as a result of FSH being the wholly-owned subsidiary of HRG, HRG may be deemed to beneficially own our company’s securities directly owned by FSH. Each of the Reporting Persons specifically disclaims beneficial ownership in the shares reported herein except to the extent it or he actually exercises voting or dispositive power with respect to such shares. As of September 30, 2017, HRG may be deemed to be the (3) beneficial owner of 47,000,000 shares, constituting 80.4% of the outstanding Shares. HRG has the sole power to vote or direct the vote of none of the shares; has the shared power to vote or direct the vote of 47,000,000 shares; has sole power to dispose or direct the disposition of none of the shares; and may be deemed to have shared power to dispose or direct the disposition of 47,000,000 shares. As of September 30, 2017, FSH may be deemed to be the beneficial owner of 47,000,000 shares, constituting 80.4% of the outstanding shares. FSH has the sole power to vote or direct the vote of 47,000,000 of the shares and has sole power to dispose or direct the disposition of 47,000,000 of the shares. The address of the Reporting Persons is 450 Park Avenue, 29<sup>th</sup> Floor, New York, New York 10022.

Includes shares purchasable by the named person upon the exercise of options granted under our Omnibus Plan: William Bawden (4,878 shares); James Benson (1,470); Christopher J. Littlefield (61,541); William P. Melchionni (4) (4,878 shares); L. John H. Tweedie (4,878 shares); Rajesh Krishnan (17,574 shares); Eric L. Marhoun (11,388 shares); John P. O’Shaughnessy (8,460 shares); and Dennis Vigneau (3,138 shares).

(5) Includes shares of restricted stock issued to the named person granted under our Omnibus Plan: William Bawden (1,269 shares); James M. Benson (854); Christopher J. Littlefield (61,541); William P. Melchionni (854 shares); L. John H. Tweedie (854 shares); Rajesh Krishnan (1,994 shares); Eric L. Marhoun (1,994 shares); John P.

O'Shaughnessy (1,481 shares); and Dennis R. Vigneau (1,823 shares).

Includes 86,682 shares of restricted stock and 153,660 shares which directors and executive officers have the right (6) to acquire upon the exercise of stock options granted under our Omnibus Plan.

Item 13. Certain Relationships and Related Transactions, and Director Independence

In addition to the compensation arrangements with directors and executive officers described above in the section entitled "Executive Compensation," the following is a description of each transaction since October 1, 2016 and each currently proposed transaction in which (i) we have been or are to be a participant, (ii) the amount involved exceeded or will exceed \$120,000 and (iii) any of our directors, nominees for director, executive officers, holders of more than 5% of our common stock, or any member of their immediate families or person sharing their household had or will have a direct or indirect material interest.

Policies and Procedures for Related Person Transactions

We have adopted a related person transactions policy pursuant to which our executive officers, directors and principal stockholders, including their immediate family members, are not permitted to enter into a related person transaction with us without the consent of an independent committee of our board. This policy provides procedures for the approval of transactions with related persons as set forth in the rules and regulations of the SEC as well as "Affiliate Transactions" that require approval pursuant to the covenants set forth in the indenture governing our company's senior notes.

Related Person Transactions

HRG Ownership; Indemnification

As of September 30, 2017, HRG owned (directly or indirectly) approximately 80% of our common stock and has two representatives, Joseph S. Steinberg and Andrew A. McKnight, on our board of directors (the "HRG directors"). The HRG directors are considered related persons in the transactions involving HRG described below as a result of their affiliation with HRG and us. Other than as described below, the HRG directors do not have any direct interest in any of the transactions. In addition, our bylaws provide for the indemnification of our directors, including the HRG directors, to the fullest extent permitted by law against liabilities and expenses incurred in connection with any threatened, pending or completed claim or proceeding, whether brought by or in the right of the company or otherwise, in which a director is involved because he or she is or has been a director. In addition we entered into Indemnification Agreements with each of our directors, pursuant to which we agreed to provide further indemnification of our directors. Our amended and restated certificate of incorporation provides that we renounce any interest or expectancy in corporate opportunities that are presented to HRG.

Reinsurance Transactions

Effective December 31, 2012, FGL Insurance, a wholly-owned subsidiary of the Company, entered into a reinsurance treaty with FSRCI, an indirect wholly-owned subsidiary of HRG, FGL's parent, whereby FGL Insurance ceded 10% of its June 30, 2012 in-force annuity block business not already reinsured on a funds withheld basis. Effective September 17, 2014, FGL Insurance entered into a second reinsurance treaty with FSRCI whereby FGL Insurance ceded 30% of any new business of its multi-year guaranteed annuity block of business ("MYGA") issued effective September 17, 2014 and later on a funds withheld basis. Under the terms of the agreement, no initial ceding commission was paid as all of the underlying business is new business. The September 17, 2014 treaty was subsequently terminated as to new business effective April 30, 2015, but will remain in effect for policies ceded to FSRCI with an effective date between September 17, 2014 and April 30, 2015. Accordingly, policies issued with an effective date of May 1, 2015 and later will not be ceded to FSRCI.

At September 30, 2017, the company's reinsurance recoverable included \$1,016 million related to FSRCI and funds withheld for reinsurance liabilities included \$1,081 million related to FSRCI.

Below are the operating results ceded to FSRCI for the year ended September 30, 2017 (\$ in millions):

	Year ended
Revenues:	September
	30, 2017
Premiums	\$ 1
Net investment income	46
Net investment gains	15
Insurance and investment product fees	2
Total revenues	64
Benefits and expenses:	
Benefits and other changes in policy reserves	(39 )
Acquisition & operating expenses, net of deferrals	(3 )
Total benefits and expenses	(42 )
Operating income	\$ 22

#### Loan Participations and Debt Financing Agreement

FGL Insurance invested in collateralized loan obligations (“CLO”) securities issued by Fortress Credit Opportunities III CLO LP (“FCO III”) and also invested in securities issued by Fortress Credit BSL Limited (“Fortress BSL”). The parent of both FCO III and Fortress BSL is Fortress Investment Group LLC, which owns greater than 10% of HRG as of September 30, 2017. In March 2016, Hildene Leveraged Credit, LLC (“HLC”) sold four CLOs to Fortress Investment Group LLC. The four Hildene CLOs are now managed by an affiliate of Fortress Investment Group LLC, Fortress Credit Advisors, LLC. As of September 30, 2017, the Company held two of these CLOs. In August 2016, FGL purchased a commercial real estate CLO from Fortress Investment Group LLC. In October 2016, FGL purchased bonds of Spectrum Brands, Inc., a wholly owned subsidiary of HRG Group, and in March 2017, FGL purchased asset backed CLOs from FCO III. The carrying values of these affiliated investments as of September 30, 2017 are disclosed in the tables below.

FGL Insurance participates in loans to third parties originated by Salus Capital Partners, LLC (“Salus”), an affiliated, limited liability company indirectly owned by HRG. Salus is also considered a VIE as described in “Note 4. Investments” to the Company’s Consolidated Financial Statements. Salus originated senior secured asset-based loans to unaffiliated third-party borrowers. In January 2014, FSRCI acquired preferred equity interests in Salus which have a 10% per annum return and a total par value of \$30 million which is included in the FSRCI funds withheld portfolio. Accordingly all income on this asset is ceded to FSRCI. The Company’s maximum exposure to loss as a result of its investments in Salus is limited to the carrying value of the preferred equity interests. The carrying value of these investments in Salus as of September 30, 2017 is disclosed in the table below.

In August of 2015 and October of 2015, FGL entered into separate engagement letters with Credit Suisse Securities (USA) LLC (“Credit Suisse”) and Jefferies Group Inc. (“Jefferies”), respectively, pursuant to which Credit Suisse and Jefferies agreed (on a non-exclusive basis) to provide financial advisory services to FGL in connection with a transaction involving a merger or other similar transaction with respect to at least a majority of the capital stock of FGL. The Credit Suisse engagement was extended by an amendment dated March 15, 2017. During the year ended September 30, 2017, Leucadia National Corp's (“Leucadia”) ownership interest in HRG's outstanding shares exceeded 10%. Jefferies is a wholly-owned subsidiary of Leucadia. HRG, the holder of a majority of shares of outstanding common stock of FGL, is also a party to each engagement letter. Under each engagement letter, Credit Suisse and Jefferies, respectively, are entitled to receive a fee which represents a percentage of the value of the transaction, plus reimbursement for all reasonable out-of-pocket expenses incurred by Credit Suisse or Jefferies, as applicable, in connection with their engagement. FGL has also agreed to indemnify Credit Suisse and Jefferies for certain liabilities in connection with their engagement. Under each engagement letter, HRG is required to reimburse FGL for compensation paid by FGL to Credit Suisse or Jefferies under certain circumstances. Specifically, if compensation to Credit Suisse or Jefferies becomes payable in respect of a transaction that involves a disposition of shares of FGL held



by HRG (and not other stockholders of FGL), HRG will reimburse FGL for the full amount of such compensation. If compensation to Credit Suisse or Jefferies becomes payable in

132

---

respect of a transaction that involves a disposition of shares of FGL held by HRG and a disposition of not more than 50% of the shares of FGL held by stockholders of FGL other than HRG, HRG will reimburse FGL for its pro rata portion of such compensation (based on its relative number of shares compared to those held by stockholders of FGL other than HRG).

In August 2016, FGL Insurance exchanged \$71 in notes issued by HGI Energy Holdings, LLC (“HGI Energy”) in 2013 for new notes issued by HGI Energy for the same fair value with an August 2017 maturity date. The new notes issued are held in the FSRCI funds withheld portfolio. Effective May 1, 2017, FGL Insurance and HGI Energy extended the maturity date of the new notes until the earlier of: June 30, 2018 or a change in control of FGL Insurance. In addition, the parties have agreed to increase the rate of interest on the new notes from 0.71% to 1.50% on August 22, 2017.

The company’s related party investments as of September 30, 2017 and related net investment income for Fiscal 2017 are summarized as follows (\$ in millions):

Type	September 30, 2017			
	Balance Sheet Classification	Asset carrying value	Accrued Investment Income	Total carrying value
Fortress Investment Group CLOs	Fixed maturities, available for sale	\$ 175	\$ 2	\$ 177
Spectrum Brands, Inc.	Fixed maturities, available for sale	2	—	2
Salus preferred equity (a)	Equity securities, available for sale	2	—	2
HGI energy loan (b)	Related party loans	71	—	71

(a) Salus preferred equity is included in the FSRCI funds withheld portfolio, accordingly all income on this asset is ceded to FSRCI.

(b) The HGI energy loan is included in the FSRCI funds withheld portfolio, accordingly the income related to this portion is ceded to FSRCI.

#### Investment Management Agreements

During Fiscal 2017, the company had investment management agreements with Salus and CorAmerica Capital, LLC. Salus is indirectly owned by HRG. During a portion of Fiscal 2017, CorAmerica Capital, LLC was also indirectly owned by HRG. The company paid management fees to these entities for the services provided under the agreements, which are usual and customary for these types of services. For Fiscal 2017, the Company paid CorAmerica Capital, LLC \$1.

#### Tax Sharing Arrangement

FGL’s non-life subsidiaries file as part of HRG’s consolidated U.S. Federal income tax return. FGL’s insurance company subsidiaries file their own consolidated U.S. Federal life insurance tax return and are not eligible to join the consolidated HRG return until January 1, 2017. The income tax liabilities of the FGL members of the consolidated HRG return are calculated using the separate return method with any payable or receivable reflecting an amount they would have recorded had they filed their own return.

#### Director Independence

Information required by this Item is included in Item 10, “Directors,” “Corporate Governance – Controlled Company and Director Independence” and “Information about Committees of Our Board.”

#### Item 14. Principal Accounting Fees and Services

In accordance with Sarbanes-Oxley, our audit committee charter provides that our audit committee has the sole authority and responsibility to pre-approve all audit services, audit-related tax services and other permitted services to be performed for our company by our independent registered public accounting firm and the related fees. Pursuant to its charter and in compliance with rules of the SEC and the PCAOB, our audit committee has established a pre-approval policy and procedures that require the pre-approval of all services to be performed by our independent registered public accounting firm. The independent registered public accounting firm may be considered for other services not specifically approved as audit services or audit-related services and tax services



so long as the services are not prohibited by SEC or PCAOB rules and would not otherwise impair the independence of our independent registered public accounting firm.

The table below sets forth the professional fees paid to our independent registered public accounting firm for professional services rendered during Fiscal 2017 and Fiscal 2016.

	Fiscal 2017	Fiscal 2016
Audit fees	\$2,777,587	\$2,831,089
Audit-related fees	413,715	251,678
Tax fees	222,354	6,651
All other fees	—	—
Total fees	\$3,413,656	\$3,089,418

Audit Fees are fees for professional services for the audit of the consolidated financial statements included in Form 10-K and the review of the consolidated financial statements included in Form 10-Qs or services that are provided in connection with statutory and regulatory filings or engagements, such as statutory audits required for certain foreign subsidiaries.

- Audit-Related Fees are fees for assurance and related services that are reasonably related to the performance of the audit or review of the consolidated financial statements.

- Tax Fees are fees for tax compliance, tax advice and tax planning.

- All Other Fees are fees, if any, for any services not included in the first three categories.

Table of Contents

PART IV

Item 15. Exhibits, Financial Statements and Schedules

List of Documents Filed

1) Financial Statements

See Index to Consolidated Financial Statements on Page F-1 following this Part IV.

2) Financial Statement Schedules

Schedule I - Summary of Investments - Other than Investments in Related Parties

Schedule II - Condensed Financial Information of Parent Only

Schedule III - Supplementary Insurance Information

Schedule IV - Reinsurance

All other schedules have been omitted since they are either not applicable or the information is contained within the accompanying consolidated financial statements.

Table of Contents

List of Exhibits

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

Exhibit No.	Description of Exhibits
2.1	<u>Agreement and Plan of Merger, dated as of May 24, 2017, by and among CF Corporation, FGL U.S. Holdings, Inc., FGL Merger Sub Inc. and Fidelity &amp; Guaranty Life (incorporated by reference to Exhibit 2.1 to our Form 8-K, filed on May 24, 2017 (File No. 001-36227)).</u>
2.2	<u>Voting Agreement, dated as of May 24, 2017, by and among Fidelity &amp; Guaranty Life, CF Capital Growth, LLC, Fidelity National Financial, Inc., CFS Holdings (Cayman), L.P., CC Capital Management, LLC, BilCar, LLC, Richard N. Massey and James A. Quella (incorporated by reference to Exhibit 2.2 to our Form 8-K, filed on May 24, 2017 (File No. 001-36227)).</u>
2.3	<u>Amendment to Agreement and Plan of Merger, dated as of June 28, 2017, by and among CF Corporation, FGL U.S. Holdings, Inc., FGL Merger Sub Inc. and Fidelity &amp; Guaranty Life (incorporated by reference to Exhibit 2.3 to our Quarterly Report on Form 10-Q, filed on August 2, 2017 (File No. 001-36227)).</u>
3.1	<u>Amended and Restated Certificate of Incorporation of Fidelity &amp; Guaranty Life (incorporated by reference to Exhibit 3.1 to our Registration Statement on Form S-8, filed on December 13, 2013 (File No. 333-192849)).</u>
3.2	<u>Second Amended and Restated Bylaws of Fidelity &amp; Guaranty Life (incorporated by reference to Exhibit 3.2 to our Current Report on Form 8-K, filed on October 7, 2014 (File No. 001-36227)).</u>
4.1	<u>Reference is made to Exhibits 3.1 and 3.2.</u>
4.2	<u>Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 to our Registration Statement on Form S-1/A, filed on December 3, 2013 (File No. 333-192849)).</u>
4.3	<u>Indenture, dated March 27, 2013, among Fidelity &amp; Guaranty Life Holdings, Inc., as issuer, the Subsidiary Guarantors from time to time parties thereto and Wells Fargo Bank, National Association, as trustee, relating to the 6.375% Senior Notes due 2021 (incorporated by reference to Exhibit 4.2 to our Registration Statement on Form S-1/A, filed on October 17, 2013 (File No. 333-192849)).</u>
4.4	<u>First Supplemental Indenture, dated March 27, 2013, among Fidelity &amp; Guaranty Life Holdings, Inc., as issuer, the Subsidiary Guarantors from named therein and Wells Fargo Bank, National Association, relating to the 6.375% Senior Notes due 2021 (incorporated by reference to Exhibit 4.3 to our Registration Statement on Form S-1/A, filed on October 17, 2013 (File No. 333-192849)).</u>
4.5	<u>Registration Rights Agreement, dated December 18, 2013, between Fidelity &amp; Guaranty Life, and HRG Group, Inc. (incorporated by reference to Exhibit 4.5 to our Quarterly Report on Form 10-Q, filed on February 7, 2014 (file No. 001-36227)).</u>
10.1	<u>Employment Agreement, dated January 27, 2014, between Dennis Vigneau and Fidelity &amp; Guaranty Life Business Services, Inc. (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K, filed on January 28, 2014 (File No. 001-36227)).</u>
10.3	<u>Amended and Restated Employment Agreement, dated November 14, 2013, between Fidelity &amp; Guaranty Life Business Services, Inc. and John P. O'Shaughnessy (incorporated by reference to Exhibit 10.38 to our Registration Statement on Form S-1/A, filed on November 22, 2013 (File No. 333-190880)).</u>
10.4	<u>Employment Agreement, dated November 14, 2013, between Fidelity &amp; Guaranty Life Business Services, Inc. and John Phelps (incorporated by reference to Exhibit 10.39 to our Registration Statement on Form S-1/A, filed on November 22, 2013 (File No. 333-190880)).</u>
10.5	<u>Amended and Restated Employment Agreement, dated November 14, 2013, between Fidelity &amp; Guaranty Life Business Services, Inc. and Rajesh Krishnan (incorporated by reference to Exhibit 10.40 to our Registration Statement on Form S-1/A, filed on November 22, 2013 (File No. 333-190880)).</u>
10.6	<u>Employment Agreement, dated November 14, 2013, between Fidelity &amp; Guaranty Life Business Services, Inc. and Wendy J.B. Young (incorporated by reference to Exhibit 10.41 to our Registration Statement on Form S-1/A, filed on November 22, 2013 (File No. 333-190880)).</u>
10.7	

Form of Director Indemnification Agreement (incorporated by reference to Exhibit 10.5 to our Registration Statement on Form S-1/A, filed on November 26, 2013 (File No. 333-190880)).

10.8

Fidelity & Guaranty Life Employee Incentive Plan (incorporated by reference to Exhibit 10.6 to our Registration Statement on Form S-1/A, filed on October 17, 2013 (File No. 333-190880)).

136

---

Table of Contents

- 10.9 Fidelity & Guaranty Life 2013 Stock Incentive Plan, as Amended (incorporated by reference to Annex A of our Proxy Statement on Schedule 14A, filed on December 30, 2014 (File No. 001-36227)).  
Form of Fidelity & Guaranty Life 2013 Non-Statutory Stock Option Agreement (incorporated by reference to
- 10.10 Exhibit 10.43 to our Registration Statement on Form S-1/A, filed on November 26, 2013 (File No. 333-190880)).
- 10.11 Form of Fidelity & Guaranty Life 2013 Restricted Stock Agreement (incorporated by reference to Exhibit 10.44 to our Registration Statement on Form S-1/A, filed on November 26, 2013 (File No. 333-190880)).
- 10.12 Form of Fidelity & Guaranty Life Performance RSU Grant Agreement (incorporated by reference to Exhibit 10.45 to our Registration Statement on Form S-1/A, filed on November 26, 2013 (File No. 333-190880)).  
Form of Second Amended and Restated Fidelity & Guaranty Life Holdings, Inc. Stock Incentive Plan
- 10.13 (incorporated by reference to Exhibit 10.46 to our Registration Statement on Form S-1/A, filed on December 3, 2013 (File No. 333-190880)).  
Form of Amendment No. 1 to the Fidelity & Guaranty Life Holdings, Inc. 2012 Dividend Equivalent Plan
- 10.14 (incorporated by reference to Exhibit 10.47 to our Registration Statement on Form S-1/A, filed on December 3, 2013 (File No. 333-190880)).  
Form of Amendment No. 1 to the Restricted Stock Agreement (incorporated by reference to Exhibit 10.48 to our Registration Statement on Form S-1/A, filed on December 3, 2013 (File No. 333-190880)).
- 10.15 Form of Amendment No. 2 to the Restricted Stock Agreement between Leland C. Launer, Jr. and Fidelity &
- 10.16 Guaranty Life Holdings, Inc. (incorporated by reference to Exhibit 10.49 to our Registration Statement on Form S-1/A, filed on December 3, 2013 (File No. 333-190880)).  
Form of Fidelity & Guaranty Life 2013 Restricted Stock Agreement for Compensation Committee Members
- 10.17 (incorporated by reference to Exhibit 10.17 to our Quarterly Report on Form 10-Q, filed on February 7, 2014 (File No. 001-36227)).  
Form of Fidelity & Guaranty Life 2013 Non-Statutory Stock Option Agreement for Compensation Committee
- 10.18 Members (incorporated by reference to Exhibit 10.18 to our Quarterly Report on Form 10-Q, filed on February 7, 2014 (File No. 001-36227)).  
Form of Fidelity & Guaranty Life 2013 Unrestricted Stock Agreement (incorporated by reference to Exhibit 10.19 to our Quarterly Report on Form 10-Q, filed on February 7, 2014 (File No. 001-36227)).
- 10.19 Form of Fidelity & Guaranty Life 2013 Unrestricted Stock Agreement for Compensation Committee Members
- 10.20 (incorporated by reference to Exhibit 10.20 to our Quarterly Report on Form 10-Q, filed on February 7, 2014 (File No. 001-36227)).  
Credit Agreement between Fidelity & Guaranty Life Holdings, Inc. as borrower, the Company as guarantor, and RBC Capital Markets and Credit Suisse Securities (USA) LLC together as joint lead arrangers for the
- 10.21 lenders, dated as of August 26, 2014 (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K, filed on August 26, 2014 (File No. 001-36227)).  
Second Amendment to Credit Agreement dated as of July 17, 2017 by and among Fidelity & Guaranty Life
- 10.22 Holdings, Inc., each of the lenders from time to time party thereto and Royal Bank of Canada (incorporated by reference to Exhibit 10.1 to our Form 8-K, filed on July 21, 2017 (File No. 001-36227)).  
Revolving Loan Note, dated August 26, 2014 (incorporated by reference to Exhibit 10.2 to our Current Report
- 10.23 on Form 8-K, filed on August 26, 2014 (File No. 001-36227)).  
Guarantee Agreement, dated as of August 26, 2014, among Fidelity & Guaranty Life, other Guarantors, and
- 10.24 Royal Bank of Canada, as Administrative Agent (incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K, filed on August 26, 2014 (File No. 001-36227)).  
Employment Agreement, dated October 6, 2014, between Chris Littlefield and Fidelity & Guaranty Life
- 10.25 Business Services, Inc. (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K, filed on October 7, 2014 (File No. 001-36227)).  
Omnibus Amendment to Equity Award Agreements by and among Fidelity & Guaranty Life, Fidelity &
- 10.26 Guaranty Life Business Services, Inc. and Leland C. Launer Jr. dated as of March 31, 2015 (incorporated by reference to Exhibit 10.1 to our Form 8-K, filed on April 2, 2015 (File No. 001-36227)).





Table of Contents

10.27	<u>Employment Agreement by and between Fidelity &amp; Guaranty Life Business Services, Inc. and Christopher J. Littlefield, dated as of May 6, 2015 (incorporated by reference to Exhibit 10.1 to our Form 8-K, filed on May 8, 2015 (File No. 001-36227)).</u>
10.28	<u>Fidelity &amp; Guaranty Life 2015 Severance Plan, effective as of June 16, 2015 (incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q, filed on August 5, 2015 (File No. 001-36227)).</u>
10.29	<u>Form of Retention Letter from Fidelity &amp; Guaranty Life to its executive officers, dated July 10, 2015 (incorporated by reference to Exhibit 10.4 to our Quarterly Report on Form 10-Q, filed on August 5, 2015 (File No. 001-36227)).</u>
10.30	<u>Form of Indemnification Agreement by and between Fidelity &amp; Guaranty Life and its directors and executive officers, dated as of July 14, 2015 (incorporated by reference to Exhibit 10.5 to our Quarterly Report on Form 10-Q, filed on August 5, 2015 (File No. 001-36227)).</u>
10.31	<u>Fidelity &amp; Guaranty Life Section 162(m) Employee Incentive Plan, as Amended (incorporated by reference to Annex B of our Proxy Statement on Schedule 14A, filed on December 30, 2014 (File No. 001-36227)).</u>
10.32*	<u>Form of Transaction Bonus Letter by and between Fidelity &amp; Guaranty Life and certain of its employees, dated as of April 7, 2017.</u>
10.33*	<u>Form of Retention Award Letter by and between Fidelity &amp; Guaranty Life and certain of its employees, dated as of April 20, 2017.</u>
10.34*	<u>Form of 2017 Incentive Award Letter by and between Fidelity &amp; Guaranty Life and certain of its employees, dated as of February 1, 2017.</u>
21*	<u>Subsidiaries of the Company.</u>
23*	<u>Consent of Independent Registered Public Accounting Firm.</u>
24*	<u>Power of Attorney (set forth on the signature page).</u>
31.1 *	<u>Certification of Chief Executive Officer, pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2 *	<u>Certification of Chief Financial Officer, pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1 *	<u>Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2 *	<u>Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS *	XBRL Instance Document.
101.SCH *	XBRL Taxonomy Extension Schema.
101.CAL *	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF *	XBRL Taxonomy Definition Linkbase.
101.LAB *	XBRL Taxonomy Extension Label Linkbase.
101.PRE *	XBRL Taxonomy Extension Presentation Linkbase.

\* Filed herewith

Item 16. Form 10-K Summary

None.



