The Variable Annuity Life Insurance Company

Audited Statutory Financial Statements

At December 31, 2018 and 2017 and
for each of the three years ended December 31, 2018

THE VARIABLE ANNUITY LIFE INSURANCE COMPANY

TABLE OF CONTENTS TO AUDITED STATUTORY FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

	Page
STATUTORY FINANCIAL STATEMENTS	
Independent Auditor's Report	2
Statutory Statements of Admitted Assets, Liabilities and Capital and Surplus at December 31, 2018 and 2017	4
Statutory Statements of Operations for the Years Ended December 31, 2018, 2017 and 2016	6
Statutory Statements of Changes in Capital and Surplus for the Years Ended December 31, 2018, 2017 and 2016	7
Statutory Statements of Cash Flows for the Years Ended December 31, 2018, 2017 and 2016	8

NOTES TO STATUTORY FINANCIAL STATEMENTS

1.	Nature of Operations	9
2.	Summary of Significant Accounting Policies	9
3.	Investments	20
4.	Securities Lending and Repurchase Agreements	28
5.	Restricted Assets	31
6.	Subprime Mortgage Risk Exposure	31
7.	Derivatives	32
8.	Information about Financial Instruments with Off-Balance Sheet Risk and Financial Instruments with Concentrations of Credit Risk	35
9.	Fair Value Measurements	35
10.	Aggregate Policy Reserves and Deposit Fund Liabilities	41
11.	Separate Accounts	41
12.	Reserves for Guaranteed Policy Benefits and Enhancements	43
13.	Reinsurance	44
14.	Federal Income Taxes	46
15.	Capital and Surplus	52
16.	Retirement Plans and Share-Based and Deferred Compensation Plans	52
17.	Debt	53
18.	Commitments and Contingencies	54
19.	Related Party Transactions	56
20.	Subsequent Events	60
21	Loan-Backed and Structured Security Impairments and Structured Notes Holdings	61

SUPPLEMENTAL INFORMATION

Supplemental Schedule of Assets and Liabilities	64
Supplemental Investment Risks Interrogatories	66
Supplemental Summary Investment Schedule	72

Report of Independent Auditors

To the Board of Directors and Shareholder of
The Variable Annuity Life Insurance Company

We have audited the accompanying statutory financial statements of The Variable Annuity Life Insurance Company (the "Company"), an indirect, wholly-owned subsidiary of American International Group, Inc., which comprise the statutory statements of admitted assets, liabilities and capital and surplus as of December 31, 2018 and 2017, and the related statutory statements of operations and changes in capital and surplus, and of cash flows for each of the three years in the period ended December 31, 2018.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

As described in Note 2 to the financial statements, the financial statements are prepared by the Company on the basis of the accounting practices prescribed or permitted by the Texas Department of Insurance, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP, 1000 Louisiana Street, Suite 5800, Houston, TX 77002
T: (713) 356 4000, F: (713) 356 4717, www.pwc.com/us

The effects on the financial statements of the variances between the statutory basis of accounting described in Note 2 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2018 and 2017, or the results of its operations or its cash flows for each of the three years in the period ended December 31, 2018.

Opinion on Statutory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and capital and surplus of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in accordance with the accounting practices prescribed or permitted by the Texas Department of Insurance described in Note 2.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the statutory-basis financial statements taken as a whole. The Supplemental Schedule of Assets and Liabilities, Supplemental Investment Risks Interrogatories and Supplemental Summary Investment Schedule (collectively, the "supplemental schedules") of the Company as of December 31, 2018 and for the year then ended are presented to comply with the National Association of Insurance Commissioners' Annual Statement Instructions and Accounting Practices and Procedures Manual and for purposes of additional analysis and are not a required part of the statutory-basis financial statements. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the statutory-basis financial statements. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the statutory-basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory-basis financial statements or to the statutory-basis financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated, in all material respects, in relation to the statutory-basis financial statements taken as a whole.

PricewaterhouseCoopers LLP

Houston, Texas
April 22, 2019

THE VARIABLE ANNUITY LIFE INSURANCE COMPANY
STATUTORY STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND CAPITAL AND SURPLUS

	December 31,	
(in millions)	**2018**	2017
Admitted assets		
Cash and investments		
Bonds	**$ 35,775**	$ 35,608
Preferred stock	**41**	39
Common stock	**21**	76
Cash, cash equivalents and short-term investments	**189**	135
Mortgage loans	**6,601**	5,821
Real estate	**29**	42
Contract loans	**609**	653
Derivatives	**213**	216
Securities lending reinvested collateral assets	**354**	160
Other invested assets	**962**	1,528
Total cash and investments	**44,794**	44,278
Amounts receivable under reinsurance contracts	**123**	2
Deferred tax asset	**49**	59
Due and accrued investment income	**618**	458
Receivables from affiliates	**166**	264
Other assets	**213**	29
Separate account assets	**32,491**	36,575
Total admitted assets	**$ 78,454**	$ 81,665

See accompanying Notes to Statutory Financial Statements.

THE VARIABLE ANNUITY LIFE INSURANCE COMPANY
STATUTORY STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND CAPITAL AND SURPLUS (CONTINUED)

(in millions, except per share data)	December 31, **2018**	2017
Liabilities		
Policy reserves and contractual liabilities		
Life and annuity reserves	**$ 36,339**	$ 35,802
Liabilities for deposit-type contracts	**5,238**	4,917
Total policy reserves and contractual liabilities	**41,577**	40,719
Payable to affiliates	**76**	70
Interest maintenance reserve	**83**	133
Amounts withheld or retained by Company as agent or trustee and held for agents' account	**27**	25
Federal income taxes payable	**57**	16
Payable for securities lending	**359**	247
Repurchase agreements	**39**	222
Collateral for derivatives program	**181**	272
Accrued expenses and other liabilities	**220**	78
Net transfers to (from) separate accounts due or accrued	**114**	(18)
Asset valuation reserve	**541**	526
Separate account liabilities	**32,491**	36,575
Total liabilities	**75,765**	78,865
Commitments and contingencies (see Note 18)		
Capital and surplus		
Common stock, $1 par value; 5,000,000 shares authorized; 3,575,000 issued and outstanding	**4**	4
Other than special deficit funds	**(3)**	(3)
Gross paid-in and contributed surplus	**2,263**	2,263
Unassigned surplus	**425**	536
Total capital and surplus	**2,689**	2,800
Total liabilities and capital and surplus	**$ 78,454**	$ 81,665

See accompanying Notes to Statutory Financial Statements.

THE VARIABLE ANNUITY LIFE INSURANCE COMPANY
STATUTORY STATEMENTS OF OPERATIONS

	Years Ended December 31,		
(in millions)	**2018**	2017	2016
Revenues			
Premiums and annuity considerations	**$ 4,617**	$ 4,203	$ 4,636
Net investment income	**2,189**	2,080	2,085
Amortization of interest maintenance reserve	**33**	26	24
Reserve adjustments on reinsurance ceded	**499**	-	-
Commissions and expense allowances	**1**	-	-
Separate account fees	**363**	350	320
Other income	**243**	230	216
Total revenues	**7,945**	6,889	7,281
Benefits and expenses			
Annuity benefits	**538**	535	519
Surrender benefits	**6,448**	5,700	5,426
Other benefits	**103**	156	149
Change in reserves	**537**	507	1,404
Commissions	**182**	164	173
General insurance expenses	**333**	265	280
Net transfers from separate accounts	**(1,200)**	(1,513)	(1,549)
Other expenses	**119**	117	108
Total benefits and expenses	**7,060**	5,931	6,510
Net gain from operations before federal income taxes	**885**	958	771
Federal income tax expense	**189**	218	130
Net gain from operations	**696**	740	641
Net realized capital (losses) gains	**(14)**	(100)	117
Net income	**$ 682**	$ 640	$ 758

See accompanying Notes to Statutory Financial Statements.

THE VARIABLE ANNUITY LIFE INSURANCE COMPANY
STATUTORY STATEMENTS OF CHANGES IN CAPITAL AND SURPLUS

(in millions)	Common Stock	Other Than Special Surplus (Deficit) Funds	Gross Paid-In and Contributed Surplus	Unassigned Surplus	Total Capital and Surplus
Balance, January 1, 2016	$ 4	$ (3)	$ 2,699	$ 23	$ 2,723
Net income	-	-	-	758	758
Change in net unrealized capital gains (losses)	-	-	-	(248)	(248)
Change in net unrealized foreign exchange capital gains (losses)	-	-	-	(66)	(66)
Change in deferred tax	-	-	-	(58)	(58)
Change in non-admitted assets	-	-	-	(91)	(91)
Change in asset valuation reserve	-	-	-	146	146
Change in surplus from separate accounts	-	-	-	52	52
Return of capital	-	-	(413)	-	(413)
Dividends to stockholder	-	-	-	(411)	(411)
Prior period corrections (see Note 2)	-	-	-	(4)	(4)
Balance, December 31, 2016	$ 4	$ (3)	$ 2,286	$ 101	$ 2,388
Net income	-	-	-	640	640
Change in net unrealized capital gains (losses)	-	-	-	(8)	(8)
Change in net unrealized foreign exchange capital gains (losses)	-	-	-	88	88
Change in deferred tax	-	-	-	(255)	(255)
Change in non-admitted assets	-	-	-	234	234
Change in reserve on account of change in valuation basis	-	-	-	(5)	(5)
Change in asset valuation reserve	-	-	-	28	28
Change in surplus from separate accounts	-	-	-	4	4
Other changes in surplus in separate accounts	-	-	-	(4)	(4)
Dividends to stockholder	-	-	-	(346)	(346)
Return of capital	-	-	(23)	-	(23)
Prior period corrections (see Note 2)	-	-	-	73	73
Other changes	-	-	-	(14)	(14)
Balance, December 31, 2017	$ 4	$ (3)	$ 2,263	$ 536	$ 2,800
Net income	**-**	**-**	**-**	**682**	**682**
Change in net unrealized capital gains (losses)	**-**	**-**	**-**	**41**	**41**
Change in net unrealized foreign exchange capital gains (losses)	**-**	**-**	**-**	**(73)**	**(73)**
Change in deferred tax	**-**	**-**	**-**	**(16)**	**(16)**
Change in non-admitted assets	**-**	**-**	**-**	**(81)**	**(81)**
Change in asset valuation reserve	**-**	**-**	**-**	**(15)**	**(15)**
Change in surplus from separate accounts	**-**	**-**	**-**	**-**	**-**
Other changes in surplus in separate accounts	**-**	**-**	**-**	**-**	**-**
Dividends to stockholder	**-**	**-**	**-**	**(649)**	**(649)**
Balance, December 31, 2018	**$ 4**	**$ (3)**	**$ 2,263**	**$ 425**	**$ 2,689**

See accompanying Notes to Statutory Financial Statements.

THE VARIABLE ANNUITY LIFE INSURANCE COMPANY
STATUTORY STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
(in millions)	**2018**	2017	2016
Cash from operations			
Premium and annuity considerations, collected, net of reinsurance	**$ 5,209**	$ 4,203	$ 4,636
Net investment income	**1,861**	1,849	1,900
Other income	**526**	576	536
Total revenue received	**7,596**	6,628	7,072
Benefits paid	**7,210**	6,386	5,987
Net transfers from separate accounts	**(1,332)**	(1,518)	(1,635)
Commissions and expenses paid	**635**	554	554
Federal income taxes	**139**	240	158
Total benefits and expenses paid	**6,652**	5,662	5,065
Net cash provided by operations	**944**	966	2,008
Cash from investments			
Proceeds from investments sold, matured or repaid:			
Bonds	**8,272**	9,315	7,452
Stocks	**1**	1	21
Mortgage loans	**467**	1,303	684
Real estate	**-**	27	35
Other invested assets	**869**	3,306	3,496
Miscellaneous proceeds	**203**	112	(22)
Total proceeds from investments sold, matured or repaid	**9,812**	14,064	11,666
Cost of investments acquired:			
Bonds	**8,425**	9,441	9,598
Stocks	**9**	4	6
Mortgage loans	**1,301**	2,054	1,056
Real estate	**-**	38	76
Other invested assets	**478**	3,195	2,624
Securities lending reinvested collateral assets	**-**	-	77
Miscellaneous purchases	**6**	78	211
Total cost of investments acquired	**10,219**	14,810	13,648
Net adjustment in contract loans	**(44)**	(30)	(40)
Net cash used in investing activities	**(363)**	**(716)**	**(1,942)**
Cash from financing and miscellaneous sources			
Cash provided (applied):			
Return of capital	**-**	(23)	(140)
Net deposits on deposit-type contracts	**264**	146	274
Dividends to Parent	**(649)**	(346)	(335)
Change in securities lending payable	**112**	2	76
Other, net	**(254)**	(36)	148
Net cash (used) provided in financing and miscellaneous activities	**(527)**	(257)	23
Net increase (decrease) in cash, cash equivalents and short-term investments	**54**	(7)	89
Cash, cash equivalents and short-term investments at beginning of year	**135**	142	53
Cash, cash equivalents and short-term investments at end of year	**$ 189**	$ 135	$ 142

Non-cash investing/financing activities, excluded from above:			
Non-cash dividends and return of capital distributed to Parent	**$ -**	$ -	$ (349)
Non-cash transfer from Other Invested Assets to Mortgage Loans	**-**	525	-
Non-cash AIG Global Real Estate transactions	**178**	-	-
Non-cash Investment Real Estate sale	**59**	-	-
Non-cash Fortitude Re settlement	**12**	-	-

See accompanying Notes to Statutory Financial Statements.

1. NATURE OF OPERATIONS

The Variable Annuity Life Insurance Company (VALIC or the Company) is a wholly owned subsidiary of AGC Life Insurance Company (AGC Life or the Parent), which is an indirect, wholly owned subsidiary of American International Group, Inc. (AIG Parent). AIG Parent is a holding company, which through its subsidiaries provides a wide range of property casualty insurance, life insurance, retirement products and other financial services to commercial and individual customers in more than 80 countries and jurisdictions. The term “AIG Parent” means American International Group, Inc. and not any of its consolidated subsidiaries.

The Company is a stock life insurance company domiciled and licensed under the laws of the State of Texas and is subject to regulation by the Texas Department of Insurance (TDI). The Company is also subject to regulation by the states in which it is authorized to transact business. The Company is licensed in 50 states and the District of Columbia.

The Company is a leading provider of defined contribution retirement savings plans sponsored by education, not-for-profit and government organizations. Primary products include fixed and variable annuities, and mutual funds and plan administrative and compliance services. The Company utilizes career financial advisors and independent financial advisors to provide retirement plan participants with enrollment support and comprehensive financial planning services. No annual annuity deposits for any individual advisor in 2018 or 2017 represented more than 10 percent of total annuity deposits.

The operations of the Company are influenced by many factors, including general economic conditions, financial condition of AIG Parent, monetary and fiscal policies of the United States federal government and policies of state and other regulatory authorities. The level of sales of the Company's insurance and financial products is influenced by many factors, including general market rates of interest, the strength, weakness and volatility of equity markets and terms and conditions of competing products. The Company is exposed to the risks normally associated with a portfolio of fixed income securities, which include interest rate, option, liquidity and credit risks. The Company controls its exposure to these risks by, among other things, closely monitoring and managing the duration and cash flows of its assets and liabilities, monitoring and limiting prepayments and extension risk in its portfolio, maintaining a large percentage of the Company’s portfolio in highly liquid securities, engaging in a disciplined process of underwriting, and reviewing and monitoring credit risk.

The Company is also exposed to market risk, policyholder behavior risk and mortality/longevity risk. Market volatility and other equity market conditions may affect the Company’s exposure to risks related to guaranteed death benefits and guaranteed living benefits on variable annuity products, and may reduce fee income on variable product assets held in separate accounts. Such guaranteed benefits are sensitive to equity and interest rate market conditions.

In February 2018, VALIC and its U.S. life insurance company affiliates, American General Life Insurance Company (AGL) and The United States Life Insurance Company in the City of New York (USL) each executed their respective Modified Coinsurance (ModCo) Agreements (The Agreements) with Fortitude Reinsurance Company, Ltd (FRL), (formerly DSA Reinsurance Company Limited), a wholly owned AIG subsidiary and registered Class 4 and Class E reinsurer in Bermuda. The Agreements were effective as of January 1, 2017 in respect of certain closed blocks of business (including structured settlements and single premium immediate annuities). Please refer to Note 13 – Reinsurance for further details relating to this agreement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Company are presented on the basis of accounting practices prescribed or permitted by the TDI. These accounting practices vary in certain respects from accounting principles generally accepted in the United States of America (U.S. GAAP), as described herein.

The TDI recognizes only statutory accounting practices (SAP) prescribed or permitted by the State of Texas for determining and reporting the financial condition and results of operations of an insurance company and for determining

its solvency under the Texas Insurance Law. The National Association of Insurance Commissioners' (NAIC) Accounting Practices and Procedures Manual (NAIC SAP) has been adopted as a component of prescribed or permitted practices by the State of Texas.

Effective December 31, 2017, VALIC received approval from the TDI to apply a permitted practice in its 2017 Annual Statement and subsequent reporting periods through September 30, 2019, or any earlier date relative to changes in the SAP framework that addresses this issue. The permitted practice allows VALIC to use the criteria established in Actuarial Guideline 43, instead of the criteria established in Statement of Statutory Accounting Principles (SSAP) No. 86, "Accounting for Derivative Instruments and Hedging, Income Generation, and Replication (Synthetic Asset) Transactions" to determine if a hedge is effective for certain interest rate swaps and swaptions that are used to hedge guaranteed minimum withdrawal benefits. Thus, specific interest rate swaps and swaptions that VALIC determined are effective hedges were reported at amortized cost, pursuant to the accounting guidance set forth in SSAP 86. Upon adoption, the effect of the original permitted practice was reported as a change in accounting principle, consistent with SSAP No. 3, "Accounting Changes and Corrections of Errors" as of January 1, 2017 and decreased surplus by $12 million.

The Insurance Commissioner of State of Texas has the right to permit other specific practices that deviate from prescribed practices.

The following table presents a reconciliation of the Company's net income and capital and surplus between NAIC SAP basis and the basis including practices prescribed or permitted by the State of Texas:

		December 31,	
(in millions)	**SSAP#**	**2018**	**2017**
NET INCOME			
State basis		**$ 682**	$ 640
State permitted practices that increase (decrease) NAIC SAP:			
Effective interest rate hedges - NII	86	**-**	6
Effective interest rate hedges - RG(L)		**3**	(3)
State prescribed practices that increase (decrease) NAIC SAP:			
Net income, NAIC SAP		**$ 685**	$ 643
SURPLUS			
State basis		**$ 2,689**	$ 2,800
State permitted practices that increase (decrease) NAIC SAP:			
Effective interest rate hedges	86	**(35)**	23
State prescribed practices that increase (decrease) NAIC SAP:			
Statutory capital and surplus, NAIC SAP		**$ 2,654**	$ 2,823

In the event VALIC had not employed any or all of these permitted and prescribed practices, VALIC's risk-based capital (RBC) would not have triggered a regulatory event.

Use of Estimates

The preparation of financial statements in conformity with accounting practices prescribed or permitted by the TDI requires management to make estimates and assumptions that affect the reported amounts in the statutory financial statements and the accompanying notes. It also requires disclosure of contingent assets and liabilities at the date of the statutory financial statements and the reported amounts of revenue and expense during the period. The areas of significant judgments and estimates include the following:

- application of other-than-temporary impairments (OTTI);
- estimates with respect to income taxes, including recoverability of deferred tax assets (DTA);
- fair value measurements of certain financial assets; and
- policy reserves for life and annuity, including guarantees.

These accounting estimates require the use of assumptions about matters, some of which are highly uncertain at the time of estimation. To the extent actual experience differs from the assumptions used, the Company's Statutory Statements of Admitted Assets, Liabilities and Capital and Surplus, Statutory Statements of Operations and Statutory Statements of Cash Flows could be materially affected.

On December 22, 2017, the United States enacted Public Law 115-97, known as the Tax Cuts and Jobs Act (“the Tax Act”). The Tax Act reduces the statutory rate of U.S. federal corporate income tax to 21 percent and enacts numerous other changes generally impacting the Company in tax years beginning January 1, 2018. As of December 31, 2018, the Company has fully completed its accounting for the tax effects of the Tax Act. Although the prescribed measurement period has ended, there are aspects of the Tax Act that remain unclear and additional guidance from the U.S. tax authority is pending. As further guidance is issued by the U.S. tax authority, any resulting changes in the Company’s estimates will be treated in accordance with the relevant accounting guidance. The Company does not believe such revisions would have a material impact on statutory capital and surplus.

Significant Accounting Policies

Bonds not backed by other loans are carried at amortized cost except for those with a NAIC designation of “6” or “6*”. Bonds with a NAIC 6 designation are carried at the lower of amortized cost or fair value, with unrealized losses charged directly to unassigned surplus. Bonds that have not been filed and have not received a designation in over one year from the NAIC’s Investment Analysis Office (IAO) receive a “6*” designation and are carried at zero, with the unrealized loss charged directly to unassigned surplus. Bonds filed with the IAO which receive a “6*” designation may carry a value greater than zero. Securities are assigned a NAIC 5* designation if the Company certifies that (1) the documentation necessary to permit a full credit analysis does not exist, (2) the issuer or obligor is current on all contracted interest and principal payments and (3) the Company has an actual expectation of ultimate repayment of all contracted interest and principal. Securities with NAIC 5* designations are deemed to possess the credit characteristics of securities assigned a NAIC 5 designation. The discount or premium on bonds is amortized using the effective yield method.

Loan-backed and structured securities (LBaSS) include residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), asset-backed securities (ABS), pass-thru securities, lease-backed securities, equipment trust certificates, loan-backed securities issued by special purpose corporations or trusts, and securities where there is not direct recourse to the issuer. LBaSS are carried on a basis consistent with that of bonds not backed by loans. Income recognition for LBaSS is determined using the effective yield method and estimated cash flows. Prepayment assumptions for single-class and multi-class mortgage-backed securities (MBS) and ABS were obtained from an outside vendor or internal estimates. The Company uses independent pricing services and broker quotes in determining the fair value of its LBaSS. The Company uses the retrospective adjustment method to account for the effect of unscheduled payments affecting high credit quality securities, while securities with less than high credit quality and securities for which the collection of all contractual cash flows is not probable are both accounted for using the prospective adjustment method.

Risk-based capital (RBC) charges for LBaSS are based on the final NAIC designations, which are determined with a multi-step approach. The initial designation is used to determine the carrying value of the security. The final NAIC designation is used for reporting and affects RBC. The final NAIC designation is determined in one of three ways. The final NAIC designation for most RMBS and CMBS is determined by financial modeling conducted by BlackRock. RMBS and CMBS that are not financially modeled, primarily due to a lack of publicly available information and most remaining LBaSS are subject to a modified designation based on an NAIC matrix and the Company’s statement value for the security. For credit tenant loans, equipment trust certificates, any corporate-like securities rated by the NAIC’s IAO, interest only securities, and those securities with an original NAIC designation of 5, 5*, 6 or 6*, the final NAIC designation is based on the IAO or Credit Rating Provider rating and is not subject to a modified designation or financial modeling.

Short sale is the sale of a security which is not owned by the company at the time of sale. Short sales are normally settled by the delivery of a security borrowed by or on behalf of seller. A short sale as defined in Statement of Statutory Accounting Principle (SSAP) No. 103 “Transfers and Servicing of Financial Assets and Extinguishments of Liabilities” is reported as a contra-asset (negative asset) initially reported at fair value, with changes in fair value recognized as unrealized gains and losses.

Preferred stocks with NAIC designations of “1” through “3” are carried at amortized cost. All other preferred stocks are stated at the lower of cost, amortized cost or fair value, with unrealized capital losses charged directly to unassigned surplus. Provisions made for impairment are recorded as realized capital losses when declines in fair value are determined to be other than temporary.

Unaffiliated common stocks are carried at fair value, with unrealized capital gains and losses credited or charged directly to unassigned surplus. Provisions made for impairment are recorded as realized capital losses when declines in fair value are determined to be other than temporary. For Federal Home Loan Bank (FHLB) capital stock, which is only redeemable at par, the fair value shall be presumed to be par, unless considered other-than-temporarily impaired.

The Company has no investments in insurance subsidiary, controlled, and affiliated (SCA) entities. Investments in non-insurance SCA entities are recorded based on the equity of the investee per audited financial statements prepared pursuant to U.S. GAAP, which is adjusted to a statutory basis of accounting, if applicable. All investments in non-insurance SCA entities for which either audited U.S. GAAP financial statements or audited foreign GAAP basis financial statements that include a footnote reconciling net income and equity on a foreign GAAP basis to U.S. GAAP are not available, are non-admitted as assets. Undistributed equity in earnings of affiliates is included in unassigned surplus as a component of unrealized capital gains or losses. Dividends received from such affiliates are recorded as investment income when declared.

Mortgage and mezzanine real estate loans are carried at unpaid principal balances less allowances for credit losses and plus or minus adjustments for the accretion or amortization of discount or premium. Interest income on performing loans is accrued as earned.

Mortgage loans are considered impaired when collection of all amounts due under contractual terms is not probable. Impairment is measured using either i) the present value of expected future cash flows discounted at the loan’s effective interest rate, ii) the loan’s observable market price, if available, or iii) the fair value of the collateral if the loan is collateral dependent. An allowance is typically established for the difference between the impaired value of the loan and its current carrying amount. Additional allowance is established for incurred but not specifically identified impairments, based on statistical models primarily driven by past due status, debt service coverage, loan-to-value ratio, property occupancy, profile of the borrower and of the major property tenants, and economic trends in the market where the property is located. When all or a portion of a loan is deemed uncollectible, the uncollectible portion of the carrying amount of the loan is charged off against the allowance.

Real estate consists of properties occupied by the Company, properties held for the production of income and properties held for sale. Properties occupied by the Company and held for the production of income are carried at depreciated cost, less encumbrances, unless events or circumstances indicate the carrying amount of the asset (amount prior to reduction for encumbrances) may not be recoverable. Properties held for sale are carried at the lower of its depreciated cost or fair value less estimated costs to sell the property and net of encumbrances. Real estate obtained through foreclosure, in satisfaction of a loan, is recorded at the time of foreclosure at the lower of fair value as determined by acceptable appraisal methodologies, or the carrying amount of the related loan. Land is reported at cost.

Cash, cash equivalents and short-term investments include cash on hand and amounts due from banks and highly liquid debt instruments that have original maturities within one year of date of purchase and are carried at amortized cost. Short-term investments include interest-bearing money market funds, investment pools and other investments with original maturities within one year from the date of purchase.

Contract loans are carried at unpaid balances, which include unpaid principal plus accrued interest, including 90 days or more past due. All loan amounts in excess of the contract cash surrender value are considered non-admitted assets.

Derivative instruments used in hedging transactions that meet the criteria of a highly effective hedge are reported in a manner consistent with the hedged asset or liability (hedge accounting). Changes in statement value or cash flow of derivatives that qualify for hedge accounting are recorded consistent with the changes in the statement value or cash flow of the hedged asset or liability. Derivative instruments used in hedging transactions that do not meet or no longer meet the criteria of an effective hedge (ineffective hedges) are accounted for at fair value and the changes in fair value are recorded as unrealized gains or losses.