Table of Contents

## SIGNATURES

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

FIDELITY & GUARANTY LIFE (Registrant)

Date: November 16, 2017 By: /s/ Dennis R. Vigneau

Executive Vice President and Chief Financial Officer

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

## POWERS OF ATTORNEY

KNOW ALL BY THESE PRESENT, that each person whose signature appears below constitutes and appoints Christopher J. Littlefield and Dennis R. Vigneau, and each of them, acting individually, as his true and lawful attorney-in-fact and agent, each with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Christopher J. Littlefield		
Christopher J. Littlefield	Chief Executive Officer and Director (Principal Executive Officer)	November 16, 2017
/s/ Dennis R. Vigneau		
Dennis R. Vigneau	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	November 16, 2017
/s/ Joseph S. Steinberg		
Joseph S. Steinberg	Chairman	November 16, 2017
/s/ William J. Bawden		
William J. Bawden	Director	November 16, 2017
/s/ James M. Benson		
James M. Benson	Director	November 16, 2017
/s/ Andrew A. McKnight		
Andrew A. McKnight	Director	November 16, 2017
/s/ William P. Melchionni		
William P. Melchionni	Director	November 16, 2017
/s/ John H. Tweedie		
John H. Tweedie	Director	November 16, 2017

Table of Contents

FIDELITY & GUARANTY LIFE AND SUBSIDIARIES  
INDEX OF CONSOLIDATED FINANCIAL STATEMENTS

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	<u>F-2</u>
<u>Report of Independent Registered Public Accounting Firm</u>	<u>F-3</u>
<u>Consolidated Balance Sheets as of September 30, 2017 and 2016</u>	<u>F-4</u>
<u>Consolidated Statements of Operations for the Years Ended September 30, 2017, 2016, and 2015</u>	<u>F-5</u>
<u>Consolidated Statements of Comprehensive Income (Loss) for the Years Ended September 30, 2017, 2016, and 2015</u>	<u>F-6</u>
<u>Consolidated Statements of Changes in Shareholders' Equity for the Years Ended September 30, 2017, 2016, and 2015</u>	<u>F-7</u>
<u>Consolidated Statements of Cash Flows for the Years Ended September 30, 2017, 2016, and 2015</u>	<u>F-8</u>
<u>Notes to Consolidated Financial Statements</u>	<u>F-9</u>
<u>(1) Basis of Presentation and Nature of Business</u>	<u>F-9</u>
<u>(2) Significant Accounting Policies and Practices</u>	<u>F-11</u>
<u>(3) Significant Risks and Uncertainties</u>	<u>F-24</u>
<u>(4) Investments</u>	<u>F-26</u>
<u>(5) Derivative Financial Instruments</u>	<u>F-34</u>
<u>(6) Fair Value of Financial Instruments</u>	<u>F-37</u>
<u>(7) Intangible Assets</u>	<u>F-47</u>
<u>(8) Debt</u>	<u>F-48</u>
<u>(9) Equity</u>	<u>F-49</u>
<u>(10) Stock Compensation</u>	<u>F-51</u>
<u>(11) Income Taxes</u>	<u>F-56</u>
<u>(12) Commitments and Contingencies</u>	<u>F-59</u>
<u>(13) Reinsurance</u>	<u>F-61</u>
<u>(14) Related Party Transactions</u>	<u>F-64</u>
<u>(15) Earnings Per Share</u>	<u>F-67</u>
<u>(16) Insurance Subsidiary Financial Information and Regulatory Matters</u>	<u>F-67</u>
<u>(17) Other Liabilities</u>	<u>F-69</u>
<u>(18) Employee Benefits</u>	<u>F-69</u>
<u>(19) Quarterly Results (Unaudited)</u>	<u>F-70</u>
<u>(20) Subsequent Events</u>	<u>F-71</u>
<u>Schedule I - Summary of Investments-Other than Investments in Related Parties</u>	<u>F-71</u>
<u>Schedule II - Condensed Financial Information of Parent Only</u>	<u>F-72</u>
<u>Schedule III - Supplementary Insurance Information</u>	<u>F-75</u>
<u>Schedule IV - Reinsurance</u>	<u>F-76</u>

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Fidelity & Guaranty Life:

We have audited the accompanying consolidated balance sheets of Fidelity & Guaranty Life and subsidiaries (the Company) as of September 30, 2017 and 2016, and the related consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity, and cash flows for each of the years in the three year period ended September 30, 2017. In connection with our audits of the consolidated financial statements, we also have audited financial statement schedules I to IV. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fidelity & Guaranty Life and subsidiaries as of September 30, 2017 and 2016, and the results of their operations and their cash flows for each of the years in the three year period ended September 30, 2017, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Fidelity & Guaranty Life's internal control over financial reporting as of September 30, 2017, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013), and our report dated November 16, 2017 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Des Moines, Iowa

November 16, 2017

F-2

---

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Fidelity & Guaranty Life:

We have audited Fidelity & Guaranty Life's (the Company) internal control over financial reporting as of September 30, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Fidelity & Guaranty Life's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Fidelity & Guaranty Life maintained, in all material respects, effective internal control over financial reporting as of September 30, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Fidelity & Guaranty Life and subsidiaries as of September 30, 2017 and 2016, and the related consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity, and cash flows for each of the years in the three-year period ended September 30, 2017, and our report dated November 16, 2017 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Des Moines, Iowa

November 16, 2017

Table of Contents

FIDELITY & GUARANTY LIFE AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEETS  
 (In millions, except share data)

	September 30, 2017	September 30, 2016
<b>ASSETS</b>		
Investments:		
Fixed maturity securities, available-for-sale, at fair value (amortized cost: September 30, 2017 - \$20,063; September 30, 2016 - \$18,521)	\$ 21,154	\$ 19,411
Equity securities, available-for-sale, at fair value (amortized cost: September 30, 2017 - \$733; September 30, 2016 - \$640)	773	683
Derivative investments	413	276
Commercial mortgage loans	547	595
Other invested assets	185	60
Total investments	23,072	21,025
Related party loans	71	71
Cash and cash equivalents	885	864
Accrued investment income	231	214
Reinsurance recoverable	3,375	3,464
Intangibles, net	1,129	1,026
Deferred tax assets, net	—	—
Other assets	202	371
Total assets	\$ 28,965	\$ 27,035
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Contractholder funds	\$ 20,792	\$ 19,251
Future policy benefits	3,412	3,467
Funds withheld for reinsurance liabilities	1,083	1,172
Liability for policy and contract claims	67	55
Debt	300	300
Revolving credit facility	105	100
Deferred tax liability, net	62	10
Other liabilities	897	746
Total liabilities	26,718	25,101
Commitments and contingencies ("Note 12")		
Shareholders' equity:		
Preferred stock (\$.01 par value, 50,000,000 shares authorized, no shares issued at September 30, 2017 and September 30, 2016)	—	—
Common stock (\$.01 par value, 500,000,000 shares authorized, 58,933,415 issued and outstanding at September 30, 2017; 58,956,127 shares issued and outstanding at September 30, 2016)	1	1
Additional paid-in capital	716	714
Retained earnings	1,000	792
Accumulated other comprehensive income	543	439
	(13	) (12
		)



Edgar Filing: Fidelity & Guaranty Life - Form 10-K

Treasury stock, at cost (568,847 shares at September 30, 2017; 537,613 shares at September 30, 2016)

Total shareholders' equity	2,247	1,934
Total liabilities and shareholders' equity	\$ 28,965	\$ 27,035

See accompanying notes to consolidated financial statements.

F-4

---

Table of Contents

FIDELITY & GUARANTY LIFE AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF OPERATIONS  
 (In millions, except share data)

	Year ended September 30,		
	2017	2016	2015
Revenues:			
Premiums	\$42	\$ 70	\$ 58
Net investment income	1,005	923	851
Net investment gains (losses)	316	19	(37 )
Insurance and investment product fees and other	167	127	89
Total revenues	1,530	1,139	961
Benefits and expenses:			
Benefits and other changes in policy reserves	843	791	578
Acquisition and operating expenses, net of deferrals	137	119	113
Amortization of intangibles	193	54	64
Total benefits and expenses	1,173	964	755
Operating income	357	175	206
Interest expense	(24 )	(22 )	(24 )
Income before income taxes	333	153	182
Income tax expense	(110 )	(56 )	(64 )
Net income	\$223	\$ 97	\$ 118
Net income per common share - adjusted to reflect stock split:			
Basic	\$3.83	\$ 1.67	\$ 2.03
Diluted	\$3.83	\$ 1.66	\$ 2.02
Weighted average common shares used in computing net income per common share:			
Basic	58,319,587	58,275,013	58,117,884
Diluted	58,415,188	58,578,163	58,360,841
Cash dividend per common share	\$0.26	\$ 0.26	\$ 0.26
Supplemental disclosures			
Total other-than-temporary impairments	\$(22 )	\$(45 )	\$(82 )
Portion of other-than-temporary impairments included in other comprehensive income	—	(1 )	—
Net other-than-temporary impairments	(22 )	(44 )	(82 )
Gains (losses) on derivatives and embedded derivatives	335	33	(8 )
Other investment gains	3	30	53
Total net investment gains (losses)	\$316	\$ 19	\$(37 )

See accompanying notes to consolidated financial statements.

Table of Contents

FIDELITY & GUARANTY LIFE AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
 (In millions)

	Year ended September 30,		
	2017	2016	2015
Net income	\$223	\$97	\$118
Other comprehensive income (loss):			
Unrealized investment gains (losses):			
Change in unrealized investment gains (losses) before reclassification adjustment	182	788	(650 )
Net reclassification adjustment for losses (gains) included in net income	18	9	29
Changes in unrealized investment gains (losses) after reclassification adjustment	200	797	(621 )
Adjustments to intangible assets	(40 )	(258 )	220
Changes in deferred income tax asset/liability	(56 )	(187 )	140
Net unrealized gains (losses) on investments	104	352	(261 )
Non-credit related other-than-temporary impairment:			
Changes in non-credit related other-than-temporary impairment	—	(1 )	—
Net non-credit related other than-temporary impairment	—	(1 )	—
Net changes to derive comprehensive income (loss) for the period	104	351	(261 )
Comprehensive income (loss), net of tax	\$327	\$448	\$(143)

See accompanying notes to consolidated financial statements.

Table of Contents

FIDELITY & GUARANTY LIFE AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
(In millions)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
Balance, September 30, 2014	\$ —	\$ 1	\$ 702	\$ 607	\$ 349	\$ —	\$ 1,659
Treasury shares purchased	—	—	—	—	—	(11 )	(11 )
Dividends	—	—	—	(15 )	—	—	(15 )
Net income	—	—	—	118	—	—	118
Unrealized investment losses, net	—	—	—	—	(261 )	—	(261 )
Common stock issued under employee plans	—	—	2	—	—	—	2
Stock-based compensation	—	—	10	—	—	—	10
Balance, September 30, 2015	\$ —	\$ 1	\$ 714	\$ 710	\$ 88	\$ (11 )	\$ 1,502
Treasury shares purchased	—	—	—	—	—	(1 )	(1 )
Dividends	—	—	—	(15 )	—	—	(15 )
Net income	—	—	—	97	—	—	97
Unrealized investment gains, net	—	—	—	—	351	—	351
Common stock issued under employee plans	—	—	2	—	—	—	2
Stock-based compensation	—	—	(2 )	—	—	—	(2 )
Balance, September 30, 2016	\$ —	\$ 1	\$ 714	\$ 792	\$ 439	\$ (12 )	\$ 1,934
Treasury shares purchased	—	—	—	—	—	(1 )	(1 )
Dividends	—	—	—	(15 )	—	—	(15 )
Net income	—	—	—	223	—	—	223
Unrealized investment gains, net	—	—	—	—	104	—	104
Stock-based compensation	—	—	2	—	—	—	2
Balance, September 30, 2017	\$ —	\$ 1	\$ 716	\$ 1,000	\$ 543	\$ (13 )	\$ 2,247

See accompanying notes to consolidated financial statements.

Table of Contents

FIDELITY & GUARANTY LIFE AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (In millions)

	Year ended September 30,		
	2017	2016	2015
Cash flows from operating activities:			
Net income	\$223	\$97	\$118
Adjustments to reconcile net income to net cash provided by operating activities:			
Stock based compensation	6	8	7
Amortization	(42 )	(40 )	(60 )
Deferred income taxes	(4 )	51	50
Interest credited/index credits to contractholder account balances	701	632	420
Net recognized (gains) losses on investments and derivatives	(305 )	(19 )	37
Charges assessed to contractholders for mortality and administration	(131 )	(103 )	(68 )
Deferred policy acquisition costs, net of related amortization	(144 )	(296 )	(253 )
Changes in operating assets and liabilities:			
Reinsurance recoverable	(18 )	(2 )	46
Future policy benefits	(55 )	(1 )	(36 )
Funds withheld from reinsurers	(105 )	(89 )	(62 )
Collateral posted (returned)	158	111	(128 )
Other assets and other liabilities	(47 )	16	(36 )
Net cash provided by operating activities	237	365	35
Cash flows from investing activities:			
Proceeds from available-for-sale investments sold, matured or repaid	2,755	2,264	4,947
Proceeds from derivatives instruments and other invested assets	458	246	439
Proceeds from commercial mortgage loans	48	35	139
Cost of available-for-sale investments	(4,123 )	(3,359 )	(5,746 )
Costs of derivatives instruments and other invested assets	(351 )	(266 )	(296 )
Costs of commercial mortgage loans	—	(99 )	(535 )
Related party loans	—	1	35
Capital expenditures	(4 )	(8 )	(7 )
Net cash (used in) investing activities	(1,217 )	(1,186 )	(1,024 )
Cash flows from financing activities:			
Treasury stock	(1 )	(1 )	(11 )
Common stock issued under employee plans	—	2	2
Draw on revolving credit facility	5	100	—
Dividends paid	(15 )	(15 )	(15 )
Contractholder account deposits	2,890	2,780	2,503
Contractholder account withdrawals	(1,878 )	(1,683 )	(1,564 )
Net cash provided by financing activities	1,001	1,183	915
Change in cash & cash equivalents	21	362	(74 )
Cash & cash equivalents, beginning of period	864	502	576
Cash & cash equivalents, end of period	\$885	\$864	\$502
Supplemental disclosures of cash flow information:			
Interest paid	\$23	\$19	\$19
Income taxes paid	\$114	\$7	\$38

Edgar Filing: Fidelity & Guaranty Life - Form 10-K

Deferred sales inducements	\$20	\$27	\$26
----------------------------	------	------	------

See accompanying notes to consolidated financial statements.

F-8

---

Table of Contents

FIDELITY & GUARANTY LIFE AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation and Nature of Business

Fidelity & Guaranty Life (“FGL” and, collectively with its subsidiaries, the “Company”) is a subsidiary of HRG Group Inc. (formerly, Harbinger Group Inc. (“HRG”). HRG is a diversified holding company focused on obtaining controlling equity stakes in companies that operate across a diversified set of industries. FGL and HRG’s shares of common stock trade on the New York Stock Exchange (“NYSE”) under the symbols “FGL” and “HRG,” respectively. In January of 2014, HRG transferred HRG’s ownership interest in FGL common shares to FS Holdco II, Ltd. (“FS Holdco”) which is a direct wholly-owned subsidiary of HRG. HRG indirectly holds 47,000 thousand shares of FGL’s outstanding common stock, representing an approximate 80% interest at September 30, 2017.

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

On May 24, 2017, FGL entered into an Agreement and Plan of Merger (the “Merger Agreement”), by and among CF Corporation, a Cayman Islands exempted company (“CF Corp”), FGL US Holdings Inc., a Delaware corporation and a wholly-owned indirect subsidiary of CF Corp (“Parent”), FGL Merger Sub Inc., a Delaware corporation and a wholly-owned direct subsidiary of Parent (“Merger Sub”) and FGL. Subject to the terms and conditions of the Merger Agreement, at the time of the closing of the transactions contemplated by the Merger Agreement, Merger Sub will merge with and into FGL (the “Merger”), with FGL continuing as the surviving entity, which will become a wholly-owned indirect subsidiary of CF Corp.

Pursuant to the Merger Agreement, at the effective time of the Merger, each issued and outstanding share of FGL’s common stock (“Common Stock”) will be cancelled and converted automatically into the right to receive \$31.10 in cash, without interest and less any required withholding taxes (the “Merger Consideration”), other than any shares of Common Stock owned by FGL or by any subsidiary of FGL as treasury stock or by CF Corp, Parent, Merger Sub or any other subsidiary of CF Corp (which will be canceled and retired and cease to exist and no payment or distribution will be made thereto), shares of Common Stock granted pursuant to FGL’s employment equity award plan and those shares of Common Stock with respect to which appraisal rights under Delaware law are properly exercised and not withdrawn. The Merger Agreement permits FGL to pay out a regular quarterly cash dividend on its Common Stock prior to the closing of the transaction in an amount not in excess of \$0.065 per share, per quarter.

At the effective time of the Merger, each FGL option to purchase shares of Common Stock, restricted share of Common Stock and performance-based restricted stock unit relating to shares of Common Stock, in each case whether vested or unvested, will become fully vested and automatically converted into the right to receive a cash payment in an amount pursuant to the Merger Agreement. In addition, at the effective time of the Merger, each stock option and restricted stock unit relating to shares of Fidelity & Guaranty Life Holdings, Inc., a subsidiary of FGL (“FGLH”), in each case whether vested or unvested, will become fully vested and automatically converted into the right to receive a cash payment in an amount pursuant to the Merger Agreement, and each dividend equivalent right held in respect of a share of FGLH stock (a “DER”), whether vested or unvested, will become fully vested and automatically converted into the right to receive a cash payment equal to the amount accrued with respect to such DER.

Following execution of the Merger Agreement, FS Holdco executed and delivered to FGL a written consent (the “Consent”), approving and adopting the Merger Agreement and the transactions contemplated thereby, including the Merger. As a result of the execution and delivery of the Consent, the holders of at least a majority of the outstanding shares of FGL’s common stock have adopted and approved the Merger Agreement.

Pursuant to the Merger Agreement, the consummation of the Merger is subject to the satisfaction or waiver of certain closing conditions, the following of which have been met: (i) on June 16, 2017, the Federal Trade Commission

granted early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended; (ii) on August 8, 2017, CF Corp held an extraordinary general meeting in lieu of an annual general meeting of shareholders, at which CF Corp's shareholders approved, among other items, all of the proposals relating to the Merger Agreement and the Merger; (iii) on August 14, 2017, FGL filed with the SEC and

F-9

---



Table of Contents

mailed to its stockholders a definitive information statement in connection with the Merger; (iv) on August 24, 2017, the Vermont Department of Financial Regulation granted its required regulatory approval relating to the Merger; and (v) on November 8, 2017, the New York Department of Financial Services granted its required regulatory approval relating to the Merger. On November 7, 2017, the Iowa Insurance Division held a public hearing to consider whether the proposed acquisition of control of Fidelity & Guaranty Life Insurance Company complies with the standards set forth under applicable Iowa insurance laws.

Pursuant to the Merger Agreement, the consummation of the Merger is subject to satisfaction or waiver of certain additional closing conditions, including the receipt of regulatory approvals from the Iowa Insurance Division and the absence of any law or order enacted, issued or enforced that is in effect and that prevents or prohibits the consummation of the Merger.

The Company and CF Corp are committed to securing the remaining regulatory approvals and seek to close the Merger as expeditiously as possible, however, the closing of the Merger and the timing thereof is subject to the regulatory review and approval process, none of which can be assured. In the event the Merger Agreement is terminated, FGL may be required to pay a termination fee to CF Corp in an aggregate amount of \$50.

As previously disclosed, on April 17, 2017, FGL terminated its Agreement and Plan of Merger (as amended, the “Anbang Merger Agreement”) with Anbang Insurance Group Co., Ltd. and its affiliates. As a result of the termination, FGL has no remaining obligations under the Anbang Merger Agreement.

FGL’s primary business is the sale of individual life insurance products and annuities through independent agents, managing general agents, and specialty brokerage firms and in selected institutional markets. FGL’s principal products are deferred annuities (including fixed indexed annuity (“FIA”) contracts), immediate annuities and life insurance products. FGL markets products through its wholly-owned insurance subsidiaries, Fidelity & Guaranty Life Insurance Company (“FGL Insurance”) and Fidelity & Guaranty Life Insurance Company of New York (“FGL NY Insurance”), which together are licensed in all fifty states and the District of Columbia.

Our reporting segments reflect the manner by which our chief operating decision makers view and manage the business. We currently distribute and service primarily fixed rate annuities, including FIAs. Therefore, we have only one reporting segment. Premiums and annuity deposits (net of coinsurance), which are not included as revenues (except for traditional premiums) in the accompanying Consolidated Statements of Operations, collected during the years ended September 30, 2017, 2016 and 2015, by product type were as follows:

Product Type	Year ended September 30,		
	2017	2016	2015
Fixed indexed annuities	\$ 1,892	\$ 1,861	\$ 2,185
Fixed rate annuities	556	539	211
Single premium immediate annuities	15	28	16
Life insurance (a)	176	181	163
Total	\$2,639	\$2,609	\$2,575

(a) Life insurance includes Universal Life (“UL”) and traditional life insurance products.

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”).

Table of Contents

(2) Significant Accounting Policies and Practices

Principles of Consolidation

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

We are involved in certain entities that are considered VIEs as defined under GAAP. Our involvement with VIEs is primarily to invest in assets that allow us to gain exposure to a broadly diversified portfolio of asset classes. A VIE is an entity that does not have sufficient equity to finance its own activities without additional financial support or where investors lack certain characteristics of a controlling financial interest. We assess our relationships to determine if we have the ability to direct the activities, or otherwise exert control to evaluate if we are the primary beneficiary of the VIE. If we determine we are the primary beneficiary of a VIE, we consolidate the assets and liabilities of the VIE in our Consolidated Financial Statements. The Company has not determined that we are the primary beneficiary of a VIE as of September 30, 2017. See "Note 4. Investments" to the Company's Consolidated Financial Statements for additional information on the Company's investments in unconsolidated VIEs.

Revenue Recognition

Insurance Premiums

The Company's insurance premiums for traditional life insurance products are recognized as revenue when due from the contractholder. The Company's traditional life insurance products include those products with fixed and guaranteed premiums and benefits and consist primarily of term life insurance and certain annuities with life contingencies.

Premium collections for fixed indexed and fixed rate annuities, indexed universal life ("IUL") policies and immediate annuities without life contingency are reported as deposit liabilities (i.e., contractholder funds) instead of as revenues. Similarly, cash payments to policyholders are reported as decreases in the liability for contractholder funds and not as expenses. Sources of revenues for products accounted for as deposit liabilities are net investment income, surrender and other charges deducted from contractholder funds, and net realized gains (losses) on investments.

Net Investment Income

Dividends and interest income, recorded in "Net investment income", are recognized when earned. Income or losses upon call or prepayment of available-for-sale fixed maturity securities is recognized in net investment income. Amortization of premiums and accretion of discounts on investments in fixed maturity securities are reflected in "Net investment income" over the contractual terms of the investments in a manner that produces a constant effective yield. For mortgage-backed and asset-backed securities, included in the fixed maturity available-for-sale ("AFS") securities portfolios, the Company recognizes income using a constant effective yield based on anticipated prepayments and the estimated economic life of the securities. When actual prepayments differ significantly from originally anticipated prepayments, the effective yield is recalculated prospectively to reflect actual payments to date plus anticipated future payments. Any adjustments resulting from changes in effective yield are reflected in "Net investment income".

Net Investment Gains (Losses)

Net investment gains (losses) include realized gains and losses from the sale of investments, write-downs for other-than-temporary impairments ("OTTI") of AFS investments, other invested assets, commercial mortgage loans and related party loans, and gains and losses on derivatives. Realized gains and losses on the sale of investments are determined using the specific identification method.

Product Fees

Product fee revenue from IUL products and deferred annuities is comprised of policy and contract fees charged for the cost of insurance, and policy administration and rider fees. Fees are assessed on a monthly basis and recognized as revenue when assessed and earned. Product fee revenue also includes surrender charges which are collected and recognized as revenue when the policy is surrendered.

## Table of Contents

### Benefits and Other Changes in Policy Reserves

Benefit expenses for deferred annuity, FIA and IUL policies include index credits and interest credited to contractholder account balances and benefit claims incurred during the period in excess of contract account balances, net of reinsurance recoveries. Interest crediting rates associated with funds invested in the general account of our insurance subsidiaries during 2015 through 2017 ranged from 0.0% to 6.0% for deferred annuities and FIA's, combined, and 3.0% to 4.5% for IUL's. Other changes in policy reserves include the change in the fair value of the FIA embedded derivative and the change in the reserve for secondary guarantee benefit payments.

Other changes in policy reserves also include the change in reserves for life insurance products. For traditional life and immediate annuities, policy benefit claims are charged to expense in the period that the claims are incurred, net of reinsurance recoveries.

### Stock-Based Compensation

In general, we expense the fair value of stock awards included in our incentive compensation plans. As of the date our stock awards are approved and communicated to the recipients, the fair value of stock options is determined using a Black-Scholes options valuation methodology, and the fair value of other stock awards is based upon the market value of the stock. The fair value of the awards is expensed over the performance or service period, which generally corresponds to the vesting period, and is recognized as an increase to "Additional paid-in capital" in "Shareholders' equity". We classify certain stock awards as liabilities. For these awards, the fair value is classified as a liability on our Consolidated Balance Sheets, and the liability is marked-to-market through net income at the end of each reporting period. Stock-based compensation expense is reflected in "Acquisition and operating expenses, net of deferrals" on our Consolidated Statements of Operations. If we modify an award or change our intent to settle an award in equity or cash, we recognize additional compensation expense for the increase in the fair value of the award between the grant date and the date of modification for change in intent and any periods subsequent to the modification, if applicable. As described under "Recent Accounting Pronouncements" in Note 2, the Company early adopted ASU 2016-09 effective October 1, 2015. The adoption of ASU 2016-09 did not have a material effect on the Company's financial statements and related disclosures.

### Interest Expense

Interest expense on our debt is recognized as due and any associated premiums, discounts, and costs are amortized (accreted) over the term of the related borrowing utilizing the straight line method. Interest expense also includes non-use fees on the revolving credit facility entered into in August 2014.

### Earnings Per Share

Basic earnings per share ("EPS") is computed by dividing earnings available to common shareholders by the average common shares outstanding. Diluted EPS is computed assuming the conversion or exercise of nonvested stock, stock options, and performance share units outstanding during the year. Stock options are excluded from the computation of diluted EPS, based on the application of the treasury stock method, if they are anti-dilutive.