Hedge accounting was not used for any derivative instruments in 2018, except as allowed under the permitted practice described above related to certain hedges beginning 2017.

Other invested assets principally consist of investments in limited partnerships and limited liability companies. Investments in these assets, except for joint ventures, partnerships and limited liability companies with a minor ownership interest, are reported using the equity method. Under SAP, such investments are generally reported based on audited U.S. GAAP equity of the investee, with subsequent adjustment to a statutory basis of accounting, if applicable.

Joint ventures, partnerships and limited liability companies in which the Company has a minor ownership interest (i.e., less than 10 percent) or lacks control, are generally recorded based on the underlying audited U.S. GAAP equity of the investee, with some prescribed exceptions. SAP allows the use of (a) the U.S. GAAP equity as set forth in the footnote reconciliation of foreign GAAP equity and income to U.S. GAAP within audited foreign GAAP financial statements or (b) the International Financial Reporting Standards (IFRS) basis equity in audited IFRS financial statements as an acceptable basis for the valuation of minor/non-controlled investments. The audited U.S. tax basis equity may also be used in certain circumstances.

All other investments in entities for which audited U.S. GAAP financial statements, or another acceptable audited basis of accounting as described above were not available have been non-admitted as assets. Undistributed accumulated earnings of such entities are included in unassigned surplus as a component of unrealized capital gains or losses. Distributions received that are not in excess of the undistributed accumulated earnings are recognized as investment income. Impairments that are determined to be other than temporary are recognized as realized capital losses.

Securities lending and repurchase agreements: The Company has a securities lending program, which was approved by its Board of Directors and lends securities from its investment portfolio to supplement liquidity or for other uses as deemed appropriate by management. Under the program, securities are lent to financial institutions, and in return the Company receives cash as collateral equal to 102 percent of the fair value of the loaned securities. The cash collateral received is invested in short-term investments that may be sold or repledged or partially used for short-term liquidity purposes based on conservative cash flow forecasts. Securities lent by the Company under these transactions may be sold or repledged by the counterparties. The liability for cash collateral received is reported in payable for securities lending in the Statutory Statements of Admitted Assets, Liabilities and Capital and Surplus. The Company monitors the fair value of securities loaned and obtains additional collateral as necessary. At the termination of the transactions, the Company and its counterparties are obligated to return the collateral provided and the securities lent, respectively. These transactions are treated as secured financing arrangements.

In addition, the Company is a party to secured financing transactions involving securities sold under agreements to repurchase (repurchase agreements), in which the Company transfers securities in exchange for cash, with an agreement by the Company to repurchase the same or substantially similar securities on agreed upon dates specified in the agreements.

Investment income due and accrued is non-admitted from investment income for bonds and other invested assets when collection of interest is overdue by more than 90 days, or is uncertain, and for mortgage loans when loans are foreclosed, or delinquent in payment for greater than 90 days, or when collection of interest is uncertain.

Net realized capital gains and losses, which are determined by using the specific identification method, are reflected in income net of applicable federal income taxes and transfers to the interest maintenance reserve.

The Company regularly evaluates its investments for other-than-temporary impairment (OTTI) in value. The determination that a security has incurred an OTTI in value and the amount of any loss recognition requires the judgment of the Company's management and a continual review of its investments.

For bonds, other than LBaSS, an OTTI shall be considered to have occurred if it is probable that the Company will not be able to collect all amounts due under the contractual terms in effect at the acquisition date of the debt security. If it is determined an OTTI has occurred, the cost basis of bonds are written down to fair value and the amount of the write-down is recognized as a realized capital loss.

For LBaSS, a non-interest related OTTI resulting from a decline in value due to fundamental credit problems of the issuer is recognized when the projected discounted cash flows for a particular security are less than its amortized cost. When a non-interest related OTTI occurs, the LBaSS is written down to the present value of future cash flows expected to be collected. An OTTI is also deemed to have occurred if the Company intends to sell the LBaSS or does not have the intent and ability to retain the LBaSS until recovery. If the decline is interest-related, the LBaSS is written down to fair value.

In periods subsequent to the recognition of an OTTI loss, the Company generally accretes the difference between the new cost basis and the future cash flows expected to be collected, if applicable, as interest income over the remaining life of the security based on the amount and timing of estimated future cash flows.

Non-admitted assets are excluded from admitted assets and the change in the aggregate amount of such assets is reflected as a separate component of unassigned surplus. Non-admitted assets include all assets specifically designated as non-admitted and assets not designated as admitted, such as a negative IMR, a certain portion of DTAs, prepaid expenses, electronic data processing (EDP) equipment assets, agents' balances or other receivables over 90 days. Non-admitted assets amounted to $519 million and $438 million at December 31, 2018 and 2017, respectively.

Interest maintenance reserve (IMR) is calculated based on methods prescribed by the NAIC and was established to prevent large fluctuations in interest-related investment gains and losses resulting from sales (net of taxes) and interest-related OTTI (net of taxes). An OTTI occurs when the Company, at the reporting date, has the intent to sell an investment or does not have the intent and ability to hold the security before recovery of the cost of the investment. For LBaSS, if the Company recognizes an interest-related OTTI, the non-interest-related OTTI is recorded to the asset valuation reserve, and the interest-related portion to IMR. Such gains and losses are deferred into the IMR and amortized into income using the grouped method over the remaining contractual lives of the securities sold.

Asset valuation reserve (AVR) is used to stabilize surplus from fluctuations in the market value of bonds, stocks, mortgage loans, real estate, limited partnerships and other investments. Changes in the AVR are recorded as direct increases or decreases in surplus.

Separate account assets and liabilities generally represent funds for which the contract holder, rather than the Company, bears the investment risk. Separate account contract holders have no claim against the assets of the general account of the Company, except for certain guaranteed products. Separate account assets are generally reported at fair value. In addition, certain products with fixed guarantees and market-value-adjusted (MVA) fixed annuity contracts in which the assets are generally carried at amortized cost are required by certain states to be carried in a separate account. The operations of the separate accounts are excluded from the Statutory Statements of Operations and Statutory Statements of Cash Flows of the Company. The Company receives fees for assuming mortality and certain expense risks. Such fees are included in separate account fees in the Statutory Statements of Operations. Reserves for variable annuity contracts are provided in accordance with the Variable Annuity Commissioners' Annuity Reserve Valuation Method (VACARVM) under Actuarial Guideline 43 (AG 43).

Policy reserves are established according to different methods.

Life and annuity reserves are developed by actuarial methods and are determined based on published tables using specified interest rates, mortality or morbidity assumptions, and valuation methods prescribed or permitted by statutes that will provide, in the aggregate, reserves that are greater than or equal to the minimum or guaranteed policy cash values or the amounts required by the TDI.

The Company performs annual cash flow testing in accordance with the Actuarial Opinion and Memorandum Regulation to ensure adequacy of the reserves. $114 million in cash flow testing reserves were held at December 31, 2018.

A majority of the Company's variable annuity products are issued with a guaranteed minimum death benefit (GMDB), which provides that, upon the death of a contract holder, the contract holder's beneficiary will receive the greater of: (1) the contract holder's account value or (2) a GMDB, which varies by product. Depending on the product, the GMDB may equal the principal invested, adjusted for withdrawals; or the principal invested, adjusted for withdrawals, accumulated at up to 3 percent per annum (subject to certain caps). Death benefits on GMDB policies reduce on a proportional basis when a partial withdrawal occurs. This applies to all contracts issued in states where the proportional GMDB is

approved except where precluded by contract for a very limited number of groups. Prior to December 2003, the Company sold variable annuity contracts containing a GMDB where the death benefits reduce on a dollar-for-dollar basis when a partial withdrawal occurs.

The guaranteed minimum withdrawal benefit (GMWB) is a feature the Company offers on certain variable annuity products. If available and elected by the contract holder at time of issuance and depending on the provisions of the feature elected, this feature provides a guaranteed annual stream of income payments for life or other specified period, regardless of market performance. The amount of the guaranteed withdrawal stream is determined from a guaranteed benefit base amount that is dependent upon the specific feature elected. The Company bears the risk that protracted under-performance of the financial markets and/or greater than expected longevity could result in GMWB benefits being higher than the underlying contract holder account balances and that the fees collected under the contract are insufficient to cover the costs of the benefits to be provided.

In addition, the Company is a reinsurer for the guaranteed minimum income benefit (GMIB), GMWB and GMDB on certain variable annuities issued in Japan by MetLife Insurance K.K. (MetLife in Japan). The GMIB is an optional feature that guarantees that the income benefit upon annuitization will not be less than the guaranteed income benefit even if the accumulation value of the contract falls to zero. New business under these reinsurance agreements was no longer accepted after March 31, 2009.

All direct and assumed GMIB, GMWB and GMDB benefits are included in the calculation of the policy reserves for variable annuities pursuant to AG 43.

AG 43 requires the Company to perform a stochastic valuation analysis of the total reserves held for all variable annuity contracts with guaranteed death and living benefits. These reserves are derived by using the 70 percent Conditional Tail Expectation of the modeled reserves and are based on prudent estimate assumptions. In addition, a deterministic valuation is also performed using assumptions prescribed in AG 43. The greater of these two reserve balances is the AG 43 reserve.

Liabilities for deposit-type contracts, which include supplementary contracts without life contingencies and annuities certain, are based on the discounting of future payments at an annual statutory effective rate. Tabular interest on other funds not involving life contingencies is based on the interest rate at which the liability accrues.

Premiums and annuity considerations and related expenses are recognized over different periods. Life premiums are recognized as income over the premium paying periods of the related policies. Annuity considerations are recognized as revenue when received. Premiums for deposit-type products are credited directly to the respective reserves and are not recorded in the Statutory Statement of Operations. Acquisition costs such as commissions and other expenses related to the production of new business are charged to the Statutory Statements of Operations as incurred.

Reinsurance premiums and benefits paid or provided are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

Annuity and deposit-type contract surrender benefits are reported on a cash basis, and include annuity benefits, payments under supplementary contracts with life contingencies, surrenders and withdrawals. Withdrawals from deposit-type contracts directly reduce the liability for deposit-type contracts and are not reported in the Statutory Statements of Operations.

General insurance expenses include allocated expenses pursuant to a cost allocation agreement. The Company purchases administrative, accounting, marketing and data processing services from AIG Parent or its subsidiaries and is charged based on estimated levels of usage, transactions or time incurred in providing the respective services. The allocation of costs for investment management services purchased from AIG Parent or its subsidiaries is based on the level of assets under management.

Federal income tax expense (benefit) is recognized and computed on a separate company basis pursuant to a tax sharing agreement with AIG Parent, because the Company is included in the consolidated federal income tax return of its ultimate parent, AIG Parent. To the extent that benefits for net operating losses, foreign tax credits or net capital losses are utilized on a consolidated basis, the Company would recognize tax benefits based upon the amount of those

deductions and credits utilized in the consolidated federal income tax return. The federal income tax expense or benefit reflected in the Statutory Statements of Operations represents income taxes provided on income that is currently taxable, but excludes tax on the net realized capital gains or losses.

Income taxes on capital gains or losses reflect differences in the recognition of capital gains or losses on a statutory accounting basis versus a tax accounting basis. The most significant of such differences involve impairments of investments, which are recorded as realized losses in the Statutory Statements of Operations but are not recognized for tax purposes, and the deferral of net capital gains and losses into the IMR for statutory income but not for taxable income. Capital gains and losses on certain related-party transactions are recognized for statutory financial reporting purposes but are deferred for income tax reporting purposes until the security is sold to an outside party.

A deferred tax asset (DTA) or deferred tax liability (DTL) is included in the Statutory Statements of Admitted Assets, Liabilities and Capital and Surplus, which reflects the expected future tax consequences of temporary differences between the statement values of assets and liabilities for statutory financial reporting purposes and the amounts used for income tax reporting purposes. The change in the net DTA or DTL is reflected in a separate component of unassigned surplus. Net DTA are limited in their admissibility.

Accounting Changes

There were no new accounting standards that were effective during the periods covered by this statement that had a material impact on the operations of the Company.

Correction of Errors

SAP requires that corrections of errors related to prior periods be reported as adjustments to unassigned surplus to the extent that they are not material to prior periods.

There was no correction of errors related to prior period in 2018.

In 2017, certain prior year errors were identified and corrected, which increased unassigned surplus by $73 million on a pre-tax basis or $48 million after tax. The most significant of these were decreases in reserves for fixed index annuities.

There was no correction of errors related to prior period in 2016.

Differences in Statutory Accounting and U.S. GAAP Accounting

The accompanying statutory financial statements have been prepared in accordance with accounting practices prescribed or permitted by the TDI. These accounting practices vary in certain respects from U.S. GAAP. The primary differences between NAIC SAP and U.S. GAAP are as follows.

The objectives of U.S. GAAP differ from the objectives of SAP. U.S. GAAP is designed to measure the entity as a going concern and to produce general purpose financial statements to meet the varying needs of the different users of financial statements. SAP is designed to address the accounting requirements of regulators, who are the primary users of statutory-basis financial statements and whose primary objective is to measure solvency. As a result, U.S. GAAP stresses measurement of earnings and financial condition of a business from period to period, while SAP stresses measurement of the ability of the insurer to pay claims in the future.

Investments. Under SAP, investments in bonds and preferred stocks are generally reported at amortized cost. However, if bonds are designated category “6” and preferred stocks are designated categories “4 – 6” by the NAIC, these investments are reported at the lesser of amortized cost or fair value with a credit or charge to unrealized investment gains or losses. For U.S. GAAP, such fixed-maturity investments are designated at purchase as held-to-maturity, trading, or available-for-sale. Held-to-maturity fixed-maturity investments are reported at amortized cost, and the remaining fixed-maturity investments are reported at fair value, with unrealized capital gains and losses reported in

operations for those designated as trading and as a component of other comprehensive income for those designated as available-for-sale.

Under SAP, all single- and multi-class MBS or other ABS (e.g., Collateralized Mortgage Obligations (CMO) are adjusted for the effects of changes in prepayment assumptions on the related accretion of discount or amortization of premium with respect to such securities using either the retrospective or prospective method. For LBaSS subsequent to July 1, 2009, if it is determined that a decline in fair value is other than temporary the cost basis of the security is written down to the discounted estimated future cash flows. Bonds, other than LBaSS, that are other-than-temporarily impaired are written down to fair value. For U.S. GAAP purposes, all securities, purchased or retained, that represent beneficial interests in securitized assets (e.g., CMO, MBS and ABS securities), other than high credit quality securities, would be adjusted using the prospective method when there is a change in estimated future cash flows. If high-credit quality securities must be adjusted, the retrospective method would be used. For all bonds, if it is determined that a decline in fair value is other-than-temporary, the cost basis of the security would be written down to the discounted estimated future cash flows, while the non-credit portion of the impairment would be recorded as an unrealized loss in other comprehensive income.

Under SAP, when it is probable that the insurer will be unable to collect all amounts due according to the contractual terms of the mortgage agreement, valuation allowances are established for temporarily-impaired mortgage loans based on the difference between the unpaid loan balance and the estimated fair value of the underlying real estate, less estimated costs to obtain and sell. The initial valuation allowance and subsequent changes in the allowance for mortgage loans are charged or credited directly to unassigned surplus rather than as a component of earnings as would be required under U.S. GAAP. If the impairment is other-than-temporary, a direct write down is recognized as a realized loss, and a new cost basis is established. Under U.S. GAAP, valuation allowances would be established when the insurer determines it is probable that it will be unable to collect principal and interest due according to the contractual terms of the loan agreement. Such U.S. GAAP allowances would be based on the difference between the unpaid loan balance and the present value of expected future cash flows discounted at the loan’s original effective interest rate or, if foreclosure is probable, on the estimated fair value of the underlying real estate.

Under SAP, joint ventures, partnerships and limited liability companies in which the insurer has a minor ownership interest (i.e., less than 10 percent) or lacks control are generally recorded based on the underlying audited U.S. GAAP basis equity of the investee. Under U.S. GAAP, joint ventures, partnerships and limited liability companies in which the insurer has a significant ownership interest or is deemed to have control are accounted for under the equity method, where that is not the case, such investments are carried at fair value with changes in fair value recognized in earnings in 2018 for equity securities previously designated as available-for-sale and through net income for equity securities measured at fair value at the Company’s election. Prior to 2018, equity securities designated as available-for-sale were carried at fair value with changes in fair value recorded through other comprehensive income.

Real Estate. Under SAP, investments in real estate are reported net of related obligations; under U.S. GAAP, investments in real estate are reported on a gross basis. Under SAP, real estate owned and occupied by the insurer is included in investments; under U.S. GAAP, real estate owned and occupied by the insurer is reported as an operating asset, and operating income and expenses include rent for the insurer’s occupancy of those properties.

Derivatives. Under SAP, derivative instruments used in hedging transactions that do not meet or no longer meet the criteria of an effective hedge are accounted for at fair value with the changes in fair value recorded as unrealized capital gains or losses. Under U.S. GAAP, such derivative instruments are accounted for at fair value with the changes in fair value recorded as realized capital gains or losses. Under U.S. GAAP, fair value measurement for free standing derivatives incorporate either counterparty's credit risk for derivative assets or the insurer's credit risk for derivative liabilities by determining the explicit cost to protect against credit exposure. This credit exposure evaluation takes into consideration observable credit default swap rates. Under SAP, non-performance risk (own credit-risk) is not reflected in the fair value calculations for derivative liabilities. Under U.S. GAAP, index life insurance features in certain variable universal life contracts and certain guaranteed features of variable annuities are bifurcated and accounted for separately as embedded policy derivatives. Under SAP, embedded derivatives are not bifurcated or accounted for separately from the host contract.

Interest Maintenance Reserve. Under SAP, the insurer is required to maintain an IMR. IMR is calculated based on methods prescribed by the NAIC and was established to prevent large fluctuations in interest-related capital gains and losses realized through sales or OTTI. IMR applies to all types of fixed maturity investments, including bonds, preferred

stocks, MBS, ABS and mortgage loans. After-tax capital gains or losses realized upon the sale or impairment of such investments resulting from changes in the overall level of interest rates are excluded from current period net income and transferred to the IMR. The transferred after-tax net realized capital gains or losses are then amortized into income over the remaining period to maturity of the divested asset. Realized capital gains and losses are reported net of tax and transfers to the IMR, after net gain from operations. Any negative IMR balance is treated as non-admitted asset. This reserve is not required under U.S. GAAP and pre-tax realized capital gains and losses are reported as component of total revenues, with related taxes included in taxes from operations.

Asset Valuation Reserve. Under SAP, the insurer is required to maintain an AVR, which is computed in accordance with a prescribed formula and represents a provision for possible fluctuations in the value of bonds, equity securities, mortgage loans, real estate, and other invested assets. The level of AVR is based on both the type of investment and its credit rating. Under SAP, AVR is included in total adjusted capital for RBC analysis purposes. Changes to AVR are charged or credited directly to unassigned surplus. This reserve is not required under U.S. GAAP.

Subsidiaries. Under SAP, investments in insurance subsidiaries are recorded based upon the underlying audited statutory equity of a subsidiary with all undistributed earnings or losses shown as an unrealized capital gain or loss in unassigned surplus. Dividends received by the parent company from its subsidiaries are recorded through net investment income. Under U.S. GAAP, subsidiaries' financial statements are combined with the parent company's financial statements through consolidation. All intercompany balances and transactions are eliminated under U.S. GAAP. Dividends received by the parent company from its subsidiaries reduce the parent company's investment in the subsidiaries.

Policy Acquisition Costs and Sales Inducements. Under SAP, policy acquisition costs are expensed when incurred. Under U.S. GAAP, acquisition costs that are incremental and directly related to the successful acquisition of new and renewal of existing insurance and investment-type contracts, are deferred and amortized, generally in proportion to the present value of expected future gross profit margins. For all other insurance contracts, to the extent recoverable from future policy revenues, deferred policy acquisition costs (DAC) are amortized, with interest, over the premium-paying period of the related contracts, using assumptions that are consistent with those used in computing policy benefit reserves. Under SAP, sales inducements are expensed when incurred. Under U.S. GAAP, certain sales inducements on interest-sensitive life insurance contracts and deferred annuities are deferred and amortized over the life of the contract using the same methodology and assumptions used to amortize DAC.

Deferred Premiums. Under SAP, when deferred premiums exist, statutory deferred premiums are held as a statutory asset, while under U.S. GAAP, deferred premiums are held as a contra-liability in the future policy benefits liability.

Non-admitted Assets. Certain assets designated as "non-admitted," principally any negative IMR, agents' balances or unsecured loans or advances to agents, certain DTAs, furniture, equipment and computer software, receivables over 90 days and prepaid expenses, as well as other assets not specifically identified as admitted assets within the NAIC SAP, are excluded from the Statutory Statements of Admitted Assets, Liabilities, Capital and Surplus and are charged directly to unassigned surplus. Under U.S. GAAP, such assets are included in the balance sheet.

Universal Life and Annuity Policies. Under SAP, revenues for universal life and annuity policies containing mortality or morbidity risk considerations consist of the entire premium received, and benefits incurred consist of the total of death benefits paid and the change in policy reserves. Payments received on contracts that do not incorporate any mortality or morbidity risk considerations (deposit-type contracts) are credited directly to an appropriate liability for deposit-type contract account without recognizing premium income. Interest credited to deposit-type contracts is recorded as an expense in the Statutory Statements of Operations as incurred. Payments that represent a return of policyholder balances are recorded as a direct reduction of the liability for deposit-type contracts, rather than a benefit expense. Under U.S. GAAP, premiums received in excess of policy charges are not recognized as premium revenue, and benefits represent the excess of benefits paid over the policy account value and interest credited to the account values.

Benefit Reserves. Under SAP, loading is the difference between the gross and valuation net premium. Valuation net premium is calculated using valuation assumptions which are different for statutory and U.S. GAAP. Statutory valuation assumptions are set by the insurer within limits as defined by statutory law. U.S. GAAP valuation assumptions are set by the insurer based on management's estimates and judgment.

Policyholder funds not involving life contingencies use different valuation assumptions for SAP and U.S. GAAP. Under SAP, prescribed rates of interest related to payout annuities are used in the discounting of expected benefit payments, while under U.S. GAAP, the insurer's best estimates of interest rates are used.

Under SAP, the Commissioners' Reserve Valuation Method is used for the majority of individual insurance reserves. Under U.S. GAAP, individual insurance policyholder liabilities for traditional forms of insurance are generally established using the net level premium method. For interest-sensitive policies, a liability for policyholder account balances is established under U.S. GAAP based on the contract value that has accrued to the benefit of the policyholder. Policy assumptions used in the estimation of policyholder liabilities are generally prescribed under SAP. Under U.S. GAAP, policy assumptions are based upon best estimates as of the date the policy was issued, with provisions for the risk of adverse deviation.

Under SAP, the CARVM is used for the majority of individual deferred annuity reserves, while under U.S. GAAP, individual deferred annuity policyholder liabilities are generally equal to the contract value that has accrued to the benefit of the policyholder, together with liabilities for certain contractual guarantees, if applicable.

Under SAP, reserves for fixed rate deposit-type contracts are based upon their accumulated values, discounted at an annual statutory effective rate, while under U.S. GAAP, reserves for deposit-type contracts are recorded at their accumulated values.

Reinsurance. Under SAP, policy and contract liabilities ceded to reinsurers are reported as reductions of the related reserves rather than as assets as required under U.S. GAAP. Under SAP, a liability for reinsurance balances has been provided for unsecured policy reserves, unearned premiums, and unpaid losses ceded to reinsurers not licensed to assume such business. Changes to these amounts are credited or charged directly to unassigned surplus. Under U.S. GAAP, an allowance for amounts deemed uncollectible would be established through a charge to earnings. Under SAP, the criteria used to demonstrate risk transfer varies from U.S. GAAP, which may result in transactions that are accounted for as reinsurance for SAP and deposit accounting for U.S. GAAP. Under SAP, the reserve credit permitted for unauthorized reinsurers is less than or equal to the amount of letter of credit or funds held in trust by the reinsurer. Under U.S. GAAP, assumed and ceded reinsurance is reflected on a gross basis in the balance sheet, and certain commissions allowed by reinsurers on ceded business are deferred and amortized on a basis consistent with DAC.

Policyholder Dividend Liabilities. Under SAP, policyholder dividends are recognized when declared. Under U.S. GAAP, policyholder dividends are recognized over the term of the related policies.

Separate Accounts. Under SAP, separate account surplus created through the use of the CRVM, the VACARVM or other reserving methods is reported by the general account as an unsettled transfer from the separate account. The net change on such transfers is included as a part of the net gain from operations in the general account. This is not required under U.S. GAAP.

Separate accounts include certain non-unitized assets which primarily represent MVA fixed options of variable annuity contracts issued in various states. Under SAP, these contracts are accounted for in the separate account financial statements, while under U.S. GAAP, they are accounted for in the general account.

Deferred Income Taxes. Under SAP, statutory DTAs that are more likely than not to be realized are limited to: 1) the amount of federal income taxes paid in prior years that can be recovered through loss carrybacks for existing temporary differences that reverse by the end of the subsequent calendar year, plus 2) the lesser of the remaining gross DTA expected to be realized within a maximum three years of the reporting date or a maximum 15 percent of the capital and surplus excluding any net DTA, EDP equipment and operating software and any net positive goodwill, plus 3) the amount of the remaining gross DTA that can be offset against existing gross DTLs. The remaining DTAs are non-admitted. Deferred taxes do not include amounts for state taxes. Under U.S. GAAP, state taxes are included in the computation of deferred taxes, all DTAs are recorded and a valuation allowance is established if it is more likely than not that some portion of the DTA will not be realized. Under SAP, income tax expense is based upon taxes currently payable. Changes in deferred taxes are reported in surplus and subject to admissibility limits. Under U.S. GAAP, changes in deferred taxes are recorded in income tax expense.

Offsetting of Assets and Liabilities. Under SAP, offsetting of assets and liabilities is not permitted when there are master netting agreements unless four requirements for valid right of offset are met. The requirements include 1) each

of the two parties owes the other determinable amounts, 2) the reporting party has the right to set off the amount owed with the amount owed by the other party, 3) the reporting party intends to set off, and 4) the right of setoff is enforceable. The prohibition against offsetting extends to derivatives and collateral posted against derivative positions, repurchase and reverse repurchase agreements, and securities borrowing and lending transactions. Under U.S. GAAP, these amounts under master netting arrangements may be offset and presented on a net basis.