### Cash and Cash Equivalents

The Company considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents. As of September 30, 2017 and September 30, 2016, and the company held cash equivalents of \$45 and \$465, respectively.

### Investments

#### Investment Securities

The Company's investments in fixed maturity and equity securities have been designated as AFS and are carried at fair value with unrealized gains and losses included in "Accumulated other comprehensive income" ("AOCI"), net of associated intangibles "shadow adjustments" (discussed in "Note 7. Intangibles" to the Company's Consolidated Financial Statements) and deferred income taxes.

#### Available-for-Sale Securities' Other-Than-Temporary Impairments

The Company regularly reviews AFS securities for declines in fair value that it determines to be other-than-temporary. For an equity security, if the Company does not have the ability and intent to hold the security for a sufficient and reasonable period of time to allow for a recovery in value, it concludes that an OTTI has occurred and the cost of the equity security is written down to the current fair value, with a corresponding charge to "Net



Table of Contents

investment gains (losses)” in the accompanying Consolidated Statements of Operations. When assessing its ability and intent to hold an equity security to recovery, the Company considers, among other things, the severity and duration of the decline in fair value of the equity security as well as the cause of the decline, a fundamental analysis of the liquidity, business prospects and the overall financial condition of the issuer.

For its available-for-sale securities, the Company generally considers the following in determining whether its unrealized losses are other-than-temporary:

• The estimated range and period until recovery;

• The extent and the duration of the decline;

• The reasons for the decline in value (credit event, currency or interest-rate related, including general credit spread widening);

• The financial condition of and near-term prospects of the issuer (including issuer’s current credit rating and the probability of full recovery of principal based upon the issuer’s financial strength);

• Current delinquencies and nonperforming assets of underlying collateral;

• Expected future default rates;

• Collateral value by vintage, geographic region, industry concentration or property type;

• Subordination levels or other credit enhancements as of the balance sheet date as compared to origination; and

• Contractual and regulatory cash obligations and the issuer's plans to meet such obligations.

The Company recognizes OTTI on debt (including redeemable and perpetual preferred stocks) securities in an unrealized loss position when one of the following circumstances exists:

• The Company does not expect full recovery of its amortized cost based on the estimate of cash flows expected to be collected;

• The Company intends to sell a security; or

• It is more likely than not that the Company will be required to sell a security prior to recovery.

If the Company intends to sell a fixed maturity available-for-sale security or it is more likely than not the Company will be required to sell the security before recovery of its amortized cost basis and the fair value of the security is below amortized cost, the Company will conclude that an OTTI has occurred and the amortized cost is written down to current fair value, with a corresponding charge to “Net investment gains (losses)” in the accompanying Consolidated Statements of Operations. If the Company does not intend to sell a fixed maturity security or it is more likely than not the Company will not be required to sell a fixed maturity security before recovery of its amortized cost basis and the present value of the cash flows expected to be collected is less than the amortized cost of the security (referred to as the credit loss), an OTTI has occurred and the amortized cost is written down to the estimated recovery value with a corresponding charge to “Net investment gains (losses)” in the accompanying Consolidated Statements of Operations, as this amount is deemed the credit loss portion of the OTTI. The remainder of the decline to fair value is recorded in AOCI as unrealized OTTI on available-for-sale securities, as this amount is considered a non-credit (i.e., recoverable) impairment.

When assessing the Company’s intent to sell a fixed maturity security or if it is more likely than not the Company will be required to sell a fixed maturity security before recovery of its cost basis, the Company evaluates facts and circumstances such as, but not limited to, decisions to reposition the Company’s security portfolio, sale of securities to meet cash flow needs and sales of securities to capitalize on favorable pricing and tax planning strategies. In order to determine the amount of the credit loss for a security, the Company calculates the recovery value by performing a discounted cash flow analysis based on the current cash flows and future cash flows the Company expects to recover. The discount rate is the effective interest rate implicit in the underlying security. The effective interest rate is the original purchased yield or the yield at the date the fixed maturity security was previously impaired.

When evaluating redeemable preferred stocks for OTTI the Company applies the accounting policy described above for fixed maturity securities. Additionally, the SEC’s staff in the Office of the Chief Accountant issued a letter (SEC OTTI Release) to the Financial Accounting Standards Board (“FASB”) on October 14, 2008, providing clarifying guidance on how to assess impairments of perpetual preferred securities (“PPS”), including perpetual preferred stock. After consultation with and concurrence of the FASB staff, the SEC staff has concluded that it will not object to an issuer treating a PPS similar to a fixed maturity security in an OTTI evaluation (including an anticipated recovery

period), provided there has been no evidence of a deterioration in credit of the issuer.

F-13

---

Table of Contents

Consequently, when such criteria is met we apply the OTTI guidance of fixed maturity securities to perpetual preferred stock.

When evaluating mortgage-backed securities and asset-backed securities, the Company considers a number of pool-specific factors as well as market level factors when determining whether or not the impairment on the security is temporary or other-than-temporary. The most important factor is the performance of the underlying collateral in the security and the trends of that performance. The Company uses this information about the collateral to forecast the timing and rate of mortgage loan defaults, including making projections for loans that are already delinquent and for those loans that are currently performing but may become delinquent in the future. Other factors used in this analysis include type of underlying collateral (e.g., prime, Alternative A-paper ("Alt-A"), or subprime), geographic distribution of underlying loans and timing of liquidations by state. Once default rates and timing assumptions are determined, the Company then makes assumptions regarding the severity of a default if it were to occur. Factors that impact the severity assumption include expectations for future home price appreciation or depreciation, loan size, first lien versus second lien, existence of loan level private mortgage insurance, type of occupancy and geographic distribution of loans. Once default and severity assumptions are determined for the security in question, cash flows for the underlying collateral are projected, including expected defaults and prepayments. These cash flows on the collateral are then translated to cash flows on the Company's tranche based on the cash flow waterfall of the entire capital security structure. If this analysis indicates the entire principal on a particular security will not be returned, the security is reviewed for OTTI by comparing the present value of expected cash flows to amortized cost. To the extent that the security has already been impaired or was purchased at a discount, such that the amortized cost of the security is less than or equal to the present value of cash flows expected to be collected, no impairment is required. The Company also considers the ability of monoline insurers to meet their contractual guarantees on wrapped mortgage-backed securities. Otherwise, if the amortized cost of the security is greater than the present value of the cash flows expected to be collected, then an OTTI is recognized.

The Company includes on the face of the Consolidated Statements of Operations the total OTTI recognized in "Net investment gains (losses)", with an offset for the amount of non-credit impairments recognized in AOCI. The Company discloses the amount of OTTI recognized in AOCI and other disclosures related to OTTI in "Note 4. Investments" to the Company's Consolidated Financial Statements and the Consolidated Statements of Comprehensive Income (Loss).

**Mortgage Loans on Real Estate**

The Company's mortgage loans on real estate are all commercial mortgage loans, which are reported at amortized cost, less impairment write-downs and allowance for losses. If a mortgage loan is determined to be impaired (i.e., when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement or the loan is modified in a troubled debt restructuring), the carrying value of the mortgage loan is reduced to the lower of either the present value of expected cash flows from the loan, discounted at the loan's original purchase yield, or fair value of the collateral. For those mortgages that are determined to require foreclosure, the carrying value is reduced to the fair value of the underlying collateral, net of estimated costs to obtain and sell at the point of foreclosure. The carrying value of the impaired loans is reduced by establishing an allowance with the offset recorded in "Net investment gains (losses)" in the Consolidated Statements of Operations.

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

Mortgages are rated for the purpose of quantifying the level of risk. Those loans with higher risk are placed on a watch list and are closely monitored for collateral deficiency or other credit events that may lead to a potential loss of principal or interest. The Company defines delinquent mortgage loans consistent with industry practice as 30 days past due.

Interest on loans is recognized on an accrual basis at the applicable interest rate on the principal amount outstanding. Loan origination fees and direct costs, as well as premiums and discounts, are amortized as level yield adjustments

over the respective loan terms. Unamortized net fees or costs are recognized upon early repayment of the loans. Loan commitment fees are deferred and amortized on an effective yield basis over the term of the loan.

F-14

---



## Table of Contents

We establish mortgage loan valuation allowances both on a loan specific basis for those loans considered impaired where a property specific or market specific risk has been identified that could likely result in a future loss, as well as for pools of loans with similar risk characteristics where a property specific or market specific risk has not been identified, but for which we expect to incur a loss. Accordingly, a valuation allowance is provided to absorb these estimated probable credit losses. As of September 30, 2017 and 2016, the Company did not identify any specific loans that were impaired.

The determination of the amount of valuation allowances is based upon our periodic evaluation and assessment of inherent risks associated with our loan portfolios. Such evaluations and assessments are based upon several factors, including our experience for loan losses, defaults and loss severity, and loss expectations for loans with similar risk characteristics. We evaluate and monitor loan-to-value ("LTV") ratios and debt service coverage ("DSC") ratios of our loans as indicators of potential risk of default in establishing our valuation allowance.

### Derivative Financial Instruments

The Company hedges certain portions of its exposure to product related equity market risk by entering into derivative transactions. All of such derivative instruments are recognized as either assets or liabilities in the accompanying Consolidated Balance Sheets at fair value. The change in fair value is recognized within "Net investment gains (losses)" in the accompanying Consolidated Statements of Operations.

The Company purchases financial instruments and issues products that may contain embedded derivative instruments. If it is determined that the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, and a separate instrument with the same terms would qualify as a derivative instrument, the embedded derivative is bifurcated from the host contract for measurement purposes. The embedded derivative is carried at fair value with changes in fair value reported in the accompanying Consolidated Statements of Operations.

### Reinsurance Related Embedded Derivatives

FGL Insurance has a modified coinsurance arrangement with FSRCI, meaning that funds are withheld by FGL Insurance. This arrangement creates an obligation for FGL Insurance to pay FSRCI at a later date, which results in an embedded derivative. This embedded derivative is considered a total return swap with contractual returns that are attributable to the assets and liabilities associated with this reinsurance arrangement. The fair value of the total return swap is based on the change in fair value of the underlying assets held in the funds withheld portfolio. Investment results for the assets that support the coinsurance with funds withheld reinsurance arrangement, including gains and losses from sales, are passed directly to the reinsurer pursuant to contractual terms of the reinsurance arrangement. The reinsurance related embedded derivative is reported in "Other assets", if in a net gain position, or "Other liabilities", if in a net loss position, on the Consolidated Balance Sheets and the related gains or losses are reported in "Net investment gains" on the Consolidated Statements of Operations.

### Limited Partnership Investment

Our investments in limited partnerships are included in other invested assets on our Consolidated Balance Sheets. We account for our investments in limited partnerships using the equity method to determine the carrying value. Income from the limited partnership is included in net investment income in the accompanying Consolidated Statements of Operations. Recognition of income is delayed due to the availability of the related financial statements, which are obtained from the partnership's general partner generally on a one to three-month delay. Management also meets quarterly with the general partner to determine whether any credit or other market events have occurred since prior quarter financial statements to ensure any material events are properly included in current quarter valuation and investment income. In addition, the impact of audit adjustments related to completion of calendar-year financial statement audits of the limited partnership are typically received during the third quarter of each fiscal year.

Accordingly, our investment income from the limited partnership investment for any fiscal-year period may not include the complete impact of the change in the underlying net assets for the partnership for that fiscal-year period.

### Intangible Assets

The Company's intangible assets include value of business acquired ("VOBA"), deferred acquisition cost ("DAC") and deferred sales inducements ("DSI").



Table of Contents

VOBA is an intangible asset that reflects the estimated fair value of in-force contracts in a life insurance company acquisition less the amount recorded as insurance contract liabilities. It represents the portion of the purchase price that is allocated to the value of the rights to receive future cash flows from the business in force at the acquisition date. DAC consists principally of commissions that are related directly to the successful sale of new or recoverable insurance contracts, which may be deferred to the extent recoverable. Indirect or unsuccessful acquisition costs, maintenance, product development and overhead expenses are charged to expense as incurred. DSI represents up front bonus credits and vesting bonuses to policyholder account values, which are accounted for similarly to DAC and are recorded within the DAC asset balance.

The methodology for determining the amortization of DAC and VOBA varies by product type. For all insurance contracts accounted for under long-duration contract deposit accounting, amortization is based on assumptions consistent with those used in the development of the underlying contract adjusted for emerging experience and expected trends. DAC and VOBA amortization are reported within “Amortization of intangibles” in the accompanying Consolidated Statements of Operations.

DAC and VOBA for investment-type products and DAC for IUL products are generally amortized over the lives of the policies in relation to the incidence of estimated gross profits (“EGPs”) from investment income, surrender charges and other product fees, policy benefits, maintenance expenses, mortality net of reinsurance ceded and expense margins, and recognized gains (losses) on investments and changes in fair value of the coinsurance embedded derivative.

Changes in assumptions can have a significant impact on DAC and VOBA balances and amortization rates. Due to the relative size and sensitivity to minor changes in underlying assumptions of DAC and VOBA balances, the Company performs quarterly and annual analyses of DAC and VOBA for the annuity and IUL businesses. The DAC and VOBA balances are also periodically evaluated for recoverability to ensure that the unamortized portion does not exceed the expected recoverable amounts. At each evaluation date, actual historical gross profits are reflected, and estimated future gross profits and related assumptions are evaluated for continued reasonableness. Any adjustment in estimated future gross profits requires that the amortization rate be revised (“unlocking”) retroactively to the date of the policy or contract issuance. The cumulative unlocking adjustment is recognized as a component of current period amortization. The carrying amounts of DAC and VOBA are adjusted for the effects of realized and unrealized gains and losses on fixed maturity securities classified as available-for-sale and certain derivatives and embedded derivatives. For investment-type products, the DAC and VOBA assets are adjusted for the impact of unrealized gains (losses) on investments as if these gains (losses) had been realized, with corresponding credits or charges included in AOCI. Amortization expense of DAC and VOBA reflects an assumption for an expected level of credit-related investment losses. When actual credit-related investment losses are realized, the Company performs a retrospective unlocking of DAC and VOBA amortization as actual margins vary from expected margins. This unlocking is reflected in the accompanying Consolidated Statements of Operations.

**Reinsurance**

The Company’s insurance subsidiaries enter into reinsurance agreements with other companies in the normal course of business. The assets, liabilities, premiums and benefits of certain reinsurance contracts are presented on a net basis in the accompanying Consolidated Balance Sheets and Consolidated Statements of Operations, respectively, when there is a right of offset explicit in the reinsurance agreements. All other reinsurance agreements are reported on a gross basis in the Company’s Consolidated Balance Sheets as an asset for amounts recoverable from reinsurers or as a component of other liabilities for amounts, such as premiums, owed to the reinsurers, with the exception of amounts for which the right of offset also exists. Premiums and benefits are reported net of insurance ceded.

**Front Street Re (Cayman) Ltd (“FSRCI”)**

Effective December 31, 2012, FGL Insurance entered into a reinsurance treaty with FSRCI, an indirect wholly-owned subsidiary of HRG, FGL’s parent, whereby FGL Insurance ceded 10% of its June 30, 2012 in-force annuity block business not already reinsured on a funds withheld basis. Effective September 17, 2014, FGL Insurance entered into a second reinsurance treaty with FSRCI whereby FGL Insurance ceded 30% of any new business of its multi-year guaranteed annuity block of business (“MYGA”) issued effective September 17, 2014 and later on a funds withheld basis. Under the terms of the agreement, no initial ceding commission was paid as all of the



Table of Contents

underlying business is new business. The September 17, 2014 treaty was subsequently terminated as to new business effective April 30, 2015, but will remain in effect for policies ceded to FSRCI with an effective date between September 17, 2014 and April 30, 2015. Accordingly, policies issued with an effective date of May 1, 2015 and later will not be ceded to FSRCI.

**Income Taxes**

FGL and certain of its non-life insurance subsidiaries are included in the consolidated U.S. Federal income tax return of HRG. The Company's life insurance subsidiaries file a consolidated life insurance income tax return. Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Company assesses the recoverability of its deferred tax assets in each reporting period under the guidance outlined within Accounting Standards Codification ("ASC") Topic 740, "Income Taxes". The guidance requires an assessment of both positive and negative evidence in determining the realizability of deferred tax assets. A valuation allowance is required to reduce the Company's deferred tax asset to an amount that is more likely than not to be realized. In determining the net deferred tax asset and valuation allowance, management is required to make judgments and estimates related to projections of future profitability. These judgments include the following: the timing and extent of the utilization of net operating loss carry-forwards, the reversals of temporary differences, and tax planning strategies. Because of the change in facts and circumstances described in "Note 11. Income Taxes" to the Company's Consolidated Financial Statements, during the year ended September 30, 2014 the Company determined that a portion of its existing deferred tax assets that had previously had a valuation allowance placed against them, were now more likely than not recoverable. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company has the ability and intent to recover in a tax-free manner assets (or liabilities) with book/tax basis differences for which no deferred taxes have been provided, in accordance with ASC Topic 740 "Income Taxes". The Company applies the accounting guidance for uncertain tax positions which prescribes a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. The guidance also provides information on de-recognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. Accrued interest expense and penalties related to uncertain tax positions are recorded in "Income tax expense (benefit)" in the Company's Consolidated Statements of Operations. The Company had no unrecognized tax benefits related to uncertain tax positions as of September 30, 2017 and 2016.

**Contractholder Funds**

The liabilities for contractholder funds for deferred annuities, IUL and UL policies consist of contract account balances that accrue to the benefit of the contractholders. The liabilities for FIAs consist of the value of the host contract plus the value of the embedded derivative. The embedded derivative is carried at fair value in "Contractholder funds" in the accompanying Consolidated Balance Sheets with changes in fair value reported in the accompanying Consolidated Statements of Operations. Liabilities for immediate annuities without life contingencies are recorded at the present value of future benefits.

Liabilities for the secondary guarantees on UL-type products or Investment-type contracts are calculated by multiplying the benefit ratio by the cumulative assessments recorded from contract inception through the balance sheet date less the cumulative secondary guarantee benefit payments plus interest. If experience or assumption changes result in a new benefit ratio, the reserves are adjusted to reflect the changes in a manner similar to the unlocking of DAC and VOBA. The accounting for secondary guarantee benefits impacts, and is impacted by, EGPs used to calculate amortization of DAC and VOBA.

**Future Policy Benefits**

The liabilities for future policy benefits and claim reserves for traditional life policies and life contingent pay-out annuity policies are computed using assumptions for investment yields, mortality and withdrawals based

F-17

---

Table of Contents

principally on generally accepted actuarial methods and assumptions at the time of contract issue. Investment yield assumptions for traditional direct life reserves for all contracts range from 5.8% to 6.2%. The investment yield assumptions for life contingent pay-out annuities range from 0.8% to 6.0%.

Federal Home Loan Bank of Atlanta Agreements

Contractholder funds include funds related to funding agreements that have been issued by the Company to the Federal Home Loan Bank of Atlanta ("FHLB") as a funding medium for single premium funding agreements. The Company entered into a short-term funding agreement with FHLB on March 28, 2017 for \$136 at a guaranteed interest rate of 1.25%, which will terminate on March 29, 2018. The company had previously entered into a short-term funding agreement with FHLB on June 28, 2016 for \$157 at a guaranteed interest rate of 0.73%. This funding agreement was extended through from June 27, 2017 to June 27, 2018 at a new guaranteed interest rate of 1.41%.

The funding agreements (i.e., immediate annuity contracts without life contingencies) provide a guaranteed stream of payments or provide for a bullet payment with renewal provisions. Single premiums were received at the initiation of the funding agreements and were in the form of advances from the FHLB. Payments under the funding agreements extend through 2022. The reserves for the funding agreements totaled \$659 and \$584 at September 30, 2017 and 2016, respectively, and are included in "Contractholder funds" in the accompanying Consolidated Balance Sheets.

In accordance with the agreements, the investments supporting the funding agreement liabilities are pledged as collateral to secure the FHLB funding agreement liabilities. The collateral investments had a fair value of \$729 and \$649 at September 30, 2017 and 2016, respectively.

Commitments and Contingencies

Contingencies arising from environmental remediation costs, regulatory judgments, claims, assessments, guarantees, litigation, recourse reserves, fines, penalties and other sources are recorded when deemed probable and reasonably estimable.

Adoption of New Accounting Pronouncements

Share-Based Payments When a Performance Target is Achieved after the Requisite Service Period

In June 2014, FASB issued new guidance on Stock Compensation (Accounting Standards Update ("ASU") 2014-12, Accounting for Share-Based Payments When the Term of an Award Provide that a Performance Target Could Be Achieved after the Requisite Service Period), effective for fiscal years beginning after December 15, 2015 and interim periods within those years. The new guidance requires performance targets that affect vesting and that could be achieved after the requisite service period to be treated as performance conditions. Such performance targets will not be included in the grant-date fair value calculation of the award, rather compensation cost will be recorded when it is probable the performance target will be reached and should represent the compensation cost attributable to period(s) for which the requisite service has already been rendered. The Company adopted this guidance effective October 1, 2016, as required. The adoption of ASU 2014-12 did not impact the Company's consolidated financial statements or related disclosures, as the Company has historically treated the performance targets for its share-based payment awards as a performance condition that affects vesting and has not reflected the targets in the grant-date fair value calculation of the awards.

Amendments to the Consolidation Analysis

In February 2015, the FASB issued amended consolidation guidance (ASU 2015-02, Amendments to the Consolidation Analysis), effective for fiscal years beginning after December 15, 2015. The amended guidance changes the consolidation analysis of reporting entities with variable interest entity ("VIE") relationships by i) modifying the criteria used to evaluate whether limited partnerships and similar legal entities are VIEs or voting interest entities and revising the primary beneficiary determination of a VIE, ii) eliminating the specialized consolidation model and guidance for limited partnerships thereby removing the presumption that a general partner should consolidate a limited partnership, iii) reducing the criteria in the variable interest model contained in Accounting Standards Codification Topic 810, Consolidation, that is used to evaluate whether the fees paid to a decision maker or service provider represents a variable interest, and iv) exempting reporting entities from consolidating money market funds that operate in accordance with Rule 2a-7 of the Investment Company Act of 1940. The Company adopted ASU 2015-02 effective October 1, 2016, as required. The adoption of ASU 2015-02





Table of Contents

did not impact the Company's consolidated financial statements or related disclosure as the Company determined that this new guidance does not change its conclusions regarding consolidation of its VIEs.

Presentation of Debt Issuance Costs

In April 2015, the FASB issued amended guidance (ASU 2015-03, Interest-Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs), effective for fiscal years beginning after December 15, 2015 and interim periods within those years. The amended guidance requires debt issuance costs related to a recognized debt liability to be presented on the balance sheet as a direct deduction from the debt liability, similar to the presentation of debt discounts or premiums. The cost of issuing debt will no longer be recorded as a separate asset, except when incurred before the receipt of the funding from the associated debt liability. Instead, debt issuance costs will be presented on the balance sheet as a direct deduction from the carrying amount of the related debt liability, and the costs will be amortized to interest expense using the effective interest method. The Company adopted ASU 2015-03 effective October 1, 2016, as required. The Company retrospectively considered adjustments to adjust its historical balance sheets to present deferred debt issuance costs related to the Company's debt as a reduction of the debt liability. As the Company's debt issuance costs were fully amortized as of the period ended September 30, 2016, there is no impact to the current period financial statements.

Accounting for Fees Paid in Cloud Computing Arrangements

In April 2015, the FASB issued amended guidance (ASU 2015-05, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement), effective for fiscal years beginning after December 15, 2015 and interim periods within those years. Previous GAAP did not include explicit guidance regarding a customer's accounting for fees paid in a cloud computing arrangement, which may include software as a service, platform as a service, infrastructure as a service, and other similar hosting arrangements. The adopted guidance addresses whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If the cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The Company prospectively adopted ASU 2015-05 effective as of October 1, 2016, as required, for all new or materially modified cloud computing arrangements that contain a software license component.

Investments That Calculate Net Asset Value per Share

In May 2015, the FASB issued amended guidance (ASU 2015-07, Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)), effective for fiscal years beginning after December 15, 2015 and interim periods within those years. Previous GAAP required that investments for which fair value is measured at net asset value (or its equivalent) using the practical expedient in Topic 820 be categorized within the fair value hierarchy using criteria that differ from the criteria used to categorize other fair value measurements within the hierarchy. Previously, investments valued using the practical expedient were categorized within the fair value hierarchy on the basis of whether the investment is redeemable with the investee at net asset value on the measurement date, never redeemable with the investee at net asset value, or redeemable with the investee at net asset value at a future date. For investments that are redeemable with the investee at a future date, a reporting entity will take into account the length of time until those investments become redeemable to determine the classification within the fair value hierarchy. There is diversity in practice related to how certain investments measured at net asset value with redemption dates in the future (including periodic redemption dates) are categorized within the fair value hierarchy. Under the amendments in this Update, investments for which fair value will be measured at net asset value per share (or its equivalent) using the practical expedient should not be categorized in the fair value hierarchy. Removing those investments from the fair value hierarchy not only eliminates the diversity in practice resulting from the way in which investments measured at net asset value per share (or its equivalent) with future redemption dates are classified, but also ensures that all investments categorized in the fair value hierarchy are classified using a consistent approach. Investments that calculate net asset value per share (or its equivalent), but for which the practical expedient is not applied will continue to be included in the fair value hierarchy. The Company adopted ASU 2015-07 effective October 1, 2016, as required, and has updated the fair value disclosures to reflect the amended guidance. Refer to "Note 6. Fair Value of Financial Instruments" for further details.

Future Adoption of Accounting Pronouncements  
Revenue from Contracts with Customers

F-19

---

## Table of Contents

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

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

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

These standards may be early adopted. The amendments should be applied using either of two methods: retrospective to each prior reporting period presented with certain practical expedients, or retrospective with the cumulative effect of initial application recognized at the date of initial application subject to certain additional disclosures. The Company will not early adopt these standards. The Company has substantially completed its evaluation of these standards and expects that the adoption of these standards will have an insignificant impact on its consolidated financial statements as the Company's primary sources of revenue, insurance contracts and financial instruments, are excluded from the scope of these standards.