3. INVESTMENTS

Bonds and Equity Securities

The following table presents the statement value, gross unrealized gain, gross unrealized loss and the estimated fair value of bonds and equity securities by major security type:

(in millions)	Statement Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2018				
Bonds:				
U.S. government obligations	**$ 631**	**$ 56**	**$ (9)**	**$ 678**
All other governments	**1,197**	**16**	**(40)**	**1,173**
States, territories and possessions	**278**	**5**	**(5)**	**278**
Political subdivisions of states, territories and possessions	**168**	**12**	**(1)**	**179**
Special revenue	**3,706**	**70**	**(86)**	**3,690**
Industrial and miscellaneous	**29,691**	**824**	**(671)**	**29,844**
Hybrid securities	**104**	**4**	**(1)**	**107**
Parent, subsidiaries and affiliates	**-**	**-**	**-**	**-**
Total bonds	**35,775**	**987**	**(813)**	**35,949**
Preferred stock	**41**	**5**	**-**	**46**
Common stock*	**21**	**-**	**-**	**21**
Total equity securities	**62**	**5**	**-**	**67**
Total	**$ 35,837**	**$ 992**	**$ (813)**	**$ 36,016**
December 31, 2017				
Bonds:				
U.S. government obligations	$ 652	$ 72	$ (6)	$ 718
All other governments	1,084	49	(7)	1,126
States, territories and possessions	293	16	-	309
Political subdivisions of states, territories and possessions	157	21	-	178
Special revenue	3,758	116	(43)	3,831
Industrial and miscellaneous	27,119	1,254	(196)	28,177
Hybrid securities	74	10	-	84
Parent, subsidiaries and affiliates	2,471	244	-	2,715
Total bonds	35,608	1,782	(252)	37,138
Preferred stock	39	6	-	45
Common stock*	76	-	-	76
Total equity securities	115	6	-	121
Total	$ 35,723	$ 1,788	$ (252)	$ 37,259

* At December 31, 2018, the Company had no net investments in the common stock of affiliates. At December 31, 2017, the Company held $63 million of investments in affiliates.

Bonds and Equity Securities in Loss Positions

The following table summarizes the fair value and gross unrealized losses (where fair value is less than amortized cost) on bonds and equity securities, including amounts on NAIC 6 and 6* bonds, aggregated by major investment category and length of time that individual securities have been in a continuous unrealized loss position:

	Less than 12 Months		12 Months or More		Total	
(in millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2018						
Bonds:						
U.S. government obligations	**$ 1**	**$ -**	**$ 139**	**$ (9)**	**$ 140**	**$ (9)**
All other governments	**515**	**(16)**	**296**	**(24)**	**811**	**(40)**
States, territories and possessions	**168**	**(5)**	**21**	**-**	**189**	**(5)**
Political subdivisions of states, territories and possessions	**23**	**-**	**14**	**(1)**	**37**	**(1)**
Special revenue	**468**	**(11)**	**1,540**	**(74)**	**2,008**	**(85)**
Industrial and miscellaneous	**8,063**	**(304)**	**5,608**	**(373)**	**13,671**	**(677)**
Hybrid securities	**28**	**(1)**	**8**	**(1)**	**36**	**(2)**
Parent, subsidiaries and affiliates	**-**	**-**	**-**	**-**	**-**	**-**
Total bonds	**9,266**	**(337)**	**7,626**	**(482)**	**16,892**	**(819)**
Preferred stock	**-**	**-**	**-**	**-**	**-**	**-**
Common stock	**1**	**-**	**-**	**-**	**1**	**-**
Total equity securities	**1**	**-**	**-**	**-**	**1**	**-**
Total	**$ 9,267**	**$ (337)**	**$ 7,626**	**$ (482)**	**$ 16,893**	**$ (819)**
December 31, 2017						
Bonds:						
U.S. government obligations	$ 60	$ (1)	$ 96	$ (5)	$ 156	$ (6)
All other governments	127	(2)	115	(5)	242	(7)
States, territories and possessions	1	-	-	-	1	-
Political subdivisions of states, territories and possessions	10	-	1	-	11	-
Special revenue	618	(5)	1,099	(38)	1,717	(43)
Industrial and miscellaneous	3,618	(88)	2,636	(108)	6,254	(196)
Hybrid securities	5	-	7	-	12	-
Parent, subsidiaries and affiliates	246	-	-	-	246	-
Total bonds	4,685	(96)	3,954	(156)	8,639	(252)
Preferred stock	-	-	-	-	-	-
Common stock	-	-	-	(8)	-	(8)
Total equity securities	-	-	-	(8)	-	(8)
Total	$ 4,685	$ (96)	$ 3,954	$ (164)	$ 8,639	$ (260)

As of December 31, 2018 and 2017, the number of bonds and equity securities in an unrealized loss position was 2,181 and 1,204, respectively. Bonds comprised 2,177 of the total of which 799 were in a continuous loss position greater than 12 months at December 31, 2018. Bonds comprised 1,195 of the total of which 384 were in a continuous loss position greater than 12 months at December 31, 2017.

The Company did not recognize the unrealized losses in earnings on these fixed maturity securities at December 31, 2018 and 2017, respectively, because the Company neither intends to sell the securities nor does the Company believe that it is more likely than not that the Company will be required to sell these securities before recovery of their amortized cost basis. For fixed maturity securities with significant declines, the Company performed fundamental credit analyses on a security-by-security basis, which included consideration of credit enhancements, expected defaults on underlying collateral, review of relevant industry analyst reports and forecasts and other available market data.

Contractual Maturities of Bonds

The following table presents the statement value and fair value of bonds by contractual maturity:

(in millions)	Statement Value	Fair Value
December 31, 2018		
Due in one year or less	$ 555	$ 559
Due after one year through five years	5,323	5,346
Due after five years through ten years	8,388	8,237
Due after ten years	7,400	7,219
LBaSS	14,133	14,612
Total	$ 35,799	$ 35,973

Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Bonds in or near default as to payment of principal or interest had a statement value of $83 million and $96 million at December 31, 2018 and 2017, respectively which is the fair value. At December 31, 2018 and 2017, the Company had no income excluded from due and accrued for bonds.

At December 31, 2018, the Company's bond portfolio included bonds totaling $2.6 billion not rated investment grade by the NAIC designations (categories 3-6). These bonds accounted for 3 percent of the Company's total assets and 6 percent of invested assets. These below investment grade securities, excluding structured securities, span across 15 industries. At December 31, 2017, the Company's bond portfolio included bonds totaling $1.9 billion not rated investment grade by the NAIC designations (categories 3-6). These bonds accounted for 2 percent of the Company's total assets and 4 percent of invested assets. These below investment grade securities, excluding structured securities, span across 14 industries.

The following table presents the industries that constitute more than 10% of the below investment grade securities:

	December 31,	
	2018	2017
Consumer cyclical	**22.3%**	15.1%
Consumer Noncyclical	**19.6**	18.3
Energy	**12.4**	13.2

LBaSS

The Company determines fair value of LBaSS based on the amount at which a security could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The majority of the Company's ABS, RMBS, CMBS, and collateralized debt obligations (CDO) are priced by approved independent third-party valuation service providers and broker dealer quotations. Small portions of the LBaSS that are not traded in active markets are priced by market standard internal valuation methodologies, which include discounted cash flow methodologies and matrix pricing. The estimated fair values are based on available market information and management's judgments.

The following table presents the statement value and fair value of LBaSS:

	December 31, 2018		December 31, 2017	
(in millions)	Statement Value	Fair Value	Statement Value	Fair Value
Loan-backed and structured securities	**$ 14,133**	**$ 14,612**	$ 16,359	$ 17,201

Prepayment assumptions for single class, multi-class mortgage-backed and ABS were obtained from independent third-party valuation service providers or internal estimates. These assumptions are consistent with the current interest rate and economic environment.

At December 31, 2018 and 2017, the Company had exposure to a variety of LBaSS. These securities could have significant concentrations of credit risk by country, geographical region, property type, servicer or other characteristics. As part of the quarterly surveillance process, the Company takes into account many of these characteristics in making the OTTI assessment.

At December 31, 2018 and 2017, the Company did not have any LBaSS with a recognized OTTI due to the intent to sell or an inability or lack of intent to retain the security for a period of time sufficient to recover the amortized cost basis.

During 2018, 2017 and 2016, the Company recognized total OTTI of $15 million, $17 million and $37 million, respectively, on LBaSS that were still held by the Company. In addition, at December 31, 2018 and 2017, the Company held loan-backed impaired securities (fair value is less than cost or amortized cost) for which an OTTI had not been recognized in earnings as a realized loss. Such impairments include securities with a recognized OTTI for non-interest (credit) related declines that were recognized in earnings, but for which an associated interest-related decline has not been recognized in earnings as a realized capital loss.

The following table summarizes the fair value and aggregate amount of unrealized losses on LBaSS and length of time that individual securities have been in a continuous unrealized loss position:

	Less than 12 Months		12 Months or More		Total	
(in millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2018						
LBaSS	**$ 2,266**	**$ (41)**	**$ 2,860**	**$ (129)**	**$ 5,126**	**$ (170)**
December 31, 2017						
LBaSS	$ 2,248	$ (18)	$ 2,080	$ (77)	$ 4,328	$ (95)

In its OTTI assessment, the Company considers all information relevant to the collectability of the security, including past history, current conditions and reasonable forecasts when developing an estimate of future cash flows. Relevant analyst reports and forecasts for the asset class also receive appropriate consideration. The Company also considers how credit enhancements affect the expected performance of the security. In addition, the Company generally considers its cash and working capital requirements and expected cash flows in relation to its business plans and how such forecasts affect the intent and ability to hold such securities to recovery of their amortized cost.

The Company does not have any LBaSS for which it is not practicable to estimate fair values.

The following table presents the rollforward of non-interest related OTTI for LBaSS:

	December 31,	
(in millions)	**2018**	2017
Balance, beginning of year	**$ 529**	$ 512
Increases due to:		
Credit impairment on new securities subject to impairment losses	**6**	6
Additional credit impairment on previously impaired investments	**9**	11
Reduction due to:		
Credit impaired securities fully disposed for which there was no prior intent or requirement to sell	**115**	-
Balance, end of year	**$ 429**	$ 529

See Note 21 for a list with each LBaSS at a CUSIP level where the present value of cash flows expected to be collected is less than the amortized cost basis during the current year and a list of the Company’s structured notes holding at December 31, 2018.

Mortgage Loans

Mortgage loans had outstanding principal balances of $6.7 billion and $5.9 billion at December 31, 2018 and 2017, respectively. Contractual interest rates range from 2.05 percent to 8.55 percent. The mortgage loans at December 31, 2018 had maturity dates ranging from 2019 to 2055.

The Company's mortgage loans are collateralized by a variety of commercial real estate property types located throughout the U.S. and Canada. The commercial mortgage loans are non-recourse to the borrower.

The following tables present the geographic and property-type distribution of the Company's mortgage loan portfolio:

	December 31,	
	2018	2017
Geographic distribution:		
Mid-Atlantic	**29.6 %**	29.8 %
Pacific	**20.8**	23.3
Foreign	**13.6**	9.1
South Atlantic	**12.8**	12.5
West South Central	**6.3**	6.5
East North Central	**6.2**	6.6
New England	**6.1**	7.0
Mountain	**3.6**	4.2
East South Central	**0.7**	0.7
West North Central	**0.3**	0.3
Total	**100.0 %**	100.0 %
Property type distribution:		
Multi-family	**29.5 %**	26.7 %
Office	**26.7**	27.4
Retail	**19.4**	21.3
Hotel/Motel	**9.4**	9.1
Industrial	**5.5**	4.0
Other	**9.5**	11.5
Total	**100.0 %**	100.0 %

At December 31, 2018, there were 106 mortgage loans with outstanding balances of $20 million or more, which loans collectively, aggregated approximately 70 percent of this portfolio.

The following table presents the minimum and maximum lending rates for new mortgage loans during 2018 and 2017:

	Years Ended December 31,			
	2018		2017	
(in millions)	Maximum	Minimum	Maximum	Minimum
Multi-family	**5.68 %**	**2.05 %**	5.40 %	2.10 %
Retail	**5.48**	**3.82**	4.92	3.70
Office	**5.10**	**3.66**	5.43	3.69
Hotel	**4.80**	**4.40**	5.24	4.16
Industrial	**2.11**	**2.11**	4.62	3.70
Other	**5.51**	**2.10**	5.00	2.88

The Company did not reduce any interest rates during 2018 and 2017.

The maximum percentage of any one loan to the value of security at the time of the loan, exclusive of insured or guaranteed or purchase money mortgage was 95.0 percent and 95.0 percent in 2018 and 2017, respectively.

At December 31, 2018, the Company held no impaired mortgages with or without related allowances for credit losses. At December 31, 2017, the Company held $25 million in impaired mortgages with $4 million of related allowances for credit losses and $21 million in impaired loans without a related allowance. The Company's average recorded investment in impaired loans was $19 million and $98 million, at December 31, 2018 and 2017, respectively. The Company recognized no interest income for 2018, and recognized $2 million and $11 million in 2017 and 2016, respectively. The Company recognizes interest income on its impaired mortgage loans upon receipt.

The following table presents a rollforward of the changes in the allowance for losses on mortgage loans receivable:

	December 31,		
(in millions)	**2018**	2017	2016
Balance, beginning of year	**$ 43**	$ 44	$ 51
Additions (reductions) charged to unrealized capital loss	**6**	5	4
Direct write-downs charged against allowance	**-**	(6)	(11)
Balance, end of year	**$ 49**	$ 43	$ 44

During 2018, the Company did not derecognize any mortgage loans and did not recognize any real estate collateral as a result of foreclosure.

The mortgage loan portfolio has been originated by the Company under strict underwriting standards. Commercial mortgage loans on properties such as offices, hotels and shopping centers generally represent a higher level of risk than do mortgage loans secured by multi-family residences. This greater risk is due to several factors, including the larger size of such loans and the more immediate effects of general economic conditions on these commercial property types. However, due to the Company's strict underwriting standards, the Company believes that it has prudently managed the risk attributable to its mortgage loan portfolio while maintaining attractive yields.

The following table presents the age analysis of mortgage loans:

	December 31,	
(in millions)	**2018**	2017
Current	**$ 6,600**	$ 5,814
30 - 59 days past due	**1**	2
60 - 89 days past due	**-**	3
90 - 179 days past due	**-**	2
Total	**$ 6,601**	$ 5,821

At December 31, 2018 and 2017, the Company had mortgage loans outstanding under participant or co-lender agreements of $4.9 billion and $4.1 billion, respectively.

In addition, the Company had no restuructued loans for 2018 and $25 million in restructured loans at December 31, 2017.