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

In November 2016, the FASB issued amended guidance (ASU 2016-18, Statement of Cash Flows (Topic 230), Restricted Cash), effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. The ASU will require amounts generally described as changes in restricted cash and restricted cash equivalents to be included with cash and cash equivalents on the statement of cash flows. The amendments in this ASU may be early adopted during any period or interim period, however, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The amendments should be applied using a retrospective transition method to each period presented. The Company will not early adopt this standard. The adoption of this guidance is not expected to have a material impact on the Company's consolidated statements of cash flows.

### Technical Corrections and Improvements

In December 2016, the FASB issued new guidance on the Simplification of Topics Within Insurance and Debt Restructuring (ASU 2016-19, Technical Corrections and Improvements), effective upon issuance for most amendments in the Update. For several items requiring transition guidance, the ASU identifies adoption dates specific to those items. The amendments cover a wide range of topics in the Accounting Standards Codification ("ASC") and will correct differences between original guidance and the ASC, clarify guidance through updated wording or corrected references, and simplify guidance through minor editing. The amendments in this ASU that do not require transition guidance were effective upon issuance, however, those that require transition guidance may be early adopted. The Company adopted the amendments that do not require transition guidance upon issuance of ASU 2016-19 with no impact on its financial statements. The Company will not early adopt the guidance in this standard that require transition guidance. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

### Premium Amortization on Purchased Callable Debt Securities

In March 2017, the FASB issued new guidance on the amortization of callable securities (ASU 2017-08, Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on

F-20

---

Table of Contents

Purchased Callable Debt Securities), effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. ASU 2017-08 may be early adopted. The ASU will require premiums paid on purchased debt securities with an explicit call option to be amortized to the earliest call date, as opposed to the maturity date (as under current GAAP). The updated guidance is applicable to instruments that are callable based on explicit, non-contingent call features that are callable at fixed prices on preset dates. The amendments in this update should be applied using the modified retrospective method through a cumulative effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company will not early adopt this standard and is currently evaluating the impact of this new accounting guidance on its consolidated financial statements.

Scope of Modification Accounting for Stock Compensation

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

Amendments to Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued amended guidance (ASU 2016-01, Financial Instruments- Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities), effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Notable amendments in this update will:

- require all equity securities (other than equity investments accounted for under the equity method of accounting or requiring the consolidation of the investee) to be measured at fair value with changes in fair value recognized through net income. Equity securities may be measured at cost minus impairment that do not have readily determinable fair values

- require qualitative assessment for impairment of equity investments without readily determinable fair values at each reporting period and, if the qualitative assessment indicates that impairment exists, to measure the investment at fair value

- eliminate the requirement to disclose the methods and significant assumptions used to estimate fair value (which is currently required to be disclosed for financial instruments measured at amortized cost on the balance sheet)

The amendments in this ASU should be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption, and the amendments related to equity securities without readily determinable fair values should be applied prospectively to equity investments that exist as of the date of adoption. The Company will not early adopt this standard and is currently evaluating the impact of this new accounting guidance on its consolidated financial statements.

Amendments to Lease Accounting

In February 2016, the FASB issued amended guidance (ASU 2016-02, Leases (Topic 842)), effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Notable amendments in this update will:

- require entities to recognize the rights and obligations resulting from all leases or lease components of contracts, including operating leases, as lease assets and lease liabilities, with an exception allowed for leases with a term of 12 months or less

- create a distinction between finance leases and operating leases, with classification criteria substantially similar to that for distinguishing between capital leases and operating leases under previous guidance



Table of Contents

not retain the accounting model for leveraged leases under previous guidance for leases that commence after the effective date of ASU 2016-02

provide additional guidance on separating the lease components from the nonlease components of a contract require qualitative disclosures along with specific quantitative disclosures to provide information regarding the amount, timing, and uncertainty of cash flows arising from leases

include modifications to align lessor accounting with the changes to lessee accounting, as well as changes to the requirements of recognizing a transaction as a sale and leaseback transaction, however, these changes will have no impact on the Company's current lease arrangements

The amendments in this ASU may be early adopted. The amendments are required to be applied at the beginning of the earliest period presented using a modified retrospective approach (including several optional practical expedients related to leases commenced before the effective date). The Company will not early adopt this standard and is currently evaluating the impact of this new accounting guidance on its consolidated financial statements.

**New Credit Loss Standard**

In June 2016, the FASB issued new guidance (ASU 2016-13, Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments), effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. Notable amendments in this update will change the accounting for impairment of most financial assets and certain other instruments in the following ways:

financial assets (or a group of financial assets) measured at amortized cost will be required to be presented at the net amount expected to be collected, with an allowance for credit losses deducted from the amortized cost basis, resulting in a net carrying value that reflects the amount the entity expects to collect on the financial asset at purchase credit losses relating to available-for-sale fixed maturity securities will be recorded through an allowance for credit losses, rather than reductions in the amortized cost of the securities. The allowance methodology recognizes that value may be realized either through collection of contractual cash flows or through the sale of the security. Therefore, the amount of the allowance for credit losses will be limited to the amount by which fair value is below amortized cost because the classification as available for sale is premised on an investment strategy that recognizes that the investment could be sold at fair value, if cash collection would result in the realization of an amount less than fair value

the income statement will reflect the measurement of expected credit losses for newly recognized financial assets as well as the expected increases or decreases (including the reversal of previously recognized losses) of expected credit losses that have taken place during the period. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount

disclosures will be required to include information around how the credit loss allowance was developed, further details on information currently disclosed about credit quality of financing receivables and net investments in leases, and a rollforward of the allowance for credit losses for available-for-sale fixed maturity securities as well as an aging analysis for securities that are past due

The amendments in this ASU may be early adopted during any interim or annual period beginning after December 15, 2018. The Company is currently evaluating the impact of this new accounting guidance on its consolidated financial statements.

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

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

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

- the settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing should be classified as follows:





Table of Contents

the portion of the cash payment attributable to the accreted interest related to the debt discount as cash outflows for operating activities, and the portion of the cash payment attributable to the principal as cash outflows for financing activities

a reporting entity must make an accounting policy election to classify distributions received from equity method investees using either:

the cumulative earnings approach, which considers distributions received as returns on the investment and are classified as cash inflows from operating activities (with an exception when cumulative distributions received less distributions received in prior periods that were classified as returns of investment exceeds cumulative equity in earnings, in which case the current period distribution up to this excess amount will be considered a return of investment and classified as cash inflows from investing activities); or

the nature of the distribution approach, which classifies distributions received based on the nature of the activity or activities of the investee that generated the distribution (would be considered either a return on investment and classified as cash inflows from operating activities or a return of investment and classified as cash inflows from investing activities)

in the absence of specific GAAP guidance, an entity should classify cash receipts and payments that have aspects of more than one class of cash flows by determining and appropriately classifying each separately identifiable source or use within the cash receipts and cash payments on the basis of the underlying cash flows. If cash receipts and payments have aspects of more than one class of cash flows and cannot be separated by source or use, the activity that is likely to be the predominant source or use of cash flows for the item will determine the classification.

The amendments in this ASU may be early adopted, including adoption during an interim period. The amendments in the update should be applied using a retrospective transition method to each period presented (except where impracticable to apply retrospectively; those specific amendments would be applied prospectively as of the earliest date practicable). The Company is currently evaluating the impact of this new accounting guidance on its consolidated financial statements.

Interests Held through Related Parties That Are under Common Control

In October 2016, the FASB issued new guidance (ASU 2016-17, Consolidation (Topic 810), Interests Held through Related Parties That Are under Common Control), effective for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. Under this update:

the characteristics of a primary beneficiary do not change, but the way in which their existence is determined does change

in determining whether there exists an obligation to absorb the losses of, or to receive benefits from, a VIE that could potentially be significant to the VIE (the second characteristic of a primary beneficiary), an entity will be required to include all of its direct variable interests in a VIE and, on a proportionate basis (as opposed to in its entirety as under current guidance), its indirect variable interests in a VIE held through related parties (including related parties under common control with the reporting entity)

The amendments in this ASU may be early adopted during any interim or annual period, however, if adopted during an interim period other than the first interim period, the entity should reflect the cumulative effect of the accounting change as of the beginning of the fiscal year. The Company is currently evaluating the impact of this new accounting guidance on its consolidated financial statements.

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

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

an entity should recognize current and deferred income taxes for an intra-entity transfer of an asset other than inventory at the time of the transfer

the entity will no longer delay recognition of the income tax consequences of these types of intra-entity asset transfers until the asset has been sold to an outside party, as is practiced under current guidance



Table of Contents

The amendments in this ASU may be early adopted as of the beginning of an annual reporting period for which financial statements have not yet been issued, including interim financial statements. The Company does not have any intra-entity asset transfers, therefore this new accounting guidance will have no impact on its consolidated financial statements.

(3) Significant Risks and Uncertainties

Federal Regulation

In April 2016, the Department of Labor (“DOL”) issued the “fiduciary” rule which could have a material impact on the Company, its products, distribution, and business model. The rule provides that persons who render investment advice for a fee or other compensation with respect to an employer plan or individual retirement account (“IRA”) are fiduciaries of that plan or IRA. The rule expands the definition of fiduciary under ERISA to apply to insurance agents who advise and sell products to IRA owners. As a result, commissioned insurance agents selling the Company’s IRA products must qualify for a prohibited transaction exemption, either the newly introduced Best Interest Contract Exemption (BICE) or amended PTE 84-24. When fully implemented, BICE would apply to fixed indexed annuities and amended PTE 84-24 would apply to fixed rate annuities. The rule and exemptions have been the subject of much controversy and various actions have been taken by DOL to delay and reconsider aspects of the rule and exemptions. The rule took effect June 2016 and was scheduled to become applicable in April 2017 but the “applicability date” was delayed by DOL for 60 days from April 10, 2017 to June 9, 2017. DOL also acted to delay many aspects of the prohibited transaction exemption requirements during a transition period from June 9, 2017 to January 1, 2018 provided the agent (and if applicable, financial institution) comply with “impartial conduct standards.” The impartial conduct standards essentially require the sale to be in the “best interest” of the client, misleading statements not be made, and compensation be reasonable. More recently, DOL has proposed extending the transition period to July 1, 2019 which at the present time is still under consideration. Industry continues its efforts to overturn the rule in court actions and Congress continues to consider related legislation but the success or failure of these efforts cannot be predicted. Assuming the rule is not overturned and the requirements of the exemptions were to be implemented fully, the impact on the financial services industry generally and on the Company and its business in particular is difficult to assess. We believe however it could have an adverse effect on sales of annuity products to IRA owners particularly in the independent agent distribution channel. A significant portion of our annuity sales are to IRAs. Compliance with the prohibited transaction exemptions when fully phased in would likely require additional supervision of agents, cause changes to compensation practices and product offerings, and increase litigation risk, all of which could adversely impact our business, results of operations and/or financial condition. FGL Insurance will continue to monitor developments closely and believes it is prepared to execute implementation plans as necessary to meet the rule and exemption requirements on the requisite applicability dates.

Use of Estimates and Assumptions

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

The Company’s significant estimates which are susceptible to change in the near term relate to (1) recognition of deferred tax assets and related valuation allowances, (2) fair value of certain invested assets and derivatives including embedded derivatives (see "Note 4. Investments", "Note 5. Derivative Financial Instruments" and "Note 6. Fair Value of Financial Instruments" to the Company’s Consolidated Financial Statements), (3) OTTI of available-for-sale investments (see "Note 4. Investments" to the Company’s Consolidated Financial Statements), (4) amortization of intangibles (see "Note 7. Intangible Assets" to the Company’s Consolidated Financial Statements), (5) estimates of reserves for loss contingencies, including litigation and regulatory reserves (see "Note 12. Commitments and Contingencies" to the Company’s Consolidated Financial Statements), (6) reserves for future policy benefits and product guarantees and (7) recognition of stock-based compensation expense (see "Note 10. Stock Compensation" to the Company’s Consolidated Financial Statements).

The Company periodically, and at least annually, reviews the assumptions associated with reserves for policy benefits, product guarantees, and amortization of intangibles. As part of the assumption review process that occurred in

September 2017, changes were made to the surrender rates, guaranteed minimum withdrawal benefit (“GMWB”)

F-24

---

Table of Contents

partial withdrawal utilization, and earned rates to bring assumptions in line with current and expected future experience. As part of the assumption review process in September 2016, changes were made to the surrender rates and earned rates, and as part of the September 2015 review, changes were made to the earned rates and the guaranteed option costs. The change in assumptions as of September 30, 2017 resulted in a net increase in future expected margins and a corresponding decrease in “unlocking” and amortization expense. This ultimately resulted in an increase to intangible assets of \$40. These assumptions are also used in the reserve calculation and resulted in an increase in reserves of \$33 in the year ended September 30, 2017. The change in assumptions as of September 30, 2016 resulted in a net increase in future expected margins and a corresponding decrease in “unlocking” and amortization expense and increase to intangible assets of \$20. These assumptions are also used in the reserve calculation and resulted in an increase in reserves of \$22 in the year ended September 30, 2016. The change in assumptions as of September 30, 2015 resulted in a net increase in future expected margins and a corresponding decrease in “unlocking” and amortization expense and increase to intangible assets of \$55. These assumptions are also used in the reserve calculation and resulted in an increase in reserves of \$18 in the year ended September 30, 2015.

**Concentrations of Financial Instruments**

As of September 30, 2017 and 2016, the Company’s most significant investment in one industry, excluding United States (“U.S.”) Government securities, was its investment securities in the banking industry with a fair value of \$2,827 or 12% and \$2,448 or 12%, respectively, of the invested assets portfolio and an amortized cost of \$2,695 and \$2,352, respectively. As of September 30, 2017, the Company’s holdings in this industry include investments in 115 different issuers with the top ten investments accounting for 30% of the total holdings in this industry. As of both September 30, 2017 and September 30, 2016, the Company had no investments in issuers that exceeded 10% of shareholders' equity. The Company's largest concentration in any single issuer as of both September 30, 2017 and September 30, 2016 was Wells Fargo & Company, with a total fair value of \$155 or 1% and \$171 or 1% of the invested assets portfolio, respectively.

**Concentrations of Financial and Capital Markets Risk**

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

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

**Concentration of Reinsurance Risk**

The Company has a significant concentration of reinsurance with Wilton Reassurance Company (“Wilton Re”), a third-party reinsurer, and Front Street Re (Cayman) Ltd. (“FSRCI”), an affiliate, that could have a material impact on the Company’s financial position in the event that Wilton Re or FSRCI fail to perform their obligations under the various reinsurance treaties. Wilton Re is a wholly-owned subsidiary of Canada Pension Plan Investment Board (“CPPIB”). CPPIB has an AAA issuer credit rating from Standard & Poor's Ratings Services (“S&P”) as of September 30, 2017. As of September 30, 2017, the net amount recoverable from Wilton Re was \$1,535 and the net amount recoverable from FSRCI was \$1,016. The coinsurance agreement with FSRCI is on a funds withheld basis. The Company monitors both the financial condition of individual reinsurers and risk concentration arising from similar geographic regions, activities, and economic characteristics of reinsurers to attempt to reduce the risk of default by such reinsurers.



Table of Contents

## (4) Investments

The Company's fixed maturity and equity securities investments have been designated as available-for-sale and are carried at fair value with unrealized gains and losses included in AOCI net of associated adjustments for DAC, VOBA, and deferred income taxes. The Company's consolidated investments at September 30, 2017 and 2016 are summarized as follows:

	September 30, 2017				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Carrying Value
Available-for sale securities					
Asset-backed securities	\$2,852	\$ 38	\$ (5 )	\$2,885	\$2,885
Commercial mortgage-backed securities	974	14	(10 )	978	978
Corporates	12,027	794	(91 )	12,730	12,730
Equities	733	42	(2 )	773	773
Hybrids	1,388	93	(16 )	1,465	1,465
Municipals	1,573	163	(10 )	1,726	1,726
Residential mortgage-backed securities	1,144	124	(5 )	1,263	1,263
U.S. Government	105	2	—	107	107
Total available-for-sale securities	20,796	1,270	(139 )	21,927	21,927
Derivative investments	225	190	(2 )	413	413
Commercial mortgage loans	547	—	—	552	547
Other invested assets	185	—	—	182	185
Total investments	\$21,753	\$ 1,460	\$ (141 )	\$23,074	\$23,072
	September 30, 2016				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Carrying Value
Available-for-sale securities					
Asset-backed securities	\$2,528	\$ 16	\$ (45 )	\$2,499	\$2,499
Commercial mortgage-backed securities	850	23	(9 )	864	864
Corporates	10,712	760	(132 )	11,340	11,340
Equities	640	47	(4 )	683	683
Hybrids	1,356	77	(47 )	1,386	1,386
Municipals	1,515	206	(4 )	1,717	1,717
Residential mortgage-backed securities	1,327	63	(28 )	1,362	1,362
U.S. Government	233	10	—	243	243
Total available-for-sale securities	19,161	1,202	(269 )	20,094	20,094
Derivative investments	221	78	(23 )	276	276
Commercial mortgage loans	595	—	—	614	595
Other invested assets	60	—	—	58	60
Total investments	\$20,037	\$ 1,280	\$ (292 )	\$21,042	\$21,025

Included in AOCI were cumulative gross unrealized gains of \$1 and gross unrealized losses of \$3 related to the non-credit portion of OTTI on non-agency residential mortgage-backed securities ("RMBS") at September 30, 2017 and gross unrealized gains of \$1 and gross unrealized losses of \$3 related to the non-credit portion of OTTI on RMBS at September 30, 2016, respectively.

Securities held on deposit with various state regulatory authorities had a fair value of \$19,765 and \$18,075 at September 30, 2017 and 2016, respectively. Under Iowa regulations, insurance companies are required to hold securities on deposit in an amount no less than the Company's legal reserve as prescribed by Iowa regulations.

At September 30, 2017 and 2016, the Company held investments that were non-income producing for a period greater than twelve months with fair values of \$0 and \$2, respectively.

F-26

---



Table of Contents

In accordance with the Company's FHLB agreements, the investments supporting the funding agreement liabilities are pledged as collateral to secure the FHLB funding agreement liabilities. The collateral investments had a fair value of \$729 and \$649 at September 30, 2017 and 2016, respectively.

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

	September 30, 2017	
	Amortized Cost	Fair Value
Corporates, Non-structured Hybrids, Municipal and U.S. Government securities:		
Due in one year or less	\$342	\$342
Due after one year through five years	1,765	1,825
Due after five years through ten years	3,225	3,377
Due after ten years	8,987	9,689
Subtotal	14,319	15,233
Other securities which provide for periodic payments:		
Asset-backed securities	2,852	2,885
Commercial mortgage-backed securities	974	978
Structured hybrids	774	795
Residential mortgage-backed securities	1,144	1,263
Subtotal	5,744	5,921
Total fixed maturity available-for-sale securities	\$20,063	\$21,154

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

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

Based on the results of our process for evaluating available-for-sale securities in unrealized loss positions for OTTI discussed above, the Company determined that the unrealized losses as of September 30, 2017 decreased due to price improvement in floating rate asset classes due to increased LIBOR rates. This was aided by strong overall economic fundamentals that drove demand for riskier assets. Based on an assessment of all securities in the portfolio in unrealized loss positions, the Company determined that the unrealized losses on the securities presented in the table below were not other-than-temporarily impaired as of September 30, 2017.

Table of Contents

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

	September 30, 2017					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities						
Asset-backed securities	\$487	\$ (2 )	\$305	\$ (3 )	\$792	\$ (5 )
Commercial mortgage-backed securities	222	(4 )	163	(6 )	385	(10 )
Corporates	978	(16 )	752	(75 )	1,730	(91 )
Equities	28	—	17	(2 )	45	(2 )
Hybrids	36	—	290	(16 )	326	(16 )
Municipals	154	(3 )	48	(7 )	202	(10 )
Residential mortgage-backed securities	6	—	120	(5 )	126	(5 )
U.S. Government	26	—	—	—	26	—
Total available-for-sale securities	\$1,937	\$ (25 )	\$1,695	\$ (114 )	\$3,632	\$ (139 )
Total number of available-for-sale securities in an unrealized loss position less than twelve months						316
Total number of available-for-sale securities in an unrealized loss position twelve months or longer						295
Total number of available-for-sale securities in an unrealized loss position						611
	September 30, 2016					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities						
Asset-backed securities	\$352	\$ (4 )	\$1,368	\$ (41 )	\$1,720	\$ (45 )
Commercial mortgage-backed securities	44	(1 )	182	(8 )	226	(9 )
Corporates	413	(9 )	1,031	(123 )	1,444	(132 )
Equities	51	(1 )	75	(3 )	126	(4 )
Hybrids	41	(2 )	412	(45 )	453	(47 )
Municipals	69	(2 )	38	(2 )	107	(4 )
Residential mortgage-backed securities	70	(1 )	544	(27 )	614	(28 )
Total available-for-sale securities	\$1,040	\$ (20 )	\$3,650	\$ (249 )	\$4,690	\$ (269 )
Total number of available-for-sale securities in an unrealized loss position less than twelve months						193
Total number of available-for-sale securities in an unrealized loss position twelve months or longer						543
Total number of available-for-sale securities in an unrealized loss position						736

At September 30, 2017 and 2016, securities in an unrealized loss position were primarily concentrated in investment grade, corporate debt and hybrid instruments.



Table of Contents

At September 30, 2017 and 2016, securities with a fair value of \$59 and \$183, respectively, had an unrealized loss greater than 20% of amortized cost (excluding U.S. Government and U.S. Government sponsored agency securities), which represented 0% and less than 1% of the carrying value of all investments, respectively.

The following table provides a reconciliation of the beginning and ending balances of the credit loss portion of OTTI on fixed maturity available-for-sale securities held by the Company for the years ended September 30, 2017 and 2016, for which a portion of the OTTI was recognized in AOCI:

	Year ended	
	September	
	30,	
	2017	2016
Beginning balance	\$ 3	\$ 3
Increases attributable to credit losses on securities:		
OTTI was previously recognized	—	—
OTTI was not previously recognized	—	—
Ending balance	\$ 3	\$ 3

For the year ended September 30, 2017, the Company recognized \$22 of credit impairment losses in operations and \$0 of change-of-intent losses in operations, related to fixed maturity securities and other invested assets with an amortized cost of \$0 and a fair value of \$0 at September 30, 2017. The Company recognized \$0 non-credit losses in other comprehensive income for investments which experienced OTTI.

For the year ended September 30, 2016, the Company recognized \$40 of credit impairment losses in operations and \$4 of change-of-intent losses in operations, related to fixed maturity securities and other invested assets with an amortized cost of \$42 and a fair value of \$39 at September 30, 2016. The Company recognized \$1 non-credit losses in other comprehensive income for investments which experienced OTTI.

For the year ended September 30, 2015, the Company recognized \$74 of credit impairment losses in operations and \$8 of change-of-intent losses in operations, related to fixed maturity securities and other invested assets with an amortized cost of \$260 and a fair value of \$259 at September 30, 2015. The Company recognized \$0 non-credit losses in other comprehensive income for investments which experienced OTTI.

Details underlying write-downs taken as a result of OTTI that were recognized in "Net income" and included in net realized gains on securities were as follows:

	Year ended		
	September 30,		
	2017	2016	2015
OTTI Recognized in Net income:			
Asset-backed securities	\$2	\$ 12	\$ 36
Corporates	20	6	2
Related party loans	—	4	—
Residential mortgage-backed securities	—	—	8
Other invested assets	—	22	36
Total	\$22	\$ 44	\$ 82

The portion of OTTI recognized in AOCI is disclosed in the Consolidated Statements of Comprehensive Income (Loss).

In the second fiscal quarter ended March 31, 2017, the Company recognized credit-related impairment losses of \$20 on available-for-sale debt securities related to investments in First National Bank Holding Co. On April 28, 2017, the Federal Deposit Insurance Company ("FDIC") shutdown First NBC Bank and named the FDIC as receiver. The bank was the holding company's principal asset and as a result of the closure of the bank the holding company has limited remaining tangible assets. The Company expects no further recovery of its investment in First National Bank Holding Co. and has reflected the impairment in its financial statements for the year ended September 30, 2017.



Table of Contents

## Commercial Mortgage Loans

Commercial mortgage loans ("CMLs") represented approximately 2% and 3% of the Company's total investments as of September 30, 2017 and September 30, 2016, respectively. The Company primarily makes mortgage loans on income producing properties including hotels, industrial properties, retail buildings, multifamily properties and office buildings. The Company diversifies its CML portfolio by geographic region and property type to attempt to reduce concentration risk. The Company continuously evaluates CMLs based on relevant current information to ensure properties are performing at a consistent and acceptable level to secure the related debt. The distribution of CMLs, gross of valuation allowances, by property type and geographic region is reflected in the following tables:

	September 30, 2017		September 30, 2016	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
Property Type:				
Funeral Home	\$ 1	— %	\$ 1	— %
Hotel	23	4 %	23	4 %
Industrial - General	45	8 %	58	10 %
Industrial - Warehouse	38	7 %	64	11 %
Multifamily	68	13 %	70	11 %
Office	157	29 %	160	27 %
Retail	216	39 %	220	37 %
Total commercial mortgage loans, gross of valuation allowance	\$ 548	100 %	\$ 596	100 %
Allowance for loan loss	(1 )		(1 )	
Total commercial mortgage loans	\$ 547		\$ 595	

## U.S. Region:

East North Central	\$ 108	20 %	\$ 137	23 %
East South Central	20	4 %	21	4 %
Middle Atlantic	85	16 %	97	16 %
Mountain	67	12 %	67	12 %
New England	13	2 %	14	2 %
Pacific	134	24 %	136	23 %
South Atlantic	66	12 %	67	11 %
West North Central	14	2 %	14	2 %
West South Central	41	8 %	43	7 %
Total commercial mortgage loans, gross of valuation allowance	\$ 548	100 %	\$ 596	100 %
Allowance for loan loss	(1 )		(1 )	
Total commercial mortgage loans	\$ 547		\$ 595	

Within the Company's CML portfolio, 100% of all CMLs had a loan-to-value ("LTV") ratio of less than 75% at September 30, 2017 and September 30, 2016. As of September 30, 2017, all CMLs are current and have not experienced credit or other events which would require the recording of an impairment loss.

LTV and DSC ratios are measures commonly used to assess the risk and quality of mortgage loans. The LTV ratio, calculated at time of origination, is expressed as a percentage of the amount of the loan relative to the value of the underlying property. A LTV ratio in excess of 100% indicates the unpaid loan amount exceeds the underlying collateral. The DSC ratio, based upon the most recently received financial statements, is expressed as a percentage of the amount of a property's net income to its debt service payments. A DSC ratio of less than 1.00 indicates that a property's operations do not generate sufficient income to cover debt payments.



Table of Contents

The following table presents the recorded investment in CMLs by LTV and DSC ratio categories and estimated fair value by the indicated loan-to-value ratios at September 30, 2017 and September 30, 2016:

	Debt-Service Coverage Ratios				Total Amount	% of Total	Estimated Fair Value	% of Total
	1.00	>1.25 - 1.25	<1.00	N/A(a)				
September 30, 2017								
LTV Ratios:								
Less than 50%	\$222	\$—	\$—	—\$ 1	\$ 223	41 %	\$ 226	41 %
50% to 60%	232	—	—	—	232	42 %	233	42 %
60% to 75%	86	7	—	—	93	17 %	93	17 %
Commercial mortgage loans	\$540	\$ 7	\$—	—\$ 1	\$ 548	100%	\$ 552	100%
September 30, 2016								
LTV Ratios:								
Less than 50%	\$158	\$ 18	\$—	—\$ 1	\$ 177	29 %	\$ 181	29 %
50% to 60%	189	—	—	—	189	32 %	194	32 %
60% to 75%	230	—	—	—	230	39 %	239	39 %
Commercial mortgage loans	\$577	\$ 18	\$—	—\$ 1	\$ 596	100%	\$ 614	100%

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

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

	September 30, 2017	September 30, 2016
Gross balance commercial mortgage loans	\$ 548	\$ 596
Allowance for loan loss	(1 )	(1 )
Net balance commercial mortgage loans	\$ 547	\$ 595

The Company recognizes a mortgage loan as delinquent when payments on the loan are greater than 30 days past due. At September 30, 2017 and 2016, we had no CMLs that were delinquent in principal or interest payments. The following provides the current and past due composition of our CMLs:

	September 30, 2017	September 30, 2016
Current to 30 days	\$ 548	\$ 596
Past due	—	—
Total carrying value	\$ 548	\$ 596

A Troubled Debt Restructuring ("TDR") is a situation where we have granted a concession to a borrower for economic or legal reasons related to the borrower's financial difficulties that we would not otherwise consider. A mortgage loan that has been granted new terms, including workout terms as described previously, would be considered a TDR if it meets conditions that would indicate a borrower is experiencing financial difficulty and the new terms constitute a concession on our part. We analyze all loans where we have agreed to workout terms and all loans that we have refinanced to determine if they meet the definition of a TDR. We consider the following factors in determining whether or not a borrower is experiencing financial difficulty:

- borrower is in default,
- borrower has declared bankruptcy,
- there is growing concern about the borrower's ability to continue as a going concern,
- borrower has insufficient cash flows to service debt,
- borrower's inability to obtain funds from other sources, and



- there is a breach of financial covenants by the borrower.

F-31

---

Table of Contents

If the borrower is determined to be in financial difficulty, we consider the following conditions to determine if the borrower will be granted a concession:

- assets used to satisfy debt are less than our recorded investment,
- interest rate is modified,
- maturity date extension at an interest rate less than market rate,
- capitalization of interest,
- delaying principal and/or interest for a period of three months or more, and
- partial forgiveness of the balance or charge-off.

Mortgage loan workouts, refinances or restructures that are classified as TDRs are individually evaluated and measured for impairment. As of September 30, 2017 and 2016, our CML portfolio had no impairments, modifications or troubled debt restructuring.

#### Net Investment Income

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

	Year ended September 30,		
	2017	2016	2015
Fixed maturity securities, available-for-sale	\$953	\$869	\$799
Equity securities, available-for-sale	41	32	33
Commercial mortgage loans	23	24	11
Related party loans	—	4	6
Invested cash and short-term investments	3	3	2
Other investments	7	9	20
Gross investment income	1,027	941	871
Investment expense	(22 )	(18 )	(20 )
Net investment income	\$1,005	\$923	\$851

During the fiscal quarter ended June 30, 2015, the Company received notice that we are entitled to receive a settlement as a result of our ownership of certain RMBS that were issued by Countrywide Financial Corporation ("Countrywide"), an entity which was later acquired by Bank of America Corporation. An \$18 cash settlement was received in the fiscal quarter ended June 30, 2016 for a majority of the Countrywide securities, and another \$2 was expected to be paid in the third fiscal quarter of 2017; however, the two bonds involved are a part of ongoing litigation, and the settlement proceeds have been escrowed pending resolution of this process. In compliance with the Company's accounting policy described in "Note 2. Significant Accounting Policies and Practices", the Company updated its cash flow projections for its best estimate of the recovery as of May 31, 2016 and determined the new effective yield with the resulting immaterial impact recognized in "Net investment income". The trustee and settlement administrator indicate timing of a resolution is unknown.

Table of Contents

## Net Investment Gains (Losses)

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

	Year ended September 30,		
	2017	2016	2015
Net realized (losses) gains on fixed maturity available-for-sale securities	\$ (20 )	\$ 11	\$ 11
Realized gains (losses) on equity securities	3	1	—
Change in fair value of other derivatives and embedded derivatives	3	—	7
Realized losses on other invested assets	(2 )	(26 )	(40 )
Net realized (losses) gains on available-for-sale securities	(16 )	(14 )	(22 )
Realized gains (losses) on certain derivative instruments	219	(84 )	108
Unrealized gains (losses) on certain derivative instruments	129	166	(215 )
Change in fair value of reinsurance related embedded derivative	(16 )	(49 )	92
Realized gains (losses) on hedging derivatives and reinsurance-related embedded derivatives	332	33	(15 )
Net investment gains (losses)	\$ 316	\$ 19	\$ (37 )

For the year ended September 30, 2017, proceeds from the sale of fixed maturity available-for-sale securities totaled \$703, gross gains on such sales totaled \$25 and gross losses totaled \$20, respectively.

For the year ended September 30, 2016, proceeds from the sale of fixed maturity available-for-sale securities, totaled \$1,318, gross gains on such sales totaled \$40 and gross losses totaled \$23, respectively.

For the year ended September 30, 2015, proceeds from the sale of fixed maturity available-for-sale securities, totaled \$3,200, gross gains on such sales totaled \$104 and gross losses totaled \$44, respectively.

## Unconsolidated Variable Interest Entities

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

beneficiary of them.

FGL Insurance participates in loans to third parties originated by Salus. Salus is an affiliated, limited liability company indirectly owned by HRG that originates senior secured asset-based loans to unaffiliated third-party borrowers. FGL Insurance also participates in CLOs managed by Salus and owns preferred equity in Salus within the funds withheld portfolio of the FSRCI treaty. The Company's maximum exposure to loss as a result of its investments in or with Salus is limited to the carrying value of its investments in Salus which totaled \$2 and \$22 as of September 30, 2017 and 2016, respectively. FGL's investments in or with Salus are detailed in "Note 14. Related Party Transactions" to the Company's Consolidated Financial Statements.

FGL also executed a commitment of \$75 to purchase common shares in an unaffiliated private business development company ("BDC"). The BDC invests in secured and unsecured fixed maturity and equity securities of middle market companies in the United States. Due to the voting structure of the transaction, FGL does not have voting power. The initial capital call occurred June 30, 2015, with the remaining commitment expected to fund through 2017. FGL has funded \$42 as of September 30, 2017.

In the normal course of its activities, the Company invests in various limited partnerships as a passive investor. These investments are in corporate credit and real estate debt strategies that have a current income bias. Limited partnership interests are accounted for under the equity method and are included in "Other invested assets" on the Company's consolidated balance sheet. The Company's maximum exposure to loss with respect to these investments is limited to the investment carrying amounts reported in the Company's consolidated balance sheet in addition to any required unfunded commitments. As of September 30, 2017, the Company's maximum exposure to loss was \$152 in recorded carrying value and \$116 in unfunded commitments.

F-33

---

Table of Contents

## (5) Derivative Financial Instruments

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

	September 30, 2017	September 30, 2016
Assets:		
Derivative investments:		
Call options	\$ 413	\$ 276
Futures contracts	—	—
Other invested assets:		
Other derivatives and embedded derivatives	15	13
Other assets:		
Reinsurance related embedded derivative	103	119
	\$ 531	\$ 408
Liabilities:		
Contractholder funds:		
FIA embedded derivative	\$2,627	\$2,383
Funds withheld for reinsurance liabilities		
Call options payable to FSRCI	15	11
	\$2,642	\$2,394

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

	Year ended September 30,		
	2017	2016	2015
Revenues:			
Net investment (losses) gains:			
Call options	\$338	\$74	\$(100)
Futures contracts	10	8	(7 )
Other derivatives and embedded derivatives	3	—	7
Reinsurance related embedded derivative	(16 )	(49 )	92
	\$335	\$33	\$(8 )
Benefits and other changes in policy reserves:			
FIA embedded derivatives	\$244	\$234	\$241

## Additional Disclosures

## Other Derivatives and Embedded Derivatives

On June 16, 2014, FGL Insurance invested in a \$35 fund-linked note issued by Nomura International Funding Pte. Ltd. The note provides for an additional payment at maturity based on the value of an embedded derivative in AnchorPath Dedicated Return Fund (the "AnchorPath Fund") of \$11 which was based on the actual return of the fund. At September 30, 2017, the fair value of the fund-linked note and embedded derivative were \$26 and \$15, respectively. At maturity of the fund-linked note, FGL Insurance will receive the \$35 face value of the note plus the value of the embedded derivative in the AnchorPath Fund. The additional payment at maturity is an embedded derivative reported in "Other invested assets", while the host is an available-for-sale security reported in "Fixed maturities, available-for-sale".



Table of Contents

## Reinsurance Related Embedded Derivatives

FGL Insurance has a modified coinsurance arrangement with FSRCI, meaning that funds are withheld by FGL Insurance. This arrangement creates an obligation for FGL Insurance to pay FSRCI at a later date, which results in an embedded derivative. This embedded derivative is considered a total return swap with contractual returns that are attributable to the assets and liabilities associated with this reinsurance arrangement. The fair value of the total return swap is based on the change in fair value of the underlying assets held in the funds withheld portfolio. Investment results for the assets that support the coinsurance with funds withheld reinsurance arrangement, including gains and losses from sales, are passed directly to the reinsurer pursuant to contractual terms of the reinsurance arrangement. The reinsurance related embedded derivative is reported in "Other assets", if in a net gain position, or "Other liabilities", if in a net loss position, on the Consolidated Balance Sheets and the related gains or losses are reported in "Net investment gains" on the Consolidated Statements of Operations.

## FIA Contracts

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

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

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

## Call option payable to FSRCI

Under the terms of the modified coinsurance arrangement with FSRCI, FGL Insurance is required to pay FSRCI a portion of the net cost of equity option purchases and the proceeds from expirations related to the equity options which hedge the index credit feature of the reinsured FIA contracts. Accordingly, the payable to FSRCI is reflected in "Funds withheld for reinsurance liabilities" as of the balance sheet date with changes in fair value reflected in the Company's Consolidated Statements of Operations.

## Credit Risk

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





Table of Contents

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

Counterparty	Credit Rating (Fitch/Moody's/S&P) (a)	September 30, 2017			September 30, 2016				
		Notional Amount	Fair Value	Collateral	Net Credit Risk	Notional Amount	Fair Value	Collateral	Net Credit Risk
Merrill Lynch	A/*A+	\$3,164	\$ 144	\$ 105	\$ 39	\$2,302	\$ 55	\$ 10	\$ 45
Deutsche Bank	A-/A3/A-	972	32	32	—	1,620	46	12	34
Morgan Stanley	*/A1/A+	1,556	82	87	(5 )	2,952	87	58	29
Barclay's Bank	A*+/A1/A-	2,163	73	74	(1 )	1,389	39	—	39
Canadian Imperial Bank of Commerce	AA-/Aa3/A+	2,459	82	83	(1 )	1,623	49	48	1
Total		\$10,314	\$ 413	\$ 381	\$ 32	\$9,886	\$ 276	\$ 128	\$ 148

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

Collateral Agreements

The Company is required to maintain minimum ratings as a matter of routine practice as part of its over-the-counter derivative agreements on ISDA forms. Under some ISDA agreements, the Company has agreed to maintain certain financial strength ratings. A downgrade below these levels provides the counterparty under the agreement the right to terminate the open derivative contracts between the parties, at which time any amounts payable by the Company or the counterparty would be dependent on the market value of the underlying derivative contracts. The Company's current rating allows multiple counterparties the right to terminate ISDA agreements. No ISDA agreements have been terminated, although the counterparties have reserved the right to terminate the ISDA agreements at any time. In certain transactions, the Company and the counterparty have entered into a collateral support agreement requiring either party to post collateral when the net exposures exceed pre-determined thresholds. These thresholds vary by counterparty and credit rating. As of September 30, 2017 and 2016, counterparties posted \$381 and \$128 of collateral, respectively, of which \$276 and \$118 is included in "Cash and cash equivalents" with an associated payable for this collateral included in "Other liabilities" on the Consolidated Balance Sheets. The remaining \$105 and \$10 of non-cash collateral was held by a third-party custodian and may not be sold or re-pledged, except in the event of default, and, therefore, is not included in the Company's Consolidated Balance Sheets at September 30, 2017 and 2016, respectively. This collateral generally consists of U.S. treasury bonds and mortgage-backed securities. Accordingly, the maximum amount of loss due to credit risk that the Company would incur if parties to the call options failed completely to perform according to the terms of the contracts was \$32 and \$148 at September 30, 2017 and 2016, respectively.

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

The Company held 1,534 and 559 futures contracts at September 30, 2017 and 2016, respectively. The fair value of the futures contracts represents the cumulative unsettled variation margin (open trade equity, net of cash settlements). The Company provides cash collateral to the counterparties for the initial and variation margin on the futures contracts which is included in "Cash and cash equivalents" in the accompanying Consolidated Balance Sheets. The amount of cash collateral held by the counterparties for such contracts was \$7 and \$3 at September 30, 2017 and 2016, respectively.

Table of Contents

(6) Fair Value of Financial Instruments

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

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

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

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

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

When a determination is made to classify an asset or liability within Level 3 of the fair value hierarchy, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement.

Because certain securities trade in less liquid or illiquid markets with limited or no pricing information, the determination of fair value for these securities is inherently more difficult. However, Level 3 fair value investments may include, in addition to the unobservable or Level 3 inputs, observable components, which are components that are actively quoted or can be validated to market-based sources.

Table of Contents

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

	September 30, 2017				
	Level 1	Level 2	Level 3	Fair Value	Carrying Amount
<b>Assets</b>					
Cash and cash equivalents	\$885	\$—	\$—	\$885	\$885
Fixed maturity securities, available-for-sale:					
Asset-backed securities	—	2,711	174	2,885	2,885
Commercial mortgage-backed securities	—	883	95	978	978
Corporates	—	11,616	1,114	12,730	12,730
Hybrids	—	1,455	10	1,465	1,465
Municipals	—	1,688	38	1,726	1,726
Residential mortgage-backed securities	—	1,263	—	1,263	1,263
U.S. Government	75	32	—	107	107
Equity securities, available-for-sale	10	718	2	730	730
Derivative financial instruments	—	413	—	413	413
Reinsurance related embedded derivative, included in other assets	—	103	—	103	103
Other invested assets	—	—	16	16	16
Total financial assets at fair value	\$970	\$20,882	\$1,449	\$23,301	\$23,301
<b>Liabilities</b>					
Derivatives:					
FIA embedded derivatives, included in contractholder funds	\$—	\$—	\$2,627	\$2,627	\$2,627
Call options payable for FSRCI, included in funds withheld for reinsurance liabilities	—	15	—	15	15
Total financial liabilities at fair value	\$—	\$15	\$2,627	\$2,642	\$2,642

Table of Contents

	September 30, 2016			Fair Value	Carrying Amount
	Level 1	Level 2	Level 3		
<b>Assets</b>					
Cash and cash equivalents	\$864	\$—	\$—	\$864	\$864
Fixed maturity securities, available-for-sale:					
Asset-backed securities	—	2,327	172	2,499	2,499
Commercial mortgage-backed securities	—	785	79	864	864
Corporates	—	10,219	1,121	11,340	11,340
Hybrids	—	1,386	—	1,386	1,386
Municipals	—	1,676	41	1,717	1,717
Residential mortgage-backed securities	—	1,362	—	1,362	1,362
U.S. Government	61	182	—	243	243
Equity securities available-for-sale	22	617	3	642	642
Derivative financial instruments	—	276	—	276	276
Reinsurance related embedded derivative, included in other assets	—	119	—	119	119
Other invested assets	—	—	34	34	34
Total financial assets at fair value	\$947	\$18,949	\$1,450	\$21,346	\$21,346
<b>Liabilities</b>					
Derivatives:					
FIA embedded derivatives, included in contractholder funds	\$—	\$—	\$2,383	\$2,383	\$2,383
Call options payable for FSRCI, included in funds withheld for reinsurance liabilities	—	11	—	11	11
Total financial liabilities at fair value	\$—	\$11	\$2,383	\$2,394	\$2,394

The carrying amounts of accrued investment income, and portions of other insurance liabilities, approximate fair value due to their short duration and, accordingly, they are not presented in the tables above.

**Valuation Methodologies****Fixed Maturity Securities & Equity Securities**

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

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

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

F-39

---

Table of Contents

The Company did not adjust prices received from third parties as of September 30, 2017 and 2016. However, the Company does analyze the third-party valuation methodologies and its related inputs to perform assessments to determine the appropriate level within the fair value hierarchy.

**Derivative Financial Instruments**

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

The fair value of the reinsurance-related embedded derivative in the funds withheld reinsurance agreement with FSRCI is estimated based upon the fair value of the assets supporting the funds withheld from reinsurance liabilities. As the fair value of the assets is based on a quoted market price of similar assets (Level 2), the fair value of the embedded derivative is based on market-observable inputs and is classified as Level 2.

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

The fair value measurement of the FIA embedded derivatives included in contractholder funds is determined through a combination of market observable information and significant unobservable inputs. The market observable inputs are the market value of option and interest swap rates. The significant unobservable inputs are the mortality multiplier, surrender rates, and non-performance spread. The mortality multiplier at September 30, 2017 and 2016 was applied to the Annuity 2000 mortality tables. Significant increases (decreases) in the market value of an option in isolation would result in a higher or lower, respectively, fair value measurement. Significant increases (decreases) in interest swap rates, mortality multiplier, surrender rates, or non-performance spread in isolation would result in a lower (higher) fair value measurement. Generally, a change in any one unobservable input would not directly result in a change in any other unobservable input.

**Other Invested Assets**

Fair value of our loan participation interest securities approximated the unpaid principal balance of the participation interest as of September 30, 2017. In making this assessment, the Company considered the sufficiency of the underlying loan collateral, movements in the benchmark interest rate between origination date and September 30, 2017, the primary market participant for these securities, and the short-term maturity of these loans (less than 1 year). Fair value of our loan participation interest JSN Jewellery, Inc. is based upon a best estimate of the expected liquidation value of the underlying collateral.

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

Fair value of foreign exchange derivatives and embedded derivatives, including CAD currency forward contracts, is based on the quoted USD/CAD exchange rates.

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

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



Table of Contents

Commercial Mortgage Loans

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

Policy Loans (included within Other Invested Assets)

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

Related Party Loans - HGI Energy Loan

The HGI Energy loan's (discussed in "Note 14. Related Party Transactions" to the Company's Consolidated Financial Statements) fair value is based on the discounted cash flows of the loan. The discount rate was set by observing the market rate on other debt instruments of the issuer with an adjustment for liquidity.

Investment Contracts

Investment contracts include deferred annuities, FIAs, indexed universal life policies ("IULs") and immediate annuities. The fair value of deferred annuity, FIA, and IUL contracts is based on their cash surrender value (i.e. the cost the Company would incur to extinguish the liability) as these contracts are generally issued without an annuitization date. The fair value of immediate annuities contracts is derived by calculating a new fair value interest rate using the updated yield curve and treasury spreads as of the respective reporting date. At September 30, 2017 and 2016, this resulted in lower fair value reserves relative to the carrying value. The Company is not required to, and has not, estimated the fair value of the liabilities under contracts that involve significant mortality or morbidity risks, as these liabilities fall within the definition of insurance contracts that are exceptions from financial instruments that require disclosures of fair value.

Debt

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



Table of Contents

Quantitative information regarding significant unobservable inputs used for recurring Level 3 fair value measurements of financial instruments carried at fair value as of September 30, 2017 and 2016 are as follows:

	Fair Value at			Range (Weighted average)
	September 30, 2017	Valuation Technique	Unobservable Input(s)	September 30, 2017
<b>Assets</b>				
Asset-backed securities	\$ 173	Broker-quoted	Offered quotes	92.00% - 102.50% (100.73%)
Asset-backed securities	1	Matrix Pricing	Quoted prices	99.88% - 99.88% (99.88%)
Commercial mortgage-backed securities	92	Broker-quoted	Offered quotes	99.50% - 123.84% (113.71%)
Commercial mortgage-backed securities	3	Matrix Pricing	Quoted prices	99.63% - 99.63% (99.63%)
Corporates	827	Broker-quoted	Offered quotes	61.00% - 112.51% (100.22%)
Corporates	287	Matrix Pricing	Quoted prices	94.17% - 116.19% (104.12%)
Hybrids	10	Broker-quoted	Offered quotes	100.42% - 100.42% (100.42%)
Municipals	38	Broker-quoted	Offered quotes	112.17% - 112.17% (112.17%)
Equity securities available-for-sale (Salus preferred equity)	2	Income-approach	Yield	5.00%
Other invested assets:				
Available-for-sale embedded derivative	16	Black scholes model	Market value of AnchorPath fund	100.00%
Total	\$ 1,449			
<b>Liabilities</b>				
Derivatives:				
FIA embedded derivatives, included in contractholder funds	\$ 2,627	Discounted Cash Flow	Market value of option	0.00% - 27.81% (3.64%)
			SWAP rates	2.00% - 2.29% (2.14%)
			Mortality multiplier	80.00% - 80.00% (80.00%)
			Surrender rates	0.50% - 75.00% (10.29%)
			Non-performance spread	0.25% - 0.25% (0.25%)
			Future option budget	1.13% - 5.57% (2.90%)
Total liabilities at fair value	\$ 2,627			



Table of Contents

	Fair Value at	Valuation Technique	Unobservable Input(s)	Range (Weighted average) September 30, 2016
	September 30, 2016			
<b>Assets</b>				
Asset-backed securities	\$ 144	Broker-quoted	Offered quotes	97.54% - 101.55% (99.66%)
Asset-backed securities	9	Matrix Pricing	Quoted prices	98.75%
Asset-backed securities (Salus CLO equity tranche)	19	Third-Party Valuation	Offered quotes	28.37%
			Discount rate	15.00%
			RSH Recovery	5.50%
			Other loan recoveries	0.00% - 100.00%
Commercial mortgage-backed securities	75	Broker-quoted	Offered quotes	104.31% - 122.19% (114.10%)
Commercial mortgage-backed securities	4	Matrix Pricing	Quoted prices	98.41% - 98.41% (98.41%)
Corporates	920	Broker-quoted	Offered quotes	50.00% - 118.33% (103.37%)
Corporates	201	Matrix Pricing	Quoted prices	99.00% - 150.23% (107.65%)
Municipals	41	Broker-quoted	Offered quotes	119.04% - 119.04% (119.04%)
Equity securities available-for-sale (Salus preferred equity)	3	Market-approach	Yield	11.00%
			RSH Recovery	5.50%
			Discount rate	15.00%
			Salus CLO Equity	28.37%
<b>Other invested assets:</b>				
Available-for-sale embedded derivative	13	Black-Scholes Model	Market value of AnchorPath fund	100.00%
Loan participations - Other	2	Market Pricing	Offered quotes	100.00%
Loan participations - JSN Jewellery Inc.	17	Liquidation value – 52.5%	Recovery estimate (wind-down costs)	49.93% - 56.67% (52.50%)
Loan participation - Radioshack ("RSH") Corporation	2	Liquidation value – 5%	Recovery estimate (wind-down costs)	1.36% - 14.28%
Total	\$ 1,450			
<b>Liabilities</b>				
<b>Derivatives:</b>				

Edgar Filing: Fidelity & Guaranty Life - Form 10-K

FIA embedded derivatives, included in contractholder funds	\$ 2,383	Discounted Cash Flow	Market value of option	0.00% - 26.64% (2.55%)
			SWAP rates (discount rates)	1.18% - 1.46% (1.31%)
			Mortality multiplier	80.00% - (80.00%)
			Surrender rates	0.50% - 75.00% (9.59%)
			Non-performance spread	0.25% - 0.25% (0.25%)
			Future option budget	1.15% - 5.57% (2.91%)

Total liabilities at fair value \$ 2,383

Changes in unrealized losses (gains), net in the Company's FIA embedded derivatives are included in "Benefits and other changes in policy reserves" in the Consolidated Statements of Operations.

F-43

---

Table of Contents

The following tables summarize changes to the Company's financial instruments carried at fair value and classified within Level 3 of the fair value hierarchy for the years ended September 30, 2017, 2016 and 2015, respectively. This summary excludes any impact of amortization of VOBA and DAC. The gains and losses below may include changes in fair value due in part to observable inputs that are a component of the valuation methodology.