Troubled Debt Restructuring

The Company held no restructured debt for which impairment was recognized for both December 31, 2018 and 2017. In 2018, the Company had no outstanding commitment to debtors that hold loans with restructured terms. In 2017, the Company had an outstanding commitment of $2 million to debtors that hold loans with restructured terms.

Real Estate

The following table presents the components of the Company's investment in real estate:

	December 31,	
(in millions)	**2018**	2017
Properties occupied by the Company	**$ 4**	$ 4
Properties held for production of income	**-**	38
Properties held for sale	**25**	-
Total	**$ 29**	$ 42

In 2018, the Company recognized no gains or losses on the sale of real estate property, while in 2017 and 2016, the Company recognized $10 million and $24 million in gains on the sale of real estate property respectively. The Company recognized $12 million in impairment write-downs for during 2018. The Company did not recognize any impairment write-downs for its investments in real estate during 2017 and 2016.

Other Invested Assets

The following table presents the components of the Company's other invested assets:

(in millions)	December 31, **2018**	2017
Investments in limited liability companies	**$ 328**	$ 676
Investments in limited partnerships	**372**	540
Other unaffiliated investments	**191**	73
Receivable for securities	**79**	251
Initial margin for futures	**4**	19
Non-admitted assets	**(12)**	(31)
Total	**$ 962**	$ 1,528

The Company utilizes the look-through approach in valuing its investments in affiliated real estate investments which had an aggregate value of $225 million at December 31, 2018. The financial statements for the related holding companies are not audited and the Company has limited the value of its investment in these holding companies to the value contained in the audited financial statements of the lower tier entities owned by each of the respective intermediate holding company entities including adjustments of SCA entities and/or non-SCA entities. All liabilities, commitments, contingencies, guarantees, or obligations of these holding company entities, which are required to be recorded as liabilities, commitments, contingencies, guarantees or obligations under applicable accounting guidance, are reflected in the Company's determination of the carrying value of the investment in each of the respective holding company entities, if applicable.

The Company recorded impairment write-downs in joint ventures and partnerships of $19 million, $30 million and $26 million during 2018, 2017 and 2016, respectively.

Net Investment Income

The following table presents the components of net investment income:

(in millions)	Years ended December 31, **2018**	2017	2016
Bonds	**$ 1,767**	$ 1,585	$ 1,512
Preferred stocks	**2**	2	3
Cash and short-term investments	**2**	1	-
Mortgage loans	**296**	255	232
Real estate	**8**	5	6
Contract loans	**31**	33	35
Derivatives	**56**	(24)	62
Investment income from affiliates	**36**	212	220
Other invested assets	**61**	82	91
Gross investment income	**2,259**	2,151	2,161
Investment expenses	**(70)**	(71)	(76)
Net investment income	**$ 2,189**	$ 2,080	$ 2,085

Net Realized and Unrealized Capital Gains (Losses)

The following table presents the components of Net realized capital gains (losses):

	Years Ended December 31,		
(in millions)	**2018**	2017	2016
Bonds	**$ (64)**	$ (26)	$ (104)
Cash and short-term investments	**2**	(7)	5
Mortgage loans	**(13)**	(8)	(7)
Real estate	**(12)**	10	24
Derivatives	**37**	(93)	(51)
Other invested assets	**10**	(13)	266
Realized capital (losses) gains	**(40)**	(137)	133
Federal income tax benefit (expense)	**8**	48	(46)
Net losses (gains) transferred to IMR	**18**	(11)	30
Net realized capital (losses) gains	**$ (14)**	$ (100)	$ 117

During 2018, 2017 and 2016, the Company recognized $44 million, $44 million and $74 million, respectively, of impairment write-downs in accordance with the impairment policy described in Note 2.

The following table presents the proceeds from sales of bonds and equities and the related gross realized capital gains and gross realized capital losses:

	Years Ended December 31,		
(in millions)	**2018**	2017	2016
Proceeds	**$ 3,323**	$ 2,493	$ 3,421
Gross realized capital gains	**$ 35**	$ 67	$ 122
Gross realized capital losses	**(60)**	(26)	(129)
Net realized capital (losses) gains	**$ (25)**	$ 41	$ (7)

The following table presents the net change in unrealized capital gains (losses) of investments (including foreign exchange capital gains (losses):

	Years Ended December 31,		
(in millions)	**2018**	2017	2016
Bonds	**$ (72)**	$ 112	$ (40)
Preferred and common stocks	**25**	(2)	4
Mortgage loans	**(45)**	47	(51)
Derivatives	**80**	(70)	(50)
Other invested assets	**(33)**	24	(349)
Federal income tax benefit (expense)	**13**	(31)	172
Net change in unrealized (losses) gains of investments	**$ (32)**	$ 80	$ (314)

5* Securities Measured at Aggregate Book Adjusted Carrying Value and Fair Value

The following table presents 5* Securities measured at aggregate book adjusted carrying value (BACV) and aggregate fair value at December 31:

Investment	Number of 5* Securities	Aggregate BACV	Aggregate Fair Value
(in millions)			
2018			
Bonds - AC	**14**	**$ 117**	**$ 115**
LBass - AC	**-**	**-**	**-**
Preferred Stock - AC	**2**	**4**	**6**
Preferred Stock - FV	**-**	**-**	**-**
Total	**16**	**$ 121**	**$ 122**
2017			
Bonds - AC	9	$ 52	$ 53
LBass - AC	-	-	-
Preferred Stock - AC	-	-	-
Preferred Stock - FV	-	-	-
Total	9	$ 52	$ 53

AC - Amortized Cost
FV - Fair Value

4. SECURITIES LENDING AND REPURCHASE AGREEMENTS

Securities Lending

As of December 31, 2018 and 2017, the Company had bonds loaned with a fair value of approximately $351 million and $241 million, respectively, to unaffiliated parties as part of the securities lending program. These loaned securities are classified as bonds on the Company's balance sheet.

The following table presents the aggregate fair value of cash collateral received related to the securities lending program and the terms of the contractually obligated collateral positions:

(in millions)	December 31, **2018**	December 31, 2017
30 days or less	**$ 25**	$ 92
31 to 60 days	**56**	25
61 to 90 days	**278**	130
Greater than 90 days	**-**	-
Subtotal	**359**	247
Securities collateral received	**-**	-
Total collateral received	**$ 359**	$ 247

The following table presents the aggregate amortized cost and fair value of cash collateral reinvested related to the securities lending program by maturity date:

	December 31, 2018		December 31, 2017	
(in millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Open positions	**$ 354**	**$ 354**	$ 160	$ 160
Subtotal	**354**	**354**	160	160
Securities collateral received	**-**	**-**	-	-
Total collateral reinvested	**$ 354**	**$ 354**	$ 160	$ 160

Repurchase Agreements

At December 31, 2018 and 2017, bonds with a fair value of approximately $40 million and $233 million respectively, were subject to repurchase agreements to secure amounts borrowed by the Company.

The following table presents the aggregate fair value of cash collateral received related to the repurchase agreement program and the terms of the contractually obligated collateral positions:

	December 31,	
(in millions)	**2018**	2017
Open positions	**$ 39**	$ -
30 days or less	**-**	42
31 to 60 days	**-**	70
61 to 90 days	**-**	110
Greater than 90 days	**-**	-
Subtotal	**39**	222
Securities collateral received	**-**	-
Total collateral received	**$ 39**	$ 222

The following table presents the original (flow) and residual maturity for bi-lateral repurchase agreement transactions for the year ended December 31, 2018:

	FIRST QUARTER				SECOND QUARTER			
(in millions)	Minimum	Maximum	Average Daily Balance	Ending Balance	Minimum	Maximum	Average Daily Balance	Ending Balance
Open - No Maturity	$ 12	$ 32	$ 16	$ 17	$ 10	$ 35	$ 19	$ 1
Overnight	-	33	3	-	-	256	22	1
2 Days to 1 Week	-	66	9	-	-	394	69	-
> 1 Week to 1 Month	-	128	38	-	76	853	373	29
> 1 Month to 3 Months	-	179	78	-	189	1,077	432	7
> 3 Months to 1 Year	-	29	2	-	-	-	-	-
> 1 Year	-	-	-	-	-	-	-	-

	THIRD QUARTER				FOURTH QUARTER			
(in millions)	Minimum	Maximum	Average Daily Balance	Ending Balance	Minimum	Maximum	Average Daily Balance	Ending Balance
Open - No Maturity	$ 32	$ 43	$ 35	$ 43	$ 38	$ 50	$ 42	$ 39
Overnight	2	22	9	2	1	33	5	-
2 Days to 1 Week	-	-	-	-	-	-	-	-
> 1 Week to 1 Month	-	-	-	-	-	-	-	-
> 1 Month to 3 Months	-	-	-	-	-	-	-	-
> 3 Months to 1 Year	-	-	-	-	-	-	-	-
> 1 Year	-	-	-	-	-	-	-	-

The following table presents the Company's liability to return collateral for the year ended December 31, 2018:

	FIRST QUARTER				SECOND QUARTER			
	1	2	3	4	5	6	7	8
(in millions)	Minimum	Maximum	Average Daily Balance	Ending Balance	Minimum	Maximum	Average Daily Balance	Ending Balance
Cash (Collateral - All)	$ 12	$ 466	$ 146	$ 17	$ 274	$ 2,616	$ 914	$ 39

	THIRD QUARTER				FOURTH QUARTER			
	Minimum	Maximum	Average Daily Balance	Ending Balance	Minimum	Maximum	Average Daily Balance	Ending Balance
Cash (Collateral - All)	$ 34	$ 65	$ 44	$ 45	$ 39	$ 83	$ 47	$ 39

The Company requires a minimum of 95 percent of the fair value of securities sold under the repurchase agreements to be maintained as collateral. Cash collateral received is invested in corporate bonds and the offsetting collateral liability for repurchase agreements is included in other liabilities.

The following table presents the aggregate amortized cost and fair value of cash collateral reinvested related to the repurchase agreement program by maturity date:

	December 31, 2018		December 31, 2017	
(in millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Open positions	**$ 41**	**$ 40**	$ -	$ -
Greater than three years	**-**	**-**	211	233
Subtotal	**41**	**40**	211	233
Securities collateral received	**-**	**-**	-	-
Total collateral reinvested	**$ 41**	**$ 40**	$ 211	$ 233

The following table presents the fair value of securities under bi-lateral repurchase agreement transactions for the year ended December 31, 2018:

	FIRST QUARTER				SECOND QUARTER			
(in millions)	Minimum	Maximum	Average Daily Balance	Ending Balance	Minimum	Maximum	Average Daily Balance	Ending Balance
BACV	$ -	$ -	$ -	$ 17	$ -	$ -	$ -	$ 36
Non-admitted - Subset of BACV	-	-	-	-	-	-	-	-
Fair Value	-	-	-	17	-	-	-	34

	THIRD QUARTER				FOURTH QUARTER			
(in millions)	Minimum	Maximum	Average Daily Balance	Ending Balance	Minimum	Maximum	Average Daily Balance	Ending Balance
BACV	$ -	$ -	$ -	$ 48	$ -	$ -	$ -	$ 41
Non-admitted - Subset of BACV	-	-	-	-	-	-	-	-
Fair Value	-	-	-	46	-	-	-	40

The following table presents the fair value of securities under bi-lateral repurchase agreement transactions for the year ended December 31, 2018:

	1	2	3	4	5	6	7	8
(in millions)	None	NAIC 1	NAIC 2	NAIC 3	NAIC 4	NAIC 5	NAIC 6	Non-Admitted
Bonds - BACV	$ -	$ 6	$ 25	$ 9	$ 1	$ -	$ -	$ -
Bonds - FV	$ -	$ 6	$ 25	$ 9	$ -	$ -	$ -	$ -

5. RESTRICTED ASSETS

The Company has restricted assets as detailed below. Assets under restriction are general account assets and are not part of the Separate Accounts.

The following table presents the carrying value of the Company's restricted assets:

	December 31,	
(in millions)	**2018**	2017
On deposit with states	**$ 3**	$ 3
Securities lending	**338**	228
Collateral held on securities lending	**359**	247
FHLB stock and collateral pledged	**486**	142
Subject to repurchase agreements	**41**	211
Collateral for derivatives	**37**	70
Other restricted assets	**2**	-
Total	**$ 1,266**	$ 901

6. SUBPRIME MORTGAGE RISK EXPOSURE

The following features are commonly recognized characteristics of subprime mortgage loans:

- An interest rate above prime to borrowers who do not qualify for prime rate loans;
- Borrowers with low credit ratings (FICO scores);
- Interest-only or negative amortizing loans;
- Unconventionally high initial loan-to-value ratios;
- Low initial payments based on a fixed introductory rate that expires after a short initial period, then adjusts to a variable index rate plus a margin for the remaining term of the loan;
- Borrowers with less than conventional documentation of their income and/or net assets;
- Very high or no limits on how much the payment amount or the interest rate may increase at reset periods, potentially causing a substantial increase in the monthly payment amount; and/or,
- Substantial prepayment penalties and/or prepayment penalties that extend beyond the initial interest rate adjustment period.

Non-agency RMBS can belong to one of several different categories depending on the characteristics of the borrower, the property and the loan used to finance the property. Categorization is a function of FICO score, the type of loan, loan-to-value ratio, and property type and loan documentation.

Generally, subprime loans are made to borrowers with low FICO scores, low levels of equity and reduced income/asset documentation. Due to these characteristics, subprime borrowers pay a substantially higher interest rate than prime borrowers. In addition, they often utilize mortgage products that reduce their monthly payments in the near-term. These include adjustable-rate mortgages with low initial rates or interest-only loans. Borrowers in products like this often experience significant "payment shock" when the teaser payment resets upwards after the initial fixed period.