	Year ended September 30, 2017							
	Balance	Total Gains					Net	
	at	(Losses)					transfer	Balance
	Beginning	Included	Included	Purchases	Sales	Settlements	In (Out)	at End
	of	in	in				of	of
	Period	Earnings	AOI				Level 3	Period
							(a)	
<b>Assets</b>								
Fixed maturity securities available-for-sale:								
Asset-backed securities	\$172	\$(2 )	\$ 3	\$ 152	\$—	\$(40 )	\$(111 )	\$174
Commercial mortgage-backed securities	79	—	1	18	—	(1 )	(2 )	95
Corporates	1,121	(1 )	(29 )	189	(20 )	(109 )	(37 )	1,114
Hybrids	—	—	—	10	—	—	—	10
Municipals	41	—	(2 )	—	—	(1 )	—	38
Equity securities available-for-sale	3	(2 )	1	—	—	—	—	2
Other invested assets:								
Available-for-sale embedded derivative	13	3	—	—	—	—	—	16
Loan participations	21	(2 )	1	—	—	(20 )	—	—
Total assets at Level 3 fair value	\$1,450	\$(4 )	\$(25 )	\$ 369	\$(20)	\$(171 )	\$(150 )	\$1,449
<b>Liabilities</b>								
FIA embedded derivatives, included in contractholder funds	\$2,383	\$244	\$ —	\$ —	\$—	\$ —	\$ —	\$2,627
Total liabilities at Level 3 fair value	\$2,383	\$244	\$ —	\$ —	\$—	\$ —	\$ —	\$2,627

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

	Year ended September 30, 2016							
	Balance	Total Gains					Net	
	at	(Losses)					transfer	Balance
	Beginning	Included	Included	Purchases	Sales	Settlements	(Out)	at End
	of	in	in				of	of
	Period	Earnings	AOI				Level 3	Period
							(a)	
<b>Assets</b>								
Fixed maturity securities available-for-sale:								
Asset-backed securities	\$38	\$(12 )	\$ 3	\$ 141	\$—	\$(3 )	\$ 5	\$172
Commercial mortgage-backed securities	144	—	4	—	—	(3 )	(66 )	79
Corporates	964	—	32	154	(3 )	(26 )	—	1,121
Municipals	39	—	2	—	—	—	—	41
Equity securities available-for-sale	9	—	—	—	(6 )	—	—	3
Other invested assets:								
Available-for-sale embedded derivative	10	3	—	—	—	—	—	13
Loan participations	119	(21 )	9	54	—	(140 )	—	21
Total assets at Level 3 fair value	\$1,323	\$(30 )	\$ 50	\$ 349	\$(9)	\$(172 )	\$(61 )	\$1,450
<b>Liabilities</b>								
	\$2,149	\$234	\$ —	\$ —	\$—	\$ —	\$ —	\$2,383

FIA embedded derivatives, included in  
contractholder funds

Total liabilities at Level 3 fair value	\$2,149	\$234	\$ —	\$ —	\$ —	\$ —	\$ —	\$2,383
---	---------	-------	------	------	------	------	------	---------

(a) The net transfers out of Level 3 during the year ended September 30, 2016 were exclusively to Level 2.

F-44

---

Table of Contents

	Year ended September 30, 2015						Net transfer In (Out) of Level 3 (a)	Balance at End of Period
	Balance at Beginning of Period	Total Gains (Losses) Included in Earnings	Total Gains (Losses) Included in AOCI	Purchases	Sales	Settlements		
<b>Assets</b>								
<b>Fixed maturity securities available-for-sale:</b>								
Asset-backed securities	\$74	\$(37 )	\$ 3	\$ 73	\$(15)	\$(31 )	\$(29 )	\$38
Commercial mortgage-backed securities	83	—	(2 )	63	—	—	—	144
Corporates	834	4	10	202	(1 )	(61 )	(24 )	964
Municipals	37	—	2	—	—	—	—	39
Equity securities available-for-sale	40	(30 )	(1 )	—	—	—	—	9
<b>Other invested assets:</b>								
Available-for-sale embedded derivative	11	(1 )	—	—	—	—	—	10
Loan participations	213	(39 )	(5 )	88	—	(138 )	—	119
Total assets at Level 3 fair value	\$1,292	\$(103)	\$ 7	\$ 426	\$(16)	\$(230 )	\$(53 )	\$1,323
<b>Liabilities</b>								
FIA embedded derivatives, included in contractholder funds	\$1,908	\$241	\$ —	\$ —	\$—	\$ —	\$ —	\$2,149
Total liabilities at Level 3 fair value	\$1,908	\$241	\$ —	\$ —	\$—	\$ —	\$ —	\$2,149

(a) The net transfers out of Level 3 during the year ended September 30, 2015 were exclusively to Level 2.

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

	September 30, 2017				
	Level 1	Level 2	Level 3	Total Estimated Fair Value	Carrying Amount
<b>Assets</b>					
Commercial mortgage loans	\$—	\$—	\$552	\$ 552	\$547
Policy loans, included in other invested assets	—	—	14	14	17
Related party loans	—	—	71	71	71
Total	\$—	\$—	\$637	\$ 637	\$635
<b>Liabilities</b>					
Investment contracts, included in contractholder funds	\$—	\$—	\$16,076	\$ 16,076	\$18,165
Debt	—309	—	105	414	405
Total	\$—309	\$—	\$16,181	\$ 16,490	\$18,570

Table of Contents

	September 30, 2016			Carrying Amount
	Level 1	Level 2	Level 3	
Assets				
Commercial mortgage loans	\$—	\$—	\$614	\$595
Policy loans, included in other invested assets	—	—	13	14
Related party loans	—	—	71	71
Total	\$—	\$—	\$698	\$680
Liabilities				
Investment contracts, included in contractholder funds	\$—	\$—	\$14,884	\$16,868
Debt	—300	—	100	400
Total	\$—300	\$—	\$14,984	\$17,268

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

	September 30, 2017	September 30, 2016
Equity securities available-for-sale	\$ 43	\$ 41
Limited partnership investment, included in other invested assets	152	12

The Company reviews the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets or liabilities. Such reclassifications are reported as transfers in and out of Level 3, or between other levels, at the beginning fair value for the reporting period in which the changes occur. There were no transfers between Level 1 and Level 2 for the year ended September 30, 2017. There were no transfers between Level 1 into Level 2 for the year ended September 30, 2016. There were no transfers between Level 1 into Level 2 for the year ended September 30, 2015 reflecting the level of market activity in these instruments.

The transfers into and out of Level 3 were related to changes in the primary pricing source and changes in the observability of external information used in determining the fair value. Accordingly, the Company's assessment resulted in gross transfers into Level 3 with valuation of \$128 related to asset-backed, commercial mortgage-backed and corporate securities and gross transfers out of level 3 with valuation of \$278 related to asset-backed, commercial mortgage-backed, and corporate securities during the year ended September 30, 2017. The Company's assessment resulted in gross transfers into level 3 with valuation of \$97 related to asset-backed, corporate and hybrid securities and gross transfers out of level 3 with valuation of \$159 related to asset-backed, commercial mortgage-backed, corporate, hybrid and residential mortgage-backed securities during the year ended September 30, 2016. The Company's assessment resulted in gross transfers out of Level 3 of \$53 related to asset-backed and corporate securities during the year ended September 30, 2015.



Table of Contents

## (7) Intangible Assets

Information regarding VOBA and DAC which includes deferred sales inducement, is as follows:

	VOBA	DAC	Total
Balance at September 30, 2016	\$ 19	\$ 1,007	\$ 1,026
Deferrals	—	336	336
Adjustments			
Unlocking	32	(2 )	30
Interest	11	46	57
Amortization	(65 )	(215 )	(280 )
Adjustment for unrealized investment gains	3	(43 )	(40 )
Balance at September 30, 2017	\$ —	\$ 1,129	\$ 1,129

Accumulated amortization	\$ 418		
	VOBA	DAC	Total
Balance at September 30, 2015	\$ 187	\$ 801	\$ 988
Deferrals	—	350	350
Adjustments			
Unlocking	25	2	27
Interest	11	34	45
Amortization	(41 )	(85 )	(126 )
Adjustment for unrealized investment gains	(163 )	(95 )	(258 )
Balance at September 30, 2016	\$ 19	\$ 1,007	\$ 1,026

Accumulated amortization	\$ 396		
	VOBA	DAC	Total
Balance at September 30, 2014	\$ 59	\$ 456	\$ 515
Deferrals	—	317	317
Adjustments			
Unlocking	19	4	23
Interest	12	22	34
Amortization	(68 )	(53 )	(121 )
Adjustment for unrealized investment losses	165	55	220
Balance at September 30, 2015	\$ 187	\$ 801	\$ 988

Accumulated amortization \$ 391

Amortization of VOBA and DAC is based on the historical, current and future expected gross margins or profits recognized, including investment gains and losses. The interest accrual rate utilized to calculate the accretion of interest on VOBA ranged from 4% to 5%. The adjustment for unrealized net investment losses (gains) represents the amount of VOBA and DAC that would have been amortized if such unrealized gains and losses had been recognized. This is referred to as the “shadow adjustments” as the additional amortization is reflected in AOCI rather than the Consolidated Statement of Operations. As of September 30, 2017 and 2016, the VOBA balance included cumulative adjustments for net unrealized investment gains of \$159 and \$162, respectively, and the DAC balances included cumulative adjustments for net unrealized investment gains of \$139 and \$96, respectively.

The above DAC balances include \$106 and \$86 of deferred sales inducements, net of shadow adjustments, as of September 30, 2017 and 2016, respectively.

Table of Contents

The weighted average amortization period for VOBA is approximately 5.3 years. Estimated amortization expense for VOBA in future fiscal periods is as follows:

Fiscal Year	Estimated Amortization Expense VOBA
2018	\$ 21
2019	21
2020	19
2021	16
2022	14
Thereafter	68

## (8) Debt

In March 2013, FGL's wholly-owned subsidiary, FGLH, issued \$300 aggregate principal amount of its 6.375% senior notes ("Notes Offering") due April 1, 2021, at par value, which FGLH became eligible to redeem after April 1, 2016. Interest payments are due semi-annually, April 1 and October 1, commencing October 1, 2013.

In connection with the Notes Offering, FGL capitalized \$10 of debt issue costs. These fees were fully amortized as of September 30, 2016. These fees were amortized using the straight-line method, which approximated the effective yield method over the term of the debt.

On August 26, 2014, FGLH, a wholly-owned subsidiary of FGL, as borrower, and the Company as guarantor, entered into a three-year \$150 unsecured revolving credit facility (the "Credit Agreement") with certain lenders and RBC Capital Markets and Credit Suisse Securities (USA) LLC ("Credit Suisse"), acting as joint lead arrangers. The loan proceeds from the Credit Agreement may be used for working capital and general corporate purposes. During July 2017, the terms of the Credit Agreement were extended through August 26, 2018.

In connection with entering in to the Credit Agreement, FGL capitalized \$4 of debt issue costs, which are classified as "Other assets" in the accompanying Consolidated Balance Sheets and are fully amortized as of September 30, 2017.

On September 30, 2016, the Company drew \$100 on the revolver, and in March 2017, the Company drew an additional \$5. The total drawn as of September 30, 2017 was \$105. Various financing options are available within the credit facility, including overnight and term based borrowing. In each case, a margin is ascribed based on the Debt to Capitalization ratio of the Company. The \$105 and \$100 drawn balances on the revolver carried interest rates equal to 4.24% and 5.50%, as of September 30, 2017 and September 30, 2016, respectively. As of September 30, 2017 and September 30, 2016, the amount available to be drawn on the revolver was \$45 and \$50, respectively.

The Company's outstanding debt as of September 30, 2017 and 2016 is as follows:

	September 30, 2017	September 30, 2016
Debt	\$ 300	\$ 300
Revolving credit facility	105	100

Table of Contents

The interest expense and amortization of debt issuance costs of the Company's debt for the years ended September 30, 2017, 2016 and 2015, respectively, were as follows:

	Year ended September 30,		2016		2015	
	Interest Expense	Amortization	Interest Expense	Amortization	Interest Expense	Amortization
Debt	\$ 19	\$	— \$ 19	\$ 2	\$ 19	\$ 4
Revolving credit facility	4	1	—	1	—	1

## (9) Equity

## Preferred Stock

FGL's Board of Directors has the authority, without further action by our shareholders, to issue up to 50,000,000 shares of preferred stock in one or more series and to fix the designation, powers, preferences and the relative participating, optional or other special rights, and the qualifications, limitations and restrictions of each series, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, liquidation preferences and the number of shares constituting any series. Currently, no shares of our authorized preferred stock are outstanding.

## Share Repurchases

On September 2, 2014, the Company's Board of Directors authorized the repurchase of up to 500 thousand shares of the Company's outstanding shares of common stock over the next twelve months. As of June 30, 2015, the share repurchase program was completed. The Company's share repurchase activity is shown in the table below.

	Shares (in thousands)	Total Cost
Shares purchased pursuant to the repurchase program	500	\$ 11
Shares acquired to satisfy employee income tax withholding pursuant to the Company's stock compensation plan	12	—
Total shares of common stock at completion of repurchase program as of June 30, 2015	512	\$ 11
Shares acquired to satisfy employee income tax withholding pursuant to the Company's stock compensation plan during the three months ended December 31, 2015	22	1
Shares acquired to satisfy employee income tax withholding pursuant to the Company's stock compensation plan during the three months ended March 31, 2016	3	—
Shares acquired to satisfy employee income tax withholding pursuant to the Company's stock compensation plan during the three months ended December 31, 2016	28	1
Shares acquired to satisfy employee income tax withholding pursuant to the Company's stock compensation plan during the three months ended March 31, 2017	4	—
Total shares of common stock repurchased as of September 30, 2017	569	\$ 13

Subsequent to the Company's repurchase of shares, HRG indirectly held 47,000 thousand shares of FGL's outstanding common stock, representing an 80% interest at September 30, 2017.

Table of Contents

## Dividends

The Company declared the following cash dividends during the years ended September 30, 2017, 2016, and 2015:

Date Declared	Date Paid	Date Shareholders of record	Shareholders of record (in thousands)	Cash Dividend declared (per share)	Total cash paid
November 18, 2014	December 15, 2014	December 1, 2014	58,279	\$0.065	\$4
February 10, 2015	March 9, 2015	February 23, 2015	57,975	\$0.065	\$4
May 1, 2015	June 1, 2015	May 18, 2015	57,932	\$0.065	\$4
July 31, 2015	August 31, 2015	August 17, 2015	57,976	\$0.065	\$4
November 12, 2015	December 14, 2015	November 30, 2015	58,144	\$0.065	\$4
February 2, 2016	March 7, 2016	February 22, 2016	58,210	\$0.065	\$4
April 28, 2016	May 30, 2016	May 16, 2016	58,211	\$0.065	\$4
August 1, 2016	September 6, 2016	August 22, 2016	58,211	\$0.065	\$4
November 10, 2016	December 12, 2016	November 28, 2016	58,245	\$0.065	\$4
February 2, 2017	March 6, 2017	February 21, 2017	58,308	\$0.065	\$4
May 1, 2017	June 5, 2017	May 22, 2017	58,315	\$0.065	\$4
July 27, 2017	August 28, 2017	August 14, 2017	58,316	\$0.065	\$4

On November 9, 2017, FGL's Board of Directors declared a quarterly cash dividend of \$0.065 per share. The dividend will be paid on December 11, 2017 to shareholders of record as of the close of business on November 27, 2017.

## Restricted Net Assets of Subsidiaries

FGLH's equity in restricted net assets of consolidated subsidiaries was approximately \$2,108 as of September 30, 2017 representing 94% of FGLH's consolidated stockholder's equity as of September 30, 2017 and consisted of net assets of FGLH which were restricted as to transfer to FGL in the form of cash dividends, loans or advances under regulatory restrictions.

Table of Contents

## (10) Stock Compensation

On November 7, 2013, FGL's Board of Directors adopted a long term stock-based incentive plan (the "FGL 2013 Stock Incentive Plan" or the "Omnibus Plan") under which certain officers, employees, directors and consultants are eligible to receive equity based awards. The Omnibus Plan was approved by the stockholder on November 19, 2013, became effective on December 12, 2013 and expires in December 2023. FGL's Compensation Committee approved the granting of awards under the Omnibus Plan to certain employees, officers and directors (other than the members of the Compensation Committee). In addition, FGL's Board of Directors approved the granting of awards to members of FGL's Compensation Committee (the "Compensation Committee Awards"). The Compensation Committee Awards were not made under the Omnibus Plan; however, these awards will be construed and administered as if subject to the terms of the Omnibus Plan. In February 2015, the Omnibus Plan was amended to permit the members of FGL's Compensation Committee to receive awards thereunder. FGL's Board of Directors and stockholder also approved the granting of unrestricted common shares to its directors in lieu of cash compensation at the election of each individual director (the "Unrestricted Share Awards"). The Omnibus Plan, Compensation Committee Awards and the Unrestricted Share Awards are collectively referred to as the "FGL Plans". Stock options, restricted stock and unrestricted stock awarded under the FGL Plans are accounted for as equity awards. As of the date the stock awards are approved and communicated to the recipient, the fair value of stock options is determined using a Black-Scholes options valuation methodology, and the fair value of other stock awards is based upon the market value of the stock. The fair value of the awards is expensed over the service period, which generally corresponds to the vesting period, and is recognized as an increase to Additional paid-in capital in stockholders' equity. At this time, FGL plans to issue new shares to satisfy stock option exercises, but may use treasury shares acquired under the repurchase program authorized on September 2, 2014. In fourth quarter 2016, FGL decided to settle the Performance Restricted Stock Unit ("PRSU") awards granted under the FGL Plans in cash upon vesting and, therefore, reclassified these awards from equity to Other Liabilities. The liability for the PRSUs was valued at fair value (market value of the underlying stock) upon reclassification which resulted in the recognition of additional compensation cost of \$3. The PRSUs became fully vested as of September 30, 2016 with payment made in November 2016 based on the fair value of the award at the time of settlement.

FGL's principal subsidiary, FGLH, sponsors stock-based incentive plans and dividend equivalent plans ("DEPs") for its employees (the "FGLH Plans"). Awards under the FGLH Plans are based on the value of the common stock of FGLH. In 2013, FGLH determined that all equity awards will be settled in cash when exercised and therefore are classified as liability plans. For these awards, the settlement value is classified as a liability, in "Other liabilities", on the Consolidated Balance Sheets and the liability is adjusted to the current fair value through net income at the end of each reporting period, which causes volatility in net income (loss) as a result of changes in the fair value of FGLH's stock. The fair value of stock options is determined using a Black-Scholes options valuation methodology and the fair value of restricted stock units is based upon the fair value of FGLH's stock. In November 2013, the FGLH plans were frozen and no new awards will be granted under these plans. Outstanding awards will be permitted to vest in accordance with the award agreements and will be cash settled upon vesting or exercise.

The Merger Agreement with CF Corp. provides for accelerated vesting of all unvested awards under the FGL Plans and FGLH Plans and the automatic conversion into a right to receive a cash payment in an amount pursuant to the Merger Agreement for all vested and unvested awards under these Plans.

Table of Contents

The Company recognized total stock compensation expense related to the FGL Plans and FGLH Plans as follows:

	Year ended September 30, 2017 2016 2015		
<b>FGL Plans</b>			
Stock options	\$—	\$ —	\$ 1
Restricted shares	2	2	6
Performance restricted stock units	2	10	3
	4	12	10
<b>FGLH Plans</b>			
Stock Incentive Plan - stock options	1	—	1
Amended and Restated Stock Incentive Plan - stock options	2	1	5
Amended and Restated Stock Incentive Plan - restricted stock units	—	—	2
2012 DEP	—	—	1
	3	1	9
Total stock compensation expense	7	13	19
Related tax benefit	2	5	7
Net stock compensation expense	\$5	\$ 8	\$ 12

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

Total compensation expense related to the FGL Plans and FGLH Plans not yet recognized as of September 30, 2017 and the weighted-average period over which this expense will be recognized are as follows:

	Unrecognized Compensation Expense	Weighted Average Recognition Period in Years
<b>FGL Plans</b>		
Stock options	\$ —	1
Restricted shares	1	1
Performance restricted stock units	15	2
Total unrecognized stock compensation expense	\$ 16	1

**FGL Plans**

FGL's Compensation Committee is authorized to grant up to 2,838 thousand equity awards under the FGL Plans. At September 30, 2017, 525 thousand equity awards are available for future issuance under the FGL Plans.

FGL granted 47 thousand, 119 thousand, and 206 thousand stock options to a certain officers, directors, other key employees and Compensation Committee members in 2017, 2016, and 2015, respectively. These stock options vest in equal installments over a period of three years and expire on the seventh anniversary of the grant date. The total fair value of the options granted in 2017, 2016, and 2015 was \$0, \$0, and \$1 respectively.

On March 31, 2015, the Company entered into an agreement with its former Chief Executive Officer in connection with his resignation pursuant to which the vesting for certain FGL and FGLH equity awards to the former Chief Executive Officer were accelerated. The former Chief Executive Officer forfeited two-thirds of the performance restricted stock units granted in fiscal year 2014, and all other previously awarded equity grants became vested as of March 31, 2015. The exercise date of the outstanding stock options was extended to December 31, 2015. No other terms of the equity awards were modified. The Company recognized total incremental compensation expense of \$2 as a result of these modifications.

At September 30, 2017, the intrinsic value of stock options outstanding, exercisable and vested or expected to vest was \$3, \$2 and \$3, respectively. At September 30, 2017, the weighted average remaining contractual term of stock options outstanding, exercisable and vested or expected to vest was 4 years, 4 years and 4 years, respectively.



Table of Contents

During the year ended September 30, 2017, the intrinsic value of stock options exercised, total cash received upon exercise and the related tax benefit was \$0, \$0, and \$0, respectively. During the year ended September 30, 2016, the intrinsic value of stock options exercised, total cash received upon exercise and the related tax benefit realized was \$0, \$2, and \$0, respectively. During the year ended September 30, 2015 the intrinsic value of stock options exercised, total cash received upon exercise and the related tax benefit was \$1, \$2, and \$0, respectively.

A summary of FGL's outstanding stock options as of September 30, 2017, and related activity during the period, is as follows (share amount in thousands):

Stock Option Awards	Options	Weighted Average Exercise Price
Stock options outstanding at September 30, 2016	346	\$ 22.40
Granted	47	23.35
Exercised	(15 )	18.61
Forfeited or expired	(14 )	20.91
Stock options outstanding at September 30, 2017	364	22.74
Exercisable at September 30, 2017	203	21.21
Vested or projected to vest at September 30, 2017	364	22.74

The following assumptions were used in the determination of the grant date fair values using the Black-Scholes option pricing model and based on the value of FGL's common stock for stock options granted during the years ended September 30, 2017, 2016 and 2015:

	2017	2016	2015
Weighted average fair value per options granted	\$2.57	\$1.01	\$4.96
Risk-free interest rate	1.11%	0.42%	1.41%-1.50%
Assumed dividend yield	1.12%	1.14%	1.18%-1.19%
Expected option term	2.0 years	0.5 years	4.5 years
Volatility	20.00%	14.55%	25.00%

The following assumptions were used in the determination of the grant date fair values using the Black-Scholes option pricing model for the former Chief Executive Officer's modified stock options and based on the value of FGL's common stock:

Weighted average fair value per option modified	\$2.53
Risk-free interest rate	0.20%
Assumed dividend yield	1.18%
Expected option term	0.75 years
Volatility	25.00%

The dividend yield is based on the expected dividend rate during the expected life of the option. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant. For awards granted in 2017 and 2016, expected volatility is based on the historical volatility of FGL's stock prices after the announcement of a then-anticipated merger transaction as well as the estimated timing of the anticipated closing of a transaction. For awards granted or modified in 2015, expected volatility is based on the historical volatility of FGL's stock price from the date of listing on the NYSE. For awards granted in 2017 and 2016, the expected life of the options granted represents the period of time from the grant date to the estimated closing date of a then-anticipated merger transaction, reflecting the midpoint of possible scenarios. For awards granted or modified in 2015, the expected life of the options granted represents the weighted-average period of time from the grant date to the date of exercise, expiration or cancellation based upon a simplified method as the Company lacked sufficient historical data due to the recent implementation of the FGL Plans.

FGL granted 29 thousand, 26 thousand, and 173 thousand restricted shares to certain officers, directors, other key employees and Compensation Committee members in 2017, 2016, and 2015, respectively. These shares vest in equal



installments over a period of three years. FGL granted 12 thousand restricted shares to an officer in 2015 that vest over the period of one year. In 2015, FGL also granted 140 thousand restricted shares to certain

F-53

---

Table of Contents

directors which vest in three tranches; 20% on the first anniversary of the grant date; 50% on the second anniversary of the grant date; and 30% on the third anniversary of the grant date. The total fair value of the restricted shares granted in 2017, 2016, and 2015 was \$1, \$1, and \$7, respectively.

On March 18, 2015, the expected requisite service periods for the 140 thousand restricted shares granted to certain directors were completed resulting in expense acceleration under the terms of the original awards due to their resignation from the Company's Board and all related committee positions of the two grantees. The Company recognized additional compensation expense of \$3 during 2015 as a result of the related equity compensation expense acceleration.

The restricted shares are entitled to any cash dividends paid on FGL's stock prior to vesting of the restricted shares. The cash dividends are held by FGL until the shares become vested and are paid to the recipient at that time or are forfeited if the restricted shares do not vest.

A summary of FGL's nonvested restricted shares outstanding as of September 30, 2017, and related activity during the year then ended, is as follows (share amount in thousands):

Restricted Stock Awards	Shares	Weighted Average Grant Date Fair Value
Nonvested restricted shares outstanding at September 30, 2016	154	\$ 22.91
Granted	29	23.35
Vested	(90 )	21.85
Forfeited	(5 )	22.73
Nonvested restricted shares outstanding at September 30, 2017	88	24.14

FGL granted 487 thousand, 0, and 32 thousand Performance Restricted Stock units ("PRSUs") to officers in 2017, 2016, and 2015, respectively. The total fair value of the PRSUs granted in 2017, 2016, and 2015, assuming attainment of the target performance level in each year was \$13, \$0, and \$1, respectively.

The 2017 units vest on September 30, 2019, contingent on the satisfaction of performance criteria and on the officer's continued employment unless otherwise noted in the agreement. The fair value of the awards is expensed over the service period, which generally corresponds to the vesting period. PRSUs subject to vesting are adjusted based on FGL's financial yearly performance, which is evaluated on two non-GAAP measures: (1) adjusted operating income, and (2) book value per share excluding AOCI. Depending on the performance results for each year, the ultimate payout of PRSUs could range from 70% to 200% of the target award for each year. One-third of the award is earned based on each year's results. Based on the results achieved in 2017, a total of 78 thousand additional PRSUs were earned, subject to the satisfaction of the service requirement noted above, and the total fair value of these PRSUs was \$2. If the officer elects to retire on or after reaching age 60 and completing at least five years of continuous service with the Company, the officer will become vested in the PRSUs for the performance years prior to the year in which the retirement occurs and will forfeit the PRSUs for the performance year in which the retirement occurs and later performance years. Compensation expense for the awards granted to officers who are or will be eligible to elect early vesting under this retirement provision is recognized over a shorter service period which assumes the officer elects retirement when eligible.

The PRSUs granted in 2017 can only be settled in cash and, therefore, are classified as a liability plan. For these awards, the settlement value is classified as a liability in "Other liabilities" on the Consolidated Balance Sheets and the liability is adjusted to the current fair value (market value of the underlying stock) through net income at the end of each reporting period, which will cause volatility in net income (loss) as a result of changes in the fair value of FGL's stock. At September 30, 2017, the liability for PRSUs of \$18 was based on the number of units expected to vest, the elapsed portion of the service period and the fair value of FGL's common stock on that date which was \$31.05.

PRSUs granted in 2014 and 2015 were adjusted based on FGL's yearly financial performance, which was evaluated on two non-GAAP measures: (1) pre-tax adjusted operating income, and (2) return on equity. Depending on the performance results for each year, the ultimate payout of these PRSUs could range from zero to 200% of the target

award for each year. One-half of the award was earned based on each year's results for the awards granted in 2015. One-third of the award was earned based on each year's results for the awards granted in 2014. Based on the results achieved in 2016, 2015, and 2014, a total of 11 thousand, 63 thousand, 14 thousand, and 44

F-54

---

Table of Contents

thousand additional PRSUs were earned during 2017, 2016, 2015, and 2014, respectively, and the total fair value of the additional PRSUs earned in 2017, 2016, 2015, and 2014, was \$0, \$1, \$0, and \$1, respectively.

In fourth quarter 2016, FGL decided to settle the PRSU awards granted in 2014 and 2015 in cash upon vesting and, therefore, reclassified these awards from equity to Other Liabilities. The liability for the PRSUs was valued at fair value (market value of the underlying stock) upon reclassification. A total of 634 thousand PRSUs became fully vested as of September 30, 2016 with a total cash payment of \$15 made in November 2016 based on the fair value of the award at the time of settlement, which was \$23.30 per PRSU.

A summary of nonvested PRSUs outstanding as of September 30, 2017, and related activity during the period then ended, is as follows (share amount in thousands):

Performance Restricted Stock Units (PRSUs)	Shares	Weighted Average Grant Date Fair Value
PRSUs outstanding at September 30, 2016	—	\$ —
Granted	576	23.72
Vested	(11 )	17.82
Forfeited or expired	—	—
PRSUs outstanding at September 30, 2017	565	27.65

In 2015, FGL also granted 9 thousand unrestricted shares to certain directors in payment for services rendered. Total fair value of the unrestricted shares on the grant date was \$0.

FGLH Plans

Stock options issued under the FGLH Plans vest in three equal installments on each of the first three anniversaries of the grant date and expire on the seventh anniversary of the grant date. The FGLH plans were frozen in November 2013 and, therefore, no stock options were issued under these plans during the years ended September 30, 2017, 2016 and 2015.

A summary of FGLH's outstanding stock options as of September 30, 2017 and related activity during the year then ended is as follows (share amount in thousands):

Stock Option Awards	Options	FGLH Weighted Average Exercise Price
Stock options outstanding at September 30, 2016	82	\$ 44.82
Granted	—	—
Exercised	(12)	45.76
Forfeited or expired	—	—
Stock options outstanding at September 30, 2017	70	44.66
Vested and exercisable at September 30, 2017	70	44.66

Table of Contents

At September 30, 2017, and 2016, the liability for vested or expected to vest stock options was based on the fair values of the outstanding options. The following assumptions were used in the determination of these fair values using the Black-Scholes option pricing model and based on the value of FGLH's common stock:

	2017	2016
Weighted average stock option fair value	\$121.82	\$78.62
FGLH common stock fair value	\$166.81	\$123.76
FGL common stock fair value	\$31.05	\$23.19
Risk-free interest rate	1.04%	0.26%
Assumed dividend yield	1.07%	1.12%
Expected option term	0.25 years	0.25 years
Volatility	5.0%	15.0%

The primary input used in the determination of the fair value of FGLH's common stock is the value of the Company's common stock and a discount for lack of liquidity of 5.0%. The dividend yield is based on the expected dividend rate during the expected life of the option. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at September 30, 2017 and 2016. Expected volatility is based on the historical volatility of FGL's stock prices after the announcement of the anticipated merger transaction with CF Corp for 2017 and an anticipated merger transaction for 2016. The expected life of the options granted represents the period of time from the reporting date to the estimated closing date of the anticipated merger transactions.

At September 30, 2017, the intrinsic value of stock options outstanding, exercisable and vested or expected to vest was \$9, \$9 and \$9, respectively. At September 30, 2017, the weighted average remaining contractual term of stock options outstanding, exercisable and vested or expected to vest was 2 years, 2 years and 2 years, respectively. The intrinsic value of stock options exercised and the amount of cash paid upon exercise during the years ended September 30, 2017, 2016, and 2015 was \$1, \$0, and \$9, respectively.

The amount of cash paid upon vesting for restricted stock units during the years ended September 30, 2017, 2016, and 2015 was \$0, \$2, and \$2, respectively.

FGLH also granted dividend equivalent awards that permit holders of FGLH's stock option and restricted stock awards to receive a payment in cash in an amount equal to the ordinary dividends declared and paid or debt service payments to HRG by FGLH in each calendar year starting in the year in which the dividend equivalent is granted through the year immediately prior to the year in which the dividend equivalent award vests, divided by the total number of common shares outstanding. Dividend equivalent awards granted in December 2012 vested on March 31, 2016. FGLH determined that it was probable the dividend equivalent awards would vest and recognized compensation expense ratably over the dividend equivalent vesting periods. The amount of cash paid upon vesting of dividend equivalent awards during the years ended September 30, 2017, 2016, and 2015 was \$0, \$1 and \$1, respectively.

**(11) Income Taxes**

FGL is a U.S. taxpayer and does not file income tax returns in any foreign jurisdiction other than Puerto Rico. FGL's non-life subsidiaries file as part of HRG's consolidated U.S. Federal income tax return. FGL's insurance company subsidiaries file their own consolidated U.S. Federal life insurance tax return. The income tax liabilities of the FGL members of the consolidated HRG return are calculated using the separate return method.

Income tax (expense) benefit is calculated based upon the following components of income before income taxes:

	Year ended		
	September 30,		
	2017	2016	2015
Pretax income (loss):			
United States	\$333	\$153	\$182
Outside the United States	—	—	—
Total pretax income	\$333	\$153	\$182

Table of Contents

The components of income tax (expense) benefit are as follows:

	Year ended September 30,		
	2017	2016	2015
Current:			
Federal	\$(114)	\$(5 )	\$(14)
State	—	—	—
Total current	\$(114)	\$(5 )	\$(14)
Deferred:			
Federal	\$4	\$(51)	\$(50)
State	—	—	—
Total deferred	\$4	\$(51)	\$(50)

Income tax (expense)/benefit \$(110) \$(56) \$(64)

The difference between income taxes expected at the U.S. Federal statutory income tax rate of 35% and reported income tax (expense) benefit is summarized as follows:

	Year ended September 30,		
	2017	2016	2015
Expected income tax (expense)/benefit at Federal statutory rate	\$(117)	\$(54)	\$(64)
Valuation allowance for deferred tax assets	1	69	(1 )
Amortization of low income housing tax credits	(4 )	(2 )	(1 )
Benefit on LIHTC under proportional amortization method	5	3	1
Write off of expired capital loss carryforward	—	(73 )	—
Dividends received deduction	4	1	2
Other	1	—	(1 )
Reported income tax (expense)/benefit	\$(110)	\$(56)	\$(64)

Effective tax rate 33 % 37 % 35 %

For the year ended September 30, 2017, the Company's effective tax rate is 33%. The effective tax rate was positively impacted by a valuation allowance release within the non-life companies and favorable permanent adjustments, including low income housing tax credits and dividends received deduction.

For the year ended September 30, 2016, the Company's effective tax rate was 37%. The negative impact of the valuation allowance expense of the non-life companies was partially offset by the net impact of positive permanent adjustments, including low income housing tax credits and dividends received deduction. For the year ended September 30, 2016, the remaining unutilized life company capital loss carryforwards deferred tax assets expired and were written off, resulting in \$73 in deferred income tax expense which was entirely offset by a valuation allowance release of the same amount.

For the year ended September 30, 2015, the Company's effective tax rate was 35%. The impact of valuation allowance expense was offset by the net impact of positive permanent adjustments.

For the year ended September 30, 2017, the Company recorded a net valuation allowance release of \$1 related to FGL's non-life companies). For the year ended September 30, 2016, the Company recorded net valuation allowance release of \$69 (comprised of a full year valuation allowance release of \$74 related to the life insurance companies, offset by a net increase to valuation allowance of \$5 related to FGL's non-life companies). During the year ended September 30, 2016, the remaining unutilized life company capital loss carryforward deferred tax assets expired and were written off, resulting in \$73 in deferred income tax expense. Most of the valuation allowance release during the year was attributable to this write-off. For the year ended September 30, 2015, the Company recorded net valuation allowance expense of \$1 (comprised of a full year valuation allowance release of \$4 related to the life insurance

companies, offset by a net increase to valuation allowance of \$5 related to FGL's non-life companies).

F-57

---

Table of Contents

The Company records tax (expense) benefit that results from a change in other comprehensive income ("OCI") directly to OCI. Tax expense recorded directly to OCI includes deferred tax expense arising from a change in unrealized gain (loss) on available-for-sale securities and the tax-effects of other income items that are recorded to OCI. Changes in valuation allowance that are solely due to a deferred tax liability related to the unrealized gain on an available-for-sale security are allocated to other comprehensive income in accordance with ASC 740-10-45-20, "Income Taxes: Other Presentation Matters". For the year ended September 30, 2017, the Company recorded \$56 in deferred tax expense to OCI.

An excess tax benefit is the realized tax benefit related to the amount of deductible compensation cost reported on an employer's tax return for equity instruments in excess of the compensation cost for those instruments recognized for financial reporting purposes. The Company adopted ASU-2016-09 (Stock Compensation) effective October 1, 2015. ASU-2016-09 eliminates the requirement for excess tax benefits to be recorded as additional paid-in capital when realized. For the year ended September 30, 2017, FGL recorded all excess tax benefits in the Consolidated Statements of Operations as a component of current income tax expense in accordance with the newly adopted guidance.

The following table is a summary of the components of deferred income tax assets and liabilities:

	Year ended September 30,	
	2017	2016
Deferred tax assets:		
Net operating loss, credit and capital loss carryforwards	\$91	\$93
Insurance reserves and claim related adjustments	601	511
Investments	—	—
Other	75	44
Valuation allowance	(49 )	(51 )
Total deferred tax assets	\$718	\$597
Deferred tax liabilities:		
Value of business acquired	\$—	\$(7 )
Investments	(456 )	(312 )
Deferred acquisition costs	(316 )	(277 )
Other	(8 )	(11 )
Total deferred tax liabilities	\$(780)	\$(607)
Net deferred tax assets and (liabilities)	\$(62 )	\$(10 )

At September 30, 2017, the Company's valuation allowance of \$49 consisted of a valuation allowance of \$0 on life company deferred tax assets and a full valuation allowance of \$49 on FGL's non-life insurance net deferred taxes. At September 30, 2016, the Company's valuation allowance of \$51 consisted of a valuation allowance of \$0 on life company deferred tax assets and a full valuation allowance of \$51 on FGL's non-life insurance net deferred taxes. The life company's remaining capital loss carryforwards expired on December 31, 2015, and the capital loss carryforward deferred tax assets and related valuation allowance were written off at that time.

The Company maintains a valuation allowance against the deferred tax assets of its non-life insurance company subsidiaries. The non-life insurance company subsidiaries have a history of losses and insufficient sources of future income necessary to recognize any portion of their deferred tax assets. All other deferred tax assets are more likely than not to be realized based on expectations regarding future taxable income and considering all other available evidence, both positive and negative.

The net operating losses ("NOLs"), capital losses and tax credits of FGL's subsidiaries are subject to limitations under IRC Section 382, as a result of the change of ownership that occurred when the companies were purchased in 2011. This caused the net value of attributes that could be utilized to be limited to \$5 each year, subject to increases for realized built-in gains on certain assets on the date of the change of ownership. On September 27, 2013, the Company underwent a second change of control within the meaning of IRC Section 382(g), triggered by the sale of HRG shares



by Harbinger Capital Partners. At the time of this ownership change, FGL's tax attributes consisted of capital loss carry forwards totaling approximately \$350, investment tax credits of approximately \$54,

F-58

---

Table of Contents

and alternative minimum tax ("AMT") credits of approximately \$6. The second 382 annual limitation is higher than the 2011 limitation and is not expected to have an impact on the utilization of tax attributes.

At September 30, 2017 and 2016, FGL has NOL carryforwards of \$95 and \$92, respectively, which, if unused, will expire in years 2026 through 2037. FGL has capital loss carryforwards totaling \$15 and \$6 at September 30, 2017 and 2016, respectively, which if unused, will expire in years 2017 through 2022. In addition, at September 30, 2017 and 2016, FGL has low income housing tax credit carryforwards totaling \$47 and \$52, respectively, which, if unused, will expire in years 2020 through 2037, and alternative minimum tax credits of \$6 and \$6, respectively, that may be carried forward indefinitely.

FGL's non-life subsidiaries file as part of HRG's consolidated U.S. Federal income tax return. FGL's insurance company subsidiaries file their own consolidated U.S. Federal life insurance tax return. The income tax liabilities of the FGL members of the consolidated HRG return are calculated using the separate return method with any payable or receivable reflecting an amount they would have recorded had they filed their own return. As of September 30, 2017 and 2016, FGL and its subsidiaries have an income tax liability totaling \$0 and \$2, respectively, which represents what they would have owed the IRS had they filed their own tax return.

The U.S. Federal income tax returns of FGL for years prior to 2014 are no longer subject to examination by the taxing authorities. With limited exception, FGL is no longer subject to state and local income tax audits for years prior to 2013. FGL does not have any unrecognized tax benefits ("UTBs") at September 30, 2017 and 2016. In the event the Company has UTBs, interest and penalties related to uncertain tax positions would be recorded as part of income tax expense in the financial statements. The Company regularly assesses the likelihood of additional tax assessments by jurisdiction and, if necessary, adjusts its tax reserves based on new information or developments.

## (12) Commitments and Contingencies

## Commitments

The Company has unfunded investment commitments as of September 30, 2017 based upon the timing of when investments are executed compared to when the actual investments are funded, as some investments require that funding occur over a period of months or years. A summary of unfunded commitments by invested asset class are included below:

Asset Type	September 30, 2017
Other invested assets	\$ 116
Commercial mortgage loans	33
Equity securities, available-for-sale	27
Other assets	21
Total	\$ 197

Table of Contents

## Lease Commitments

The Company leases office space under non-cancelable operating leases that expire in May 2021. The Company also leased office furniture and office equipment under non-cancelable operating leases that expired in 2012. For the years ended September 30, 2017, 2016 and 2015, the Company's total rent expense was \$3, \$2 and \$2, respectively. As of September 30, 2017, the minimum rental commitments under the non-cancelable leases are as follows:

Fiscal Year	Amount
2018	\$ 2
2019	2
2020	2
2021	1
2022	—
Thereafter	—
Total	\$ 7

## Contingencies

## Regulatory and Litigation Matters

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

FGL assessed amounts by the state guaranty funds to cover losses to policyholders of insolvent or rehabilitated insurance companies. Those mandatory assessments may be partially recovered through a reduction in future premium taxes in certain states. At September 30, 2017, FGL has accrued \$2 for guaranty fund assessments that is expected to be offset by estimated future premium tax deductions of \$2.

The Company has received inquiries from a number of state regulatory authorities regarding its use of the U.S. Social Security Administration's Death Master File (the "Death Master File") and compliance with state claims practices regulation. Legislation requiring insurance companies to use the Death Master File to identify potential claims has been enacted in a number of states. As a result of these legislative and regulatory developments, in May 2012, the Company undertook an initiative to use the Death Master File and other publicly available databases to identify persons potentially entitled to benefits under life insurance policies, annuities and retained asset accounts. In addition, FGL has received audit and examination notices from several state agencies responsible for escheatment and unclaimed property regulation in those states and in some cases has challenged the audits including litigation against the Controller for the State of California which is subject to a stay and separate litigation against the Treasurer for the State of Illinois. FGL believes its current accrual will cover the reasonably estimated liability arising out of these developments, however costs that cannot be reasonably estimated as of the date of this filing are possible as a result of ongoing regulatory developments and other future requirements related to these matters.

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



Table of Contents

On September 1, 2017, the Company filed a counterclaim against BIP and John and Jane Does 1-10, asserting, among other causes of action, breach of contract, fraud, civil conspiracy and violations of RICO.

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

On July 5, 2013, Plaintiff Eddie L. Cressy filed a putative class Complaint captioned Cressy v. Fidelity Guaranty [sic] Life Insurance Company, et. al. in the Superior Court of California, County of Los Angeles (the "Court"), Case No. BC-514340. The Complaint was filed after the Plaintiff was unable to maintain an action in federal court. The Complaint asserted, inter alia, that the Plaintiff and members of the putative class relied on Defendants' advice in purchasing allegedly unsuitable equity-indexed insurance policies.

On January 2, 2015, the Court entered Final Judgment in Cressy, certifying the class for settlement purposes, and approving the class settlement reached on April 4, 2014. On August 10, 2015, the Company tendered \$1 to the Settlement Administrator for a claim review fund. The Company implemented an interest enhancement feature for certain policies as part of the class settlement, which enhancement began on October 12, 2015. On October 24, 2016, the parties filed a Joint Motion to amend the January 2, 2015 Final Order and Judgment, to extend the deadline for settlement completion from October 24, 2016 to December 5, 2016. On December 5, 2016, Plaintiff Cressy filed a Notice of Filing Declaration of Settlement Administrator and Status of Completion of Settlement; the Declaration of Settlement Administrator included a certification by the Settlement Administrator that the Company had complied in all respects with the class settlement and that all eligible claims had been paid and the interest enhancement had been implemented pursuant to the terms of the class settlement. On March 24, 2017, the Court entered a Minute Order indicating that it was satisfied that the parties had fully and finally performed all of the terms of the settlement and recorded the matter as complete without the need for any further hearings.

During the third quarter of 2015, the Company, HRG and OM Group (UK) Limited reached a global settlement that resolved all prior outstanding claims arising under the First Amended and Restated Stock Purchase Agreement, dated February 17, 2011 (the "F&G Stock Purchase Agreement") between FGL (previously, HFG) and OMGUK. As a part of the settlement, the Company received \$4 to settle its outstanding claim that OMGUK was obligated to indemnify the Company for the costs to defend and the settlement of the actions brought by Plaintiff Cressy.

On January 7, 2015, a putative class action complaint was filed in the United States District Court, Western District of Missouri (the "District Court"), captioned Dale R. Ludwick, on behalf of Herself and All Others Similarly Situated v. Harbinger Group Inc., Fidelity & Guaranty Life Insurance Company, Raven Reinsurance Company, and Front Street Re (Cayman) Ltd. The complaint alleges violations of the Racketeer Influenced and Corrupt Organizations Act ("RICO"), requests injunctive and declaratory relief and seeks unspecified compensatory damages for the putative class in an amount not presently determinable, treble damages, and other relief, and claims Plaintiff Ludwick overpaid \$0 for her annuity. On February 12, 2016, the District Court granted the defendants' Joint Motion to Dismiss the Plaintiff's claims. On March 3, 2016, Plaintiff Ludwick filed a Notice of Appeal to the United States Court of Appeals for the Eighth Circuit (the "Court of Appeals"). On April 13, 2017, the Court of Appeals affirmed the District Court's decision to dismiss the Plaintiff's claims. The Plaintiff's time to seek discretionary review of this matter expired on July 12, 2017. As of the date of this report, FGL does not have sufficient information to determine whether it has exposure to any losses that would be either probable or reasonably estimable beyond the \$2 of expense incurred to date.

Guarantees

The F&G Stock Purchase Agreement between HFG and OMGUK included a Guarantee and Pledge Agreement, which created a security interest in the equity of FGLH and FGLH's equity interest in FGL Insurance for the benefit of OMGUK in the event that FGL failed to perform certain obligations under the F&G Stock Purchase Agreement. In the third quarter of 2015, in connection with the settlement of the litigation amongst the Company, HRG and OMGUK, the Guarantee and Pledge Agreement was terminated and the Company was released from its obligations thereunder.

(13) Reinsurance

The Company reinsures portions of its policy risks with other insurance companies. The use of reinsurance does not discharge an insurer from liability on the insurance ceded. The insurer is required to pay in full the amount of its insurance liability regardless of whether it is entitled to or able to receive payment from the reinsurer. The portion of

risks exceeding the Company's retention limit is reinsured with other insurers. The Company seeks

F-61

---

Table of Contents

reinsurance coverage in order to limit its exposure to mortality losses and enhance capital management. The Company follows reinsurance accounting when there is adequate risk transfer. Otherwise, the deposit method of accounting is followed. The Company also assumes policy risks from other insurance companies.

The effect of reinsurance on premiums earned and benefits incurred and reserve changes (net benefits incurred) for the years ended September 30, 2017, 2016 and 2015 were as follows:

	Year ended September 30,					
	2017		2016		2015	
	Net Premium	Net Benefits Incurred	Net Premium	Net Benefits Incurred	Net Premium	Net Benefits Incurred
Direct	\$233	\$1,097	\$261	\$1,069	\$260	\$833
Assumed	—	—	1	1	—	—
Ceded	(191)	(254)	(192)	(279)	(202)	(255)
Net	\$42	\$843	\$70	\$791	\$58	\$578

Amounts payable or recoverable for reinsurance on paid and unpaid claims are not subject to periodic or maximum limits. During the years ended September 30, 2017, 2016 and 2015, the Company did not write off any reinsurance balances. During the year ended September 30, 2017, the Company did not commute any ceded reinsurance.

Effective April 1, 2015, Security Life of Denver ("SLD") recaptured a traditional life block of business previously assumed and ceded by the Company and simultaneously ceded this business to Wilton Re.

Effective September 1, 2016, FGL Insurance recaptured a certain block of life insurance ceded to Swiss Re and simultaneously ceded this business to Wilton Re.

Effective January 1, 2017, the Company entered into a reinsurance agreement with Hannover Re, a third party reinsurer, to reinsure an inforce block of its FIA and fixed deferred annuity contracts with GMWB and Guaranteed Minimum Death Benefit ("GMDB") secondary guarantees. In accordance with the terms of this agreement, the Company cedes 70% net retention of secondary guarantee payments in excess of account value for GMWB and GMDB guarantees. Effective July 1, 2017, the Company extended this agreement to include new business issued during 2017. These transactions resulted in no GAAP impact on the effective dates of the transactions as we are following deposit accounting.

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

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

Wilton Agreement

In September 2012, Wilton Re and FGL Insurance reached a final agreement on the initial settlements associated with the reinsurance transactions FGL Insurance entered into. The final settlement amounts did not result in any material adjustments to the amounts reflected in the financial statements. FGL Insurance recognized a net pre-tax gain of \$18 on these reinsurance transactions which has been deferred and is being amortized over the remaining life of the underlying reinsured contracts. The unamortized portion of this deferred gain was \$8 and \$10 as of September 30, 2017 and 2016, respectively.

Commissioners Annuity Reserve Valuation Method Facility ("CARVM")

Effective October 1, 2012, FGL Insurance recaptured the CARVM reinsurance agreement from OM Re and simultaneously ceded the business to Raven Reinsurance Company ("Raven Re"), its wholly-owned captive reinsurance company. The recapture of the OM Re CARVM reinsurance agreement satisfies the Company's obligation under the F&G Stock Purchase Agreement to replace the letter of credit provided by OM no later than December 31, 2015. In connection with the new CARVM reinsurance agreement, FGL Insurance and Raven Re entered into an agreement with Nomura Bank International plc ("NBI") to establish a \$295 reserve financing facility in the form of a letter of credit issued by NBI and NBI charged an upfront structuring fee in the amount of





Table of Contents

\$3. The reserve financing facility is set to be reduced by \$6 each quarter subsequent to establishment. The structuring fee was paid by FGL Insurance and will be deferred and amortized over the expected life of the facility. As this letter of credit is provided by an unaffiliated financial institution, Raven Re is permitted to carry the letter of credit as an admitted asset on the Raven Re statutory balance sheet.

Effective June 30, 2017, the letter of credit facility was amended to reduce the available amount to \$115 and extend the termination date to October 1, 2022, although the facility may terminate earlier, in accordance with the terms of the Reimbursement Agreement. Under the terms of the Reimbursement Agreement, in the event the letter of credit is drawn upon, Raven Re is required to repay the amounts utilized, and FGLH is obligated to repay the amounts utilized if Raven Re fails to make the required reimbursement. FGLH also is required to make capital contributions to Raven Re in the event that Raven Re's statutory capital and surplus falls below certain defined levels. As of December 31, 2016, Raven Re's statutory capital and surplus was \$24 in excess of the minimum level required under the Reimbursement Agreement.

F-63

---

Table of Contents

## (14) Related Party Transactions

## FSRCI

We have reinsured certain of our liabilities and obligations to FSRCI. As we are not relieved of our liability to our policyholders for this business, the liabilities and obligations associated with the reinsured policies remain on our Condensed Consolidated Balance Sheets with a corresponding reinsurance recoverable from FSRCI. In addition to various remedies that we would have in the event of a default by FSRCI, we continue to hold assets in support of the transferred reserves.