The primary classification mechanism the Company uses for subprime loans is FICO score. Specifically, a pool with an average FICO at origination less than 650 is considered to be subprime. However, the Company may subjectively adjust this classification based on an assessment of the other parameters mentioned above.

To monitor subprime securities, the Company uses a model with vintage-specific assumptions for delinquency roll rates, loss severities and the timing of losses. As and when needed, these vintage-based assumptions are supplemented with deal-specific information including, but not limited to, geographic distribution, realized loss severities, trigger status and scenario analysis.

The Company has no direct exposure through investments in subprime mortgage loans. The Company's exposure is through other investments, primarily in RMBS, as described above.

The following table presents information regarding the Company's investments with subprime exposures:

(in millions)	Actual Cost	Book Adjusted Statement Value	Fair Value	OTTI Recognized to Date
December 31, 2018				
In general account:				
RMBS	**$ 464**	**$ 463**	**$ 547**	**$ (44)**
CDOs	**372**	**367**	**380**	**(10)**
Total subprime exposure	**$ 836**	**$ 830**	**$ 927**	**$ (54)**
December 31, 2017				
In general account:				
RMBS	$ 444	$ 451	$ 553	$ (49)
CDOs	500	501	513	(21)
Total subprime exposure	$ 944	$ 952	$ 1,066	$ (70)

The Company has no underwriting exposure to subprime mortgage risk through mortgage guaranty or financial guaranty insurance coverage.

7. DERIVATIVES

The Company has taken positions in certain derivative financial instruments to mitigate or hedge the impact of changes in interest rates, foreign currencies, equity markets, swap spreads, volatility, correlations and yield curve risk on cash flows from investment income, policyholder liabilities and equity. Financial instruments used by the Company for such purposes include interest rate swaps, interest rate swaptions, cross-currency swaps, futures and futures options on equity indices, and futures and futures options on government securities. The Company does not engage in the use of derivative instruments for speculative purposes and is neither a dealer nor trader in derivative instruments.

All derivative instruments are recognized in the financial statements. As discussed in Note 2, the Company received approval from the TDI to apply a permitted practice, whereby certain interest rate swaps and swaptions that are used to hedge guaranteed minimum withdrawal benefits are reported at amortized cost. The cost basis of these swaps is carried on the balance sheet and amortized into net investment income over the life of the swap. Periodic cash settlements are also recognized in net investment income. All other derivative financial instruments that do not qualify for hedge accounting are carried at fair value and the changes in fair value are recorded in surplus as unrealized gains or losses, net of deferred taxes. The statement value of the Company's exchange traded futures contracts reflects the one-day lag in the net cash settlement of these contracts.

The Company recognized a net unrealized capital gain of $80 Million in 2018 and unrealized capital losses of $71 million and $50 million in 2017 and 2016, respectively, related to derivatives that did not qualify for hedge accounting.

Refer to Note 3 for disclosures related to net realized capital gains (losses).

Swaps, Options, and Futures

Interest rate or cross-currency swap agreements are agreements to exchange with a counterparty, at specified intervals, payments of differing character (for example, variable-rate payments exchanged for fixed-rate payments) or in different currencies, based on an underlying principal balance, notional amount. Generally no cash is exchanged at the outset of the contract and no principal payments are made by either party. A single net payment is usually made by one counterparty at each contractual payment due date, and this net payment is included in the Statutory Statement of Operations.

Options are contracts that grant the purchaser, for a premium payment, the right, but not the obligation, either to purchase or sell a financial instrument at a specified price within a specified period of time. The Company purchases call options on the S&P 500 Index to offset the risk of certain guarantees of specific equity-index annuity and universal life policy values. The Company also purchases put options on the S&P 500 Index to offset volatility risk arising from minimum guarantees embedded in variable annuities. The options are carried at fair value, with changes in fair value recognized in unrealized investment gains and losses.

Financial futures are contracts between two parties that commit one party to purchase and the other to sell a particular commodity or financial instrument at a price determined on the final settlement day of the contract. Futures contracts detail the quality and quantity of the underlying asset; they are standardized to facilitate trading on a futures exchange. Some futures contracts may call for physical delivery of the asset, while others are settled in cash. The Company uses futures contracts on Euro dollar deposits, U.S. Treasury Notes, U.S. Treasury Bonds, the S&P 500 Index, MidCap 400, Russell 2000, MSCI EAFE, foreign government debt securities, and foreign denominated equity indices to offset the risk of certain guarantees on annuity policy values.

Interest Rate Risk

Interest rate derivatives are used to manage interest rate risk associated with certain guarantees of variable annuities and equity indexed annuities and certain bonds. The Company's interest rate hedging derivative instruments include (1) interest rate swaps and swaptions; (2) listed futures on government securities; and (3) listed futures options on government securities.

Currency Risk

Foreign exchange contracts used by the Company include cross-currency swaps, which are used to reduce risks from changes in currency exchange rates with respect to investments denominated in foreign currencies that the Company holds.

Equity Risk

Equity derivatives are used to mitigate financial risk embedded in certain insurance liabilities.

Credit Risk

The Company is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments, but it does not expect any counterparties to fail to meet their obligations given their high credit ratings. For over-the-counter (OTC) derivatives, the Company's net credit exposure is determined based on master netting agreements, which take into consideration all derivative positions with the counterparty, as well as collateral posted by the counterparty at the balance sheet date. The Company is exposed to credit risk when the net position with a particular counterparty results in an asset that exceeds collateral pledged by that counterparty.

For OTC contracts, the Company generally uses an International Swaps and Derivative Association Master Agreement (ISDA Master Agreement) and Credit Support Annexes with bilateral collateral provisions to reduce counterparty credit exposures. An ISDA Master Agreement is an agreement between two counterparties, which may cover multiple derivative transactions and such ISDA Master Agreement generally provides for the net settlement of all or a specified group of these derivative transactions, as well as transferred collateral, through a single payment, in a single currency,

in the event of a default affecting any one derivative transaction or a termination event affecting all or a specified group of the transactions. The Company minimizes the risk that counterparties might be unable to fulfill their contractual obligations by monitoring counterparty credit exposure and collateral value and may require additional collateral to be posted upon the occurrence of certain events or circumstances. In the unlikely event of a failure to perform by any of the counterparties to these derivative transactions, there would not be a material effect on the Company's admitted assets, liabilities or capital and surplus.

The Company has also entered into exchange-traded options and futures contracts. Under exchange-traded futures contracts, the Company agrees to purchase a specified number of contracts with other parties and to post or receive variation margin on a daily basis in an amount equal to the difference in the daily market values of those contracts. The parties with whom the Company enters into exchange-traded futures are regulated futures commission merchants who are members of a trading exchange. The credit risk of exchange-traded futures is partially mitigated because variation margin is settled daily in cash. Exchange-traded option contracts are not subject to daily margin settlements and amounts due to the Company based upon favorable movements in the underlying securities or indices are owed upon exercise.

The following table presents the notional amounts, statement values and fair values of the Company's derivative instruments:

	December 31, 2018			December 31, 2017		
(in millions)	Contract or Notional Amount	Statement Value	Fair Value	Contract or Notional Amount	Statement Value	Fair Value
Assets:						
Interest rate contracts	**$ 2,337**	**$ 40**	**$ 50**	$ 2,775	$ 67	$ 60
Foreign exchange contracts	**1,579**	**109**	**109**	405	28	28
Equity contracts	**5,680**	**380**	**380**	4,423	303	303
Derivative assets, gross	**9,596**	**529**	**539**	7,603	398	391
Counter party netting*	**-**	**(316)**	**(361)**	-	(182)	(182)
Derivative assets, net	**$ 9,596**	**$ 213**	**$ 178**	$ 7,603	$ 216	$ 209
Liabilities:						
Interest rate contracts	**$ 524**	**$ 5**	**$ 51**	$ 449	$ 55	$ 24
Foreign exchange contracts	**802**	**25**	**25**	1,136	60	60
Equity contracts	**3,023**	**288**	**288**	729	67	67
Derivative liabilities, gross	**4,349**	**318**	**364**	2,314	182	151
Counter party netting*	**-**	**(316)**	**(361)**	-	(182)	(182)
Derivative liabilities, net	**$ 4,349**	**$ 2**	**$ 3**	$ 2,314	$ -	$ (31)

* Represents netting of derivative exposures covered by a qualifying master netting agreement.

The Company has a right of offset of its derivatives asset and liability positions with various counterparties. The following table presents the effect of the right of offsets:

	December 31, 2018		December 31, 2017	
(in millions)	Assets	Liabilities	Assets	Liabilities
Gross amount recognized	**$ 529**	**$ 318**	$ 398	$ (182)
Amount offset	**(316)**	**(316)**	(182)	182
Net amount presented in the Statement of Admitted Assets, Liabilities, and Capital and Surplus	**$ 213**	**$ 2**	$ 216	$ -

8. INFORMATION ABOUT FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK

The following table presents the Company's derivative financial instruments with concentrations of credit risk:

	December 31, 2018		December 31, 2017	
(in millions)	Contract or Notional Amount	Final Maturity Date	Contract or Notional Amount	Final Maturity Date
Derivative assets:				
Interest rate contracts	**$ 2,337**	**12/6/2049**	$ 2,775	2049
Foreign exchange contracts	**1,579**	**8/25/2056**	405	2050
Equity contracts	**5,680**	**12/20/2022**	4,423	2022
Derivative liabilities:				
Interest rate contracts	**524**	**2/7/2050**	449	2047
Foreign exchange contracts	**802**	**10/4/2051**	1,136	2056
Equity contracts	**3,023**	**12/20/2022**	729	2019

The credit exposure to the Company's derivative contracts is limited to the fair value of such contracts that are favorable to the Company at the reporting date.

The credit exposure to the Company's derivative contracts aggregated $66 Million and $72 million at December 31, 2018 and 2017, respectively.

9. FAIR VALUE MEASUREMENTS

Fair Value Measurements

The Company carries certain financial instruments at fair value. The Company defines the fair value of a financial instrument as the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company is responsible for the determination of the value of the investments carried at fair value and the supporting methodologies and assumptions.

The degree of judgment used in measuring the fair value of financial instruments generally inversely correlates with the level of observable valuation inputs. The Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgment is used in measuring fair value. Conversely, financial instruments for which no quoted prices are available have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction, liquidity and general market conditions.

Fair Value Hierarchy

Assets and liabilities recorded at fair value are measured and classified in accordance with a fair value hierarchy consisting of three "levels" based on the observability of valuation inputs:

- **Level 1:** Fair value measurements based on quoted prices (unadjusted) in active markets that the Company has the ability to access for identical assets or liabilities. Market price data generally is obtained from exchange or dealer markets. The Company does not adjust the quoted price for such instruments.
- **Level 2:** Fair value measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.

- **Level 3:** Fair value measurements based on valuation techniques that use significant inputs that are unobservable. Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3. The circumstances for using these measurements include those in which there is little, if any, market activity for the asset or liability. Therefore, the Company must make certain assumptions as to the inputs a hypothetical market participant would use to value that asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In those cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value.

Bonds: Fair value is based principally on value from independent third-party valuation service providers, broker quotes and other independent information.

Preferred stocks: Fair value of unaffiliated preferred stocks is based principally on value from independent third-party service providers, broker quotes and other independent information.

Cash, cash equivalents and short term investments: Carrying amount approximate fair value because of the relatively short period of time between origination and expected realization and their limited exposure to credit risk.

Mortgage loans: Fair values are primarily determined by discounting future cash flows to the present at current market rates, using expected prepayment rates.

Contract loans: Carrying amounts, which approximate fair value, are generally equal to unpaid principal amount as of each reporting date. No consideration is given to credit risk because contract loans are effectively collateralized by the cash surrender value of the policies.

Securities lending reinvested collateral assets: Securities lending assets are generally invested in short-term investments and thus carrying amounts approximate fair values because of the relatively short period of time between origination and expected realizations.

Separate account assets: Variable annuity and variable universal life assets are carried at the market value of the underlying securities. Certain separate account assets related to market value adjustment fixed annuity contracts are carried at book value. Fair value is based principally on the value from independent third-party valuation service providers, broker quotes and other independent information.

Policy reserves and contractual liabilities: Fair value for investment contracts (those without significant mortality risk) not accounted for at fair value were estimated for disclosure purposes using discounted cash flow calculations based upon interest rates currently being offered for similar contracts with maturities consistent with those remaining for the contracts being valued. When no similar contracts are being offered, the discount rate is the appropriate swap rates (if available) or current risk-free interest rates consistent with the currency in which cash flows are denominated.

Payable for securities lending: Cash collateral received from the securities lending program is invested in short-term investments and the offsetting liability is included in payable for securities lending. The carrying amount of this liability approximates fair value because of the relatively short period between origination of the liability and expected settlement.

Receivables/payables for securities: Such amounts represent transactions of a short-term nature for which the statement value is considered a reasonable estimate of fair value.

Fair Value Information about Financial Instruments Not Measured at Fair Value

The following table presents the aggregate fair values of the Company's financial instruments not measured at fair value compared to their statement values:

(in millions)	Aggregate Fair Value	Admitted Assets or Liabilities	Level 1	Level 2	Level 3
December 31, 2018					
Assets:					
Bonds	**$ 35,942**	**$ 35,768**	**$ -**	**$ 30,077**	**$ 5,865**
Preferred stocks	**46**	**41**	**3**	**32**	**11**
Common stocks	**16**	**16**	**-**	**16**	**-**
Cash, cash equivalents and short-term investments	**189**	**189**	**143**	**46**	**-**
Mortgage loans	**6,647**	**6,601**	**-**	**-**	**6,647**
Contract loans	**609**	**609**	**-**	**-**	**609**
Derivatives	**-**	**35**	**-**	**-**	**-**
Receivables for securities	**79**	**79**	**-**	**79**	**-**
Securities lending reinvested collateral assets	**354**	**354**	**-**	**354**	**-**
Separate account assets	**298**	**298**	**-**	**298**	**-**
Liabilities:					
Policy reserves and contractual liabilities	**44,188**	**41,072**	**-**	**-**	**44,188**
Payable for securities	**78**	**78**	**-**	**78**	**-**
Payable for securities lending	**359**	**359**	**-**	**359**	**-**
December 31, 2017					
Assets:					
Bonds	$ 37,122	$ 35,592	$ -	$ 30,714	$ 6,408
Preferred stocks	45	39	4	30	11
Common stocks	9	9	-	9	-
Cash, cash equivalents and short-term investments	135	135	115	20	-
Mortgage loans	5,981	5,821	-	-	5,981
Contract loans	653	653	-	653	-
Derivatives	35	12	-	35	-
Receivables for securities	251	251	-	251	-
Securities lending reinvested collateral assets	160	160	-	160	-
Separate account assets	155	155	-	155	-
Liabilities:					
Policy reserves and contractual liabilities	5,215	4,917	-	-	5,215
Payable for securities	(6)	(6)	-	(6)	-
Payable for securities lending	247	247	-	247	-

Valuation Methodologies of Financial Instruments Measured at Fair Value

Bonds

Bonds with NAIC 6 or 6* designations and preferred stocks with NAIC 4, 5 or 6 designations are carried at the lower of amortized cost or fair value. The Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Whenever available, the Company obtains quoted prices in active markets for identical assets at the balance sheet date to measure bonds at fair value. Market price data generally is obtained from exchange or dealer markets.

The Company estimates the fair value of securities not traded in active markets, by referring to traded securities with similar attributes, using dealer quotations, a matrix pricing methodology, discounted cash flow analyses or internal valuation models. This methodology considers such factors as the issuer's industry, the security's rating and tenor, its coupon rate, its position in the capital structure of the issuer, yield curves, credit curves, prepayment rates and other relevant factors. For bonds that are not traded in active markets or that are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments generally are based on available market evidence. In the absence of such evidence, management's best estimate is used.

Fair values for bonds and preferred stocks based on observable market prices for identical or similar instruments implicitly include the incorporation of counterparty credit risk. Fair values for bonds and preferred stocks based on internal models incorporate counterparty credit risk by using discount rates that take into consideration cash issuance spreads for similar instruments or other observable information.

Common Stocks (Unaffiliated)

Whenever available, the Company obtains quoted prices in active markets for identical assets at the balance sheet date to measure equity securities at fair value. Market price data is generally obtained from exchanges or dealer markets.

Freestanding Derivatives

Derivative assets and liabilities can be exchange-traded or traded OTC. The Company generally values exchange-traded derivatives, such as futures and options, using quoted prices in active markets for identical derivatives at the balance sheet date.

OTC derivatives are valued using market transactions and other observable market evidence whenever possible, including market-based inputs to models, model calibration to market clearing transactions, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. When models are used, the selection of a particular model to value an OTC derivative depends on the contractual terms of, and specific risks inherent in, the instrument as well as the availability of pricing information in the market. The Company generally uses similar models to value similar instruments. Valuation models can require a variety of inputs, including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs can generally be corroborated by observable market data by correlation or other means, and model selection does not involve significant management judgment.

Certain OTC derivatives trade in less liquid markets with limited pricing information, and the determination of fair value for these derivatives is inherently more difficult. When the Company does not have corroborating market evidence to support significant model inputs and cannot verify the model using market transactions, the transaction price is initially used as the best estimate of fair value. Accordingly, when a pricing model is used to value such an instrument, the model is adjusted so the model value at inception equals the transaction price. Subsequent to initial recognition, the Company updates valuation inputs when corroborated by evidence such as similar market transactions, independent third-party valuation services and/or broker or dealer quotations, or other empirical market data. When appropriate, valuations are adjusted for various factors such as liquidity, bid/offer spreads and credit considerations. Such adjustments are generally based on available market evidence. In the absence of such evidence, management’s best estimate is used.

Separate Account Assets

Separate account assets are comprised primarily of registered and open-ended variable funds that trade daily and are measured at fair value using quoted prices in active markets for identical assets. Certain separate account assets are carried at amortized cost.

Assets and Liabilities Measured at Fair Value

The following table presents information about assets and liabilities measured at fair value:

(in millions)	Level 1	Level 2	Level 3	Counterparty Netting*	Total
December 31, 2018					
Assets at fair value:					
Bonds					
Industrial and miscellaneous	**$ -**	**$ 1**	**$ 7**	**$ -**	**$ 8**
Total bonds	**-**	**1**	**7**	**-**	**8**
Common stock					
Industrial and miscellaneous	**1**	**-**	**4**	**-**	**5**
Total common stock	**1**	**-**	**4**	**-**	**5**
Derivative assets:					
Interest rate contracts	**-**	**-**	**-**	**-**	**-**
Foreign exchange contracts	**-**	**109**	**-**	**-**	**109**
Equity contracts	**3**	**375**	**2**	**-**	**380**
Counterparty netting	**-**	**-**	**-**	**(316)**	**(316)**
Total derivative assets	**3**	**484**	**2**	**(316)**	**173**
Separate account assets	**32,046**	**147**	**-**	**-**	**32,193**
Total assets at fair value	**$ 32,050**	**$ 632**	**$ 13**	**$ (316)**	**$ 32,379**
Liabilities at fair value:					
Derivative liabilities:					
Foreign exchange contracts	**$ -**	**$ 25**	**$ -**	**$ -**	**$ 25**
Equity contracts	**2**	**285**	**-**	**-**	**287**
Counterparty netting	**-**	**-**	**-**	**(316)**	**(316)**
Total derivative liabilities	**2**	**310**	**-**	**(316)**	**(4)**
Total liabilities at fair value	**$ 2**	**$ 310**	**$ -**	**$ (316)**	**$ (4)**
December 31, 2017					
Assets at fair value:					
Bonds					
Industrial and miscellaneous	$ -	$ 14	$ 2	$ -	$ 16
Total bonds	-	14	2	-	16
Common stock					
Industrial and miscellaneous	1	-	3	-	4
Total common stock	1	-	3	-	4
Derivative assets:					
Foreign exchange contracts	-	28	-	-	28
Equity contracts	5	298	-	-	303
Counterparty netting	-	-	-	(182)	(182)
Total derivative assets	5	326	-	(182)	149
Separate account assets	36,260	159	-	-	36,419
Total assets at fair value	$ 36,266	$ 499	$ 5	$ (182)	$ 36,588
Liabilities at fair value:					
Derivative liabilities:					
Foreign exchange contracts	-	60	-	-	60
Equity contracts	-	67	-	-	67
Counterparty netting	-	-	-	(182)	(182)
Total derivative liabilities	-	127	-	(182)	(55)
Total liabilities at fair value	$ -	$ 127	$ -	$ (182)	$ (55)

* Represents netting of derivative exposures covered by a qualifying master netting agreement.

Changes in Level 3 Fair Value Measurements

The following tables present changes in Level 3 assets and liabilities measured at fair value and the gains (losses) related to the Level 3 assets and liabilities that remained on the Statutory Statements of Admitted Assets, Liabilities and Capital and Surplus:

(in millions)		Bonds		Common Stocks		Derivative Assets		Total Assets
Balance, January 1, 2017	$	122	$	-	$	-	$	122
Total realized/unrealized capital gains or losses:								
Included in net income		(7)		-		-		(7)
Included in surplus		12		-		-		12
Purchases, issuances and settlements		61		3		-		64
Transfers into Level 3		1		-		-		1
Transfers out of Level 3		(187)		-		-		(187)
Balance, December 31, 2017	$	2	$	3	$	-	$	5
Total realized/unrealized capital gains or losses:								
Included in net income		**1**		**-**		**-**		**1**
Included in surplus		**-**		**-**		**(5)**		**(5)**
Purchases, issuances and settlements		**23**		**-**		**7**		**30**
Transfers into Level 3		**18**		**-**		**-**		**18**
Transfers out of Level 3		**(37)**		**-**		**-**		**(37)**
Balance, December 31, 2018	**$**	**7**	**$**	**3**	**$**	**2**	**$**	**12**

Assets are transferred out of Level 3 when circumstances change such that significant inputs can be corroborated with market observable data or when the asset is no longer carried at fair value. This may be due to a significant increase in market activity for the asset, a specific event, one or more significant inputs becoming observable or when a long-term interest rate significant to a valuation becomes short-term and thus observable. Transfers out of level 3 can also occur due to favorable credit migration resulting in a higher NAIC designation. Securities are generally transferred into Level 3 due to a decrease in market transparency, downward credit migration and an overall increase in price disparity for certain individual security types. The Company’s policy is to recognize transfers in and out at the end of the reporting period, consistent with the date of the determination of fair value.

In both 2018 and 2017, there were no transfers between Level 1 and Level 2 securities.

Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3 in the tables above. As a result, the unrealized capital gains (losses) on instruments held at December 31, 2018 and 2017 may include changes in fair value that were attributable to both observable inputs (e.g., changes in market interest rates) and unobservable inputs (e.g., changes in unobservable long-dated volatilities).

Quantitative Information About Level 3 Fair Value Measurements

The Company had no quantitative information about level 3 fair value measurements to report at December 31, 2018.

Gross Basis Fair Value Measurements

The following table presents the Company’s derivative assets and liabilities measured at fair value, on a gross basis, before counterparty and cash collateral netting:

(in millions)		Level 1		Level 2		Level 3		Total
December 31, 2018								
Derivative assets at fair value	**$**	**4**	**$**	**483**	**$**	**2**	**$**	**489**
Derivative liabilities at fair value		**2**		**311**		**-**		**313**
December 31, 2017								
Derivative assets at fair value	$	5	$	326	$	-	$	331
Derivative liabilities at fair value		-		127		-		127

10. AGGREGATE POLICY RESERVES AND DEPOSIT FUND LIABILITIES

The following table presents the withdrawal characteristics of annuity actuarial reserves and deposit-type contract funds and other liabilities without life contingencies:

(in millions)	General Account	Separate Accounts With Guarantee*	Separate Accounts Non-Guaranteed*	Total	Percent
December 31, 2018					
Subject to discretionary withdrawal					
With fair value adjustment	**$ 4,835**	**$ 298**	**$ 13,574**	**$ 18,707**	**25.3 %**
At book value less current surrender charge of 5% or more	**8,437**	**-**	**-**	**8,437**	**11.4**
At fair value	**-**	**147**	**18,438**	**18,585**	**25.1**
Total with adjustment or at fair value	**13,272**	**445**	**32,012**	**45,729**	**61.8**
At book value with minimal or no charge or no adjustment	**27,233**	**-**	**-**	**27,233**	**36.8**
Not subject to discretionary withdrawal	**1,042**	**-**	**22**	**1,064**	**1.4**
Net annuity reserves and deposit fund liabilities	**$ 41,547**	**$ 445**	**$ 32,034**	**$ 74,026**	**100.0 %**
December 31, 2017					
Subject to discretionary withdrawal					
With fair value adjustment	$ 4,852	$ 179	$ 15,723	$ 20,754	26.8 %
At book value less current surrender charge of 5% or more	7,688	-	-	7,688	10.0
At fair value	-	159	20,458	20,617	26.7
Total with adjustment or at fair value	12,540	338	36,181	49,059	63.5
At book value with minimal or no charge or no adjustment	27,425	-	-	27,425	35.5
Not subject to discretionary withdrawal	718	-	26	744	1.0
Net annuity reserves and deposit fund liabilities	$ 40,683	$ 338	$ 36,207	$ 77,228	100.0 %

* Represents annuity reserves reported in separate accounts liabilities.

11. SEPARATE ACCOUNTS

Separate Accounts

The separate accounts held by the Company consist primarily of variable annuities. These contracts generally are non-guaranteed in nature such that the benefit is determined by the performance and/or market value of the investments held in the separate account. The net investment experience of the separate account is credited directly to the policyholder and can be positive or negative.

Certain other separate accounts relate to MVA fixed annuity contracts in which the assets are carried at amortized cost. These policies are required to be held in the Company's separate account by certain states, including Texas.

The Company does not engage in securities lending transactions within the separate accounts.

In accordance with the products/transactions recorded within the separate account, some assets are considered legally insulated whereas others are not legally insulated from the general account. The legal insulation of the separate account assets prevents such assets from being generally available to satisfy claims resulting from the general account.

The following table presents separate account assets by product or transaction:

	December 31, 2018		December 31, 2017	
(in millions)	Legally Insulated Assets	Separate Accounts Assets (Not Legally Insulated)	Legally Insulated Assets	Separate Accounts Assets (Not Legally Insulated)
Variable annuities	**$ 32,066**	**$ -**	$ 36,260	$ -
Annuities with MVA features	**-**	**278**	-	155
DeKalb separate account	**147**	**-**	160	-
Total	**$ 32,213**	**$ 278**	$ 36,420	$ 155

Some separate account liabilities are guaranteed by the general account. To compensate the general account for the risks taken, the separate accounts pay risk charges to the general account.

If claims were filed on all contracts, the current total maximum guarantee the general account would provide to the separate account as of December 31, 2018 and 2017 is $849 million and $484 million, respectively.

The following table presents the risk charges paid by the separate accounts and the guarantees paid by the general account:

(in millions)	Risk Charge paid by the Separate Account	Guarantees Paid by the General Account
2018	$ 1	$ 17
2017	2	18
2016	2	22
2015	3	23
2014	3	23

Certain separate accounts relate to experience-rated group annuity contracts that fund defined contribution pension plans. These contracts provide guaranteed interest returns for one quarter only, where the guaranteed interest rate is re-established each quarter based on the investment experience of the separate account. In no event can the interest rate be less than 3 percent. There are guarantees of principal and interest for purposes of plan participant transactions (e.g., participant-directed withdrawals and fund transfers done at market value). The assets and liabilities