At September 30, 2017 and 2016, the Company's reinsurance recoverable related to FSRCI included \$1,016 and \$1,120, respectively, and funds withheld for reinsurance liabilities included \$1,081 and \$1,172, respectively.

Below are the ceded operating results to FSRCI for the year ended September 30, 2017, 2016 and 2015:

	Year Ended		
	September 30,		
	2017	2016	2015
Revenues:			
Premiums	\$1	\$3	\$1
Net investment income	46	61	63
Net investment gains (losses)	15	(8)	(30)
Insurance and investment product fees	2	3	4
Total revenues	64	59	38

## Benefits and expenses:

Benefits and other changes in policy reserves	(39)	(47)	(42)
Acquisition & operating expenses, net of deferrals	(3)	(4)	(4)
Total benefits and expenses	(42)	(51)	(46)

Operating income (loss)	\$22	\$8	\$(8)
-------------------------	------	-----	-------

FGL Insurance invested in CLO securities issued by Fortress Credit Opportunities III CLO LP ("FCO III") and also invested in securities issued by Fortress Credit BSL Limited ("Fortress BSL"). The parent of both FCO III and Fortress BSL is Fortress Investment Group LLC, which acquired interests greater than 10% ownership in HRG as of September 30, 2014. In March 2016, Hildene Leveraged Credit, LLC ("HLC") sold four CLOs to Fortress Investment Group LLC. The four Hildene CLOs are now managed by an affiliate of Fortress Investment Group LLC, Fortress Credit Advisors, LLC. As of September 30, 2017, the Company held two of these CLOs. In August 2016, FGL purchased a commercial real estate CLO from Fortress Investment Group LLC. In October 2016, FGL purchased bonds of Spectrum Brands, Inc., a wholly-owned subsidiary of HRG Group, and in March 2017, FGL purchased asset backed CLOs from FCO III. The carrying value of these affiliated investments as of September 30, 2017 and 2016 are disclosed in the tables below.

FGL Insurance participates in loans to third parties originated by Salus, an affiliated, limited liability company indirectly owned by HRG. Salus is also considered a VIE as described in "Note 4. Investments" to the Company's Consolidated Financial Statements. Salus originated senior secured asset-based loans to unaffiliated third-party borrowers. In January 2014, FSRCI acquired preferred equity interests in Salus which have a 10% per annum return and a total par value of \$30 which is included in the FSRCI funds withheld portfolio. Accordingly, all income on this asset is ceded to FSRCI. The Company's maximum exposure to loss as a result of its investments in Salus is limited to the carrying value of the preferred equity interests. The carrying value of these investments in Salus as of September 30, 2017 and 2016 are disclosed in the tables below.

On February 27, 2015, FGL Insurance entered into a transaction with Salus whereby Salus transferred \$14 of loan participations and \$16 of CLO subordinated debt (i.e., equity tranche) to FGL Insurance in exchange for retirement of the \$20 promissory note and \$10 revolving loan owed by Salus to FGL Insurance resulting in the termination of these facilities. Additionally, FGL Insurance also entered into a transaction with the Salus CLO whereby FGL Insurance transferred \$29 of loan participations into the CLO in exchange for \$27 of CLO subordinated notes (i.e., equity tranche) and a promissory note of \$3 from Salus. Both transactions qualified as sales of financial assets accounted for

at fair value and therefore did not result in any gain or loss. FGL Insurance also concluded that it was not the primary beneficiary of the Salus CLO before and after these two transactions as

F-64

---

Table of Contents

FGL Insurance lacks the power to direct the activities that significantly affect the economic performance of the CLO and, to a lesser extent, FGL Insurance continues to own less than a majority ownership of the CLO subordinated notes after the two transactions. On June 13, 2016, the Salus promissory note was repaid for \$2 and all obligations under the note were satisfied.

Please refer to "Note 5. Derivative Financial Instruments" to the Company's Consolidated Financial Statements for disclosure of the Canadian dollar foreign exchange swap agreement activity for the year on our Salus loan participations.

In August of 2015 and October of 2015, FGL entered into separate engagement letters with Credit Suisse and Jefferies, respectively, pursuant to which Credit Suisse and Jefferies agreed (on a non-exclusive basis) to provide financial advisory services to FGL in connection with a transaction involving a merger or other similar transaction with respect to at least a majority of the capital stock of FGL. The Credit Suisse engagement was extended by an amendment dated March 15, 2017. HRG, the holder of a majority of shares of outstanding common stock of FGL, is also a party to each engagement letter. Under each engagement letter, Credit Suisse and Jefferies, respectively, are entitled to receive a fee which represents a percentage of the value of the transaction, plus reimbursement for all reasonable out-of-pocket expenses incurred by Credit Suisse or Jefferies, as applicable, in connection with their engagement. FGL has also agreed to indemnify Credit Suisse and Jefferies for certain liabilities in connection with their engagement. Under each engagement letter, HRG is required to reimburse FGL for compensation paid by FGL to Credit Suisse or Jefferies under certain circumstances. Specifically, if compensation to Credit Suisse or Jefferies becomes payable in respect of a transaction that involves a disposition of shares of FGL held by HRG (and not other stockholders of FGL), HRG will reimburse FGL for the full amount of such compensation. If compensation to Credit Suisse or Jefferies becomes payable in respect of a transaction that involves a disposition of shares of FGL held by HRG and a disposition of not more than 50% of the shares of FGL held by stockholders of FGL other than HRG, HRG will reimburse FGL for its pro rata portion of such compensation (based on its relative number of shares compared to those held by stockholders of FGL other than HRG).

The Company's related party investments as of September 30, 2017, 2016, and 2015, and related net investment income for the years ended September 30, 2017, 2016, and 2015 are summarized as follows:

Type	Balance Sheet Classification	September 30, 2017	
		Asset Carrying Value	Total Investment Carrying Value
Fortress Investment Group CLOs	Fixed maturities, available for sale	\$175	\$ 2
Spectrum Brands, Inc.	Fixed maturities, available for sale	2	—
Salus preferred equity (a)	Equity securities, available for sale	2	—
HGI energy loan (b)	Related party loans	71	—

(a) Salus preferred equity is included in the FSRCI funds withheld portfolio, accordingly all income on this asset is ceded to FSRCI.

(b) The HGI energy loan is included in the FSRCI funds withheld portfolio, accordingly the income related to this portion is ceded to FSRCI.

Type	Balance Sheet Classification	September 30, 2016	
		Asset Carrying Value	Total Investment Carrying Value
Salus CLOs	Fixed maturities, available for sale	\$ 19	\$ —
Fortress Investment Group CLOs	Fixed maturities, available for sale	225	2
Salus preferred equity (a)	Equity securities, available for sale	3	—
Salus participations (b)	Other invested assets	21	—
HGI energy loan (c)	Related party loans	71	—

(a) Salus preferred equity is included in the FSRCI funds withheld portfolio, accordingly all income on this asset is ceded to FSRCI.

(b) Includes loan participations with 4 different borrowers with an average loan fair value of \$5 as of September 30, 2016

(c) The HGI energy loan is included in the FSRCI funds withheld portfolio, accordingly the income related to this portion is ceded to FSRCI.

F-65

---

Table of Contents

Type	Investment Income Classification	Year ended September 30,	
		2017	2016
		Net investment income	Net investment income
Salus CLOs	Fixed maturities	\$ 10	\$ 11
Fortress Investment Group CLOs	Fixed maturities	10	11
Salus participations	Other invested assets	—	4
EIC participations	Other invested assets	—	1
HGI energy loan	Related party loans	—	4
Salus promissory note	Related party loans	—	—

The Company had realized foreign exchange losses of \$2, \$5 and \$4 for the years ended September 30, 2017, 2016 and 2015, respectively, related to its CAD denominated loan participations originated by Salus. Additionally, the Company had foreign exchange derivative and embedded derivative losses, including losses on CAD currency forward contracts, of \$0 for the year ended September 30, 2017, and (losses) gains of \$(2) and \$9 for the years ended September 30, 2016 and 2015, respectively, included in other invested assets. See "Note 5. Derivative Financial Instruments" to the Company's Consolidated Financial Statements for further details.

In August 2016, FGL Insurance exchanged the \$71 2013 HGI Energy Loan issued by HGI Energy for new notes issued by HGI Energy for the same fair value with an August 2017 maturity date. The new notes issued are held in the FSRCI funds withheld portfolio. Effective May 1, 2017, FGL Insurance and HGI Energy extended the maturity date of the new notes until the earlier of: June 30, 2018 or a change in control of FGL Insurance. In addition, the parties have agreed to increase the rate of interest on the New Notes from 0.71% to 1.50% on August 22, 2017.

During 2016, the Company received proceeds from the RSH liquidation trust of \$23 resulting in a realized gain of \$8. The Company's investments in RSH were included within the Salus CLOs and Salus Participations. See "Note 4. Investments" to the Company's Consolidated Financial Statements for further details.

The Company's gross realized gains and net realized impairment losses on related party investments as of September 30, 2017 and September 30, 2016 are summarized as follows:

Type	Investment Income Classification	Year ended September 30,		
		2017	2016	2015
		Net realized gain (losses)	Net realized gain (losses)	Net realized gain (losses)
Salus CLOs (a)	Fixed maturities	\$(2)	\$ (12 )	\$ (37 )
Salus participations (b)	Other invested assets	—	(19 )	(40 )
Salus preferred equity (c)	Other invested assets	(3 )	—	(30 )

(a) Net of impairments of \$2, \$11, and \$46 for the years ended September 30, 2017, 2016 and 2015, respectively.

(b) Net of impairments of \$1, \$22, and \$36 for the years ended September 30, 2017, 2016 and 2015, respectively.

(c) Net of impairments of \$0, \$0, and \$0 for the years ended September 30, 2017, 2016 and 2015, respectively.

During the years ended September 30, 2017, 2016 and 2015, the Company has investment management agreements with Salus, CorAmerica Capital, LLC, and Energy & Infrastructure Capital, LLC ("EIC"), all wholly-owned subsidiaries of HGI Asset Management Holdings, LLC, which is also a wholly-owned subsidiary of HRG. The agreement for EIC was terminated in July 2016, and CorAmerica is no longer a wholly-owned subsidiary of HGI Asset Management Holdings. The Company paid management fees to these entities for the services provided under these agreements, which are usual and customary for these types of services, as follows:

Year ended  
September 30,

Edgar Filing: Fidelity & Guaranty Life - Form 10-K

	2017	2016	2015
Salus	\$—	\$	—\$ 1
CorAmerica Capital, LLC	10.0000023		1
EIC	—	—	—

F-66

---

Table of Contents

## (15) Earnings Per Share

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

	Year ended		
	September 30,		
	2017	2016	2015
Net income attributable to common shares - basic	\$223	\$97	\$118
Weighted-average common shares outstanding - basic	58,320	58,275	58,118
Dilutive effect of unvested restricted stock & PRSU	43	271	208
Dilutive effect of stock options	52	32	35
Weighted-average shares outstanding - diluted	58,415	58,578	58,361

Net income per common share:

Basic	\$3.83	\$1.67	\$2.03
Diluted	\$3.83	\$1.66	\$2.02

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

The calculation of diluted earnings per share for the years ended September 30, 2017, 2016, and 2015 excludes the incremental effect related to certain outstanding stock options and restricted shares due to their anti-dilutive effect.

The number of weighted average equivalent shares excluded in 2017, 2016, and 2015 are 0 shares, 19 thousand shares, and 17 thousand shares, respectively. In the fourth quarter 2016, the Company decided to settle the performance restricted stock units granted in 2014 and 2015 in cash upon vesting and, therefore, these performance restricted stock units were excluded from the computation of diluted earnings per share in fourth quarter 2016 and future periods.

Also, performance restricted stock units granted in 2017 under the FGL plan and stock-based compensation awards granted under the FGLH Plans are settled in cash and, therefore, are excluded from the computation of diluted earnings per share.

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

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



Table of Contents

The Company's principal insurance subsidiaries' statutory financial statements are based on a December 31 year end. Statutory net income and statutory capital and surplus of the Company's wholly-owned insurance subsidiaries were as follows:

	Subsidiary (state of domicile)(a)	
	FGL Insurance (IA)	FGL NY Insurance (NY)
Statutory Net income (loss):		
Year ended December 31, 2016	\$ 21	\$ 4
Year ended December 31, 2015	(53)	(1)
Year ended December 31, 2014	105	2
Statutory Capital and Surplus:		
December 31, 2016	\$ 1,323	\$ 64
December 31, 2015	1,239	59

(a) FGL NY Insurance is a subsidiary of FGL Insurance, and the columns should not be added together.

The amount of statutory capital and surplus necessary to satisfy the applicable regulatory requirements is less than FGL Insurance's and FGL NY Insurance's respective statutory capital and surplus.

Life insurance companies are subject to certain Risk-Based Capital ("RBC") requirements as specified by the NAIC. The RBC is used to evaluate the adequacy of capital and surplus maintained by an insurance company in relation to risks associated with: (i) asset risk, (ii) insurance risk, (iii) interest rate risk and (iv) business risk. The Company monitors the RBC of FGLH's insurance subsidiaries. As of December 31, 2016 and 2015, each of FGLH's insurance subsidiaries had exceeded the minimum RBC requirements.

The Company's insurance subsidiaries are restricted by state laws and regulations as to the amount of dividends they may pay to their parent without regulatory approval in any year, the purpose of which is to protect affected insurance policyholders, depositors or investors. Any dividends in excess of limits are deemed "extraordinary" and require approval. Based on statutory results as of December 31, 2016, in accordance with applicable dividend restrictions, the Company's subsidiaries could pay "ordinary" dividends of \$132 to FGLH in 2017, less any dividends paid during the immediately preceding 12 month period. In September 2017, FGL Insurance declared and paid an ordinary dividend of \$25 to FGLH. The Company did not declare or pay any other dividends to FGLH during the previous 12 months. Therefore, for the period of October 1 to December 31, 2017, FGL Insurance is able to declare ordinary dividends up to \$107 with respect to its 2016 statutory results, subject to management's discretion.

FGL Insurance's statutory carrying value of Raven Re reflects the effect of permitted practices Raven Re received to treat the available amount of a letter of credit as an admitted asset which increased Raven Re's statutory capital and surplus by \$195 and \$220 at December 31, 2016 and 2015, respectively.

Effective April, 1 2017, FGL Insurance and Raven Re amended the reinsurance treaty and related trust and letter of credit agreements to extend the term of the letter of credit which would have matured on September 30, 2017. The amendments added additional in-force business to the reinsurance treaty (fixed indexed annuities without a guaranteed minimum withdrawal benefit rider and multi-year guarantee annuities ("MYGA") issued between January 1, 2011 and December 31, 2016). No initial ceding commission was paid or received by FGL Insurance or Raven Re in connection with the cession of additional in-force business. No assets were transferred to or from FGL Insurance or Raven Re in connection with the cession of additional in-force business. The amendments extended the letter of credit for an additional five year period and reduced the face amount of the letter of credit at April 1, 2017 from \$183 to \$115. Raven Re is also permitted to follow Iowa prescribed statutory accounting practice for its reserves on reinsurance assumed from FGL Insurance which increased Raven Re's statutory capital and surplus by \$4 and \$4 at December 31, 2016 and 2015, respectively. Without such permitted statutory accounting practices Raven Re's statutory capital and (deficit) surplus would be \$8 and \$(14) as of December 31, 2016 and 2015, respectively, and its risk-based capital would fall below the minimum regulatory requirements. The letter of credit facility is collateralized by NAIC 1 rated debt securities. If the permitted practice was revoked, the letter of credit could be replaced by the collateral assets with Nomura's consent. FGL Insurance's statutory carrying value of Raven Re at December 31, 2016 and 2015 was \$207

and \$210, respectively.

On November 1, 2013, FGL Insurance re-domesticated from Maryland to Iowa. After re-domestication, FGL Insurance elected to apply Iowa-prescribed accounting practices that permit Iowa-domiciled insurers to report equity call options used to economically hedge FIA index credits at amortized cost for statutory accounting purposes

F-68

---

Table of Contents

and to calculate FIA statutory reserves such that index credit returns will be included in the reserve only after crediting to the annuity contract. This resulted in a \$0 and \$47 increase to statutory capital and surplus at December 31, 2016 and 2015, respectively. Also, the Iowa Insurance Division granted FGL Insurance a permitted statutory accounting practice to reclassify its negative unassigned surplus balance of \$806 to additional paid in capital as of April 6, 2011, the date the Company acquired FGL Insurance, which had the effect of setting FGL Insurance's statutory unassigned surplus to zero as of this date. The prescribed and permitted statutory accounting practices have no impact on the Company's Consolidated Financial Statements which are prepared in accordance with GAAP.

As of December 31, 2016, FGL NY Insurance did not follow any prescribed or permitted statutory accounting practices that differ from the NAIC's statutory accounting practices.

**(17) Other Liabilities**

Other liabilities consisted of the following:

	Year ended	
	September	
	30,	
	2017	2016
Amounts payable for investment purchases	\$173	\$106
Retained asset account	194	221
Option collateral liabilities	276	118
Remittances and items not allocated	39	77
Amounts payable to reinsurers	36	36
Accrued expenses	55	60
Deferred reinsurance revenue	23	25
Other	101	103
Total	\$897	\$746

**(18) Employee Benefit Plans**

The Company sponsors a defined contribution plan in which eligible participants may defer a fixed amount or a percentage of their eligible compensation, subject to limitations, and the Company makes a discretionary matching contribution of up to 5% of eligible compensation. The Company has also established a nonqualified defined contribution plan for independent agents. The Company makes contributions to the plan based on both the Company's and the agent's performance. Contributions are discretionary and evaluated annually. Contributions charged to operations for the employee defined contribution plans, including discretionary amounts, were \$2, \$2 and \$2, for the years ended September 30, 2017, 2016 and 2015, respectively.

Table of Contents

## (19) Quarterly Results (Unaudited)

Unaudited quarterly results of operations are summarized below.

	Quarter Ended			
	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016
	(Dollars in millions, except per share data)			
Premiums	\$16	\$ 12	\$ 3	\$ 11
Net investment income	261	257	247	240
Net realized gains (losses)	117	67	81	51
Insurance and investment product fees and other	41	44	44	38
Total revenue	435	380	375	340
Total expenses	342	326	334	171
Net income	61	32	22	108
Net income per common share - basic	1.06	0.54	0.38	1.85
Net income per common share - diluted	1.06	0.54	0.38	1.85

	Quarter Ended			
	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015
	(Dollars in millions, except per share data)			
Premiums	\$18	\$ 21	\$ 16	\$ 15
Net investment income	238	236	227	222
Net realized (losses) gains	26	(28 )	(42 )	63
Insurance and investment product fees and other	34	32	32	29
Total revenue	316	261	233	329
Total expenses	262	240	212	250
Net income (loss)	30	10	9	48
Net income (loss) per common share - basic	0.52	0.16	0.16	0.82
Net income (loss) per common share - diluted	0.52	0.16	0.16	0.82

Table of Contents

## (20) Subsequent Events

On November 14, 2017, FGLH received majority consent from holders of its 6.375% senior notes due 2021 to adopt certain amendments to their governing indenture. These amendments principally impact provisions of the indenture that would have been affected by the Merger and do not affect the principal, term or borrowing rate of the notes outstanding. FGLH will pay \$3 to the holders that approved the consent no later than the third business day following the time at which all the conditions with respect to the consent solicitation, including the consummation of the Merger, have been satisfied or waived.

## Schedule I

## FIDELITY &amp; GUARANTY LIFE AND SUBSIDIARIES

## Summary of Investments - Other than Investments in Related Parties

September 30, 2017

(in millions)

	Amortized Cost	Fair Value	Amount at which shown on the balance sheet
Fixed Maturities:			
Bonds:			
United States Government and government agencies and authorities	\$ 232	\$235	\$235
States, municipalities and political subdivisions	1,573	1,726	1,726
Foreign governments	4	4	4
Public utilities	2,109	2,202	2,202
All other corporate bonds	16,145	16,987	16,987
Redeemable preferred stock	—	—	—
Total fixed maturities	20,063	21,154	21,154
Equity securities:			
Common stocks:			
Public utilities	—	—	—
Banks, trust, and insurance companies	110	111	111
Industrial, miscellaneous and all other	1	2	2
Nonredeemable preferred stock	622	660	660
Total equity securities	733	773	773
Derivative investments	225	413	413
Commercial mortgage loans	547	552	547
Other long-term investments	185	182	185
Total investments	\$ 21,753	\$23,074	\$23,072

See accompanying Report of Independent Registered Public Accounting Firm.



Table of Contents

Schedule II  
 FIDELITY & GUARANTY LIFE (Parent Only)  
 CONDENSED BALANCE SHEETS  
 (in millions)

	September	September
	30, 2017	30, 2016
<b>ASSETS</b>		
Investments in consolidated subsidiaries	\$ 2,241	\$ 1,913
Fixed maturity securities, available for sale	—	5
Equity securities, available-for-sale, at fair value	—	12
Cash and cash equivalents	2	2
Other assets	4	2
Total assets	\$ 2,247	\$ 1,934
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Total liabilities	—	—
Shareholders' equity		
Preferred stock	—	—
Common stock	1	1
Additional paid in capital	716	714
Retained earnings	1,000	792
Accumulated other comprehensive income	543	439
Treasury stock	(13 )	(12 )
Total shareholder's equity	2,247	1,934
Total liabilities and shareholder's equity	\$ 2,247	\$ 1,934

See accompanying Report of Independent Registered Public Accounting Firm.

Table of ContentsSchedule II  
(continued)FIDELITY & GUARANTY LIFE (Parent Only)  
CONDENSED STATEMENT OF OPERATIONS  
(in millions)

	Year ended		
	September 30,		
	2017	2016	2015
Revenues	\$(1 )	\$(2 )	\$(9 )
	(1 )	(2 )	(9 )
Operating expenses:			
General and administrative expenses	2	3	6
Total operating expenses	2	3	6
Operating loss	(3 )	(5 )	(15 )
Other income:			
Equity in net income of subsidiaries	227	103	133
Income before income taxes	224	98	118
Income tax expense	1	1	—
Net income	\$223	\$97	\$118

See accompanying Report of Independent Registered Public Accounting Firm.



Table of Contents

## Schedule II

(continued)

## FIDELITY &amp; GUARANTY LIFE (Parent Only)

## CONDENSED STATEMENT OF CASH FLOWS

(in millions)

	Year ended September 30,		
	2017	2016	2015
Cash flows from operating activities			
Net income	\$223	\$97	\$118
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Realized capital and other gains on investments	5	2	9
Equity in net income of subsidiaries	(227 )	(103 )	(133 )
Stock based compensation	2	(2 )	10
Other assets and other liabilities	3	2	2
Net cash provided (used in) by operating activities	6	(4 )	6
Cash flows from investing activities:			
Proceeds from available-for-sale investments, sold, matured or repaid:	12	5	30
Cost of available-for-sale investments:	—	—	(15 )
Net cash provided by investing activities	12	5	15
Cash flows from financing activities:			
Proceeds from issuance of common stock, net of transactions fees	—	2	2
Dividends payments	(15 )	(15 )	(15 )
Treasury stock	(1 )	(1 )	(11 )
Distribution to FGLH and subsidiaries	(2 )	2	(50 )
Net cash (used in) provided by financing activities	(18 )	(12 )	(74 )
Change in cash and cash equivalents	—	(11 )	(53 )
Cash and cash equivalents at beginning of period	2	13	66
Cash and cash equivalents at end of period	\$2	\$2	\$13

See accompanying Report of Independent Registered Public Accounting Firm.

Table of Contents

## Schedule III

## FIDELITY &amp; GUARANTY LIFE AND SUBSIDIARIES

## Supplementary Insurance Information

(in millions)

	Year ended September 30,		
	2017	2016	2015
Life Insurance (single segment):			
Deferred acquisition costs	\$1,129	\$1,007	\$801
Future policy benefits, losses, claims and loss expenses	3,412	3,467	3,468
Other policy claims and benefits payable	67	55	55
Premium revenue	42	70	58
Net investment income	1,005	923	851
Benefits, claims, losses and settlement expenses	(843 )	(791 )	(578 )
Amortization of deferred acquisition costs	(171 )	(49 )	(27 )
Other operating expenses	(137 )	(119 )	(113 )

See accompanying Report of Independent Registered Public Accounting Firm.

F-75

Table of Contents

## Schedule IV

## FIDELITY &amp; GUARANTY LIFE AND SUBSIDIARIES

## Reinsurance

(In millions)

For the year ended September 30, 2017	Gross Amount	Ceded to other companies	Assumed from other companies	Net Amount	Percentage of amount assumed of net
Life insurance in force	\$ 3,207	\$ (2,036 )	\$ —	—\$ 1,171	—%
Premiums and other considerations:					
Traditional life insurance premiums	233	(191 )	—	42	—%
Annuity product charges	229	(64 )	—	165	—%
Total premiums and other considerations	\$ 462	\$ (255 )	\$ —	—\$ 207	—%
For the year ended September 30, 2016	Gross Amount	Ceded to other companies	Assumed from other companies	Net Amount	Percentage of amount assumed of net
Life insurance in force	\$ 3,081	\$ (2,024 )	\$ —	\$ 1,057	— %
Premiums and other considerations:					
Traditional life insurance premiums	261	(192 )	1	70	1 %
Annuity product charges	191	(67 )	—	124	— %
Total premiums and other considerations	\$ 452	\$ (259 )	\$ 1	\$ 194	1 %
For the year ended September 30, 2015	Gross Amount	Ceded to other companies	Assumed from other companies	Net Amount	Percentage of amount assumed of net
Life insurance in force	\$ 2,933	\$ (2,010 )	\$ —	—\$ 923	—%
Premiums and other considerations:					
Traditional life insurance premiums	260	(202 )	—	58	—%
Annuity product charges	156	(69 )	—	87	—%
Total premiums and other considerations	\$ 416	\$ (271 )	\$ —	—\$ 145	—%

See accompanying Report of Independent Registered Public Accounting Firm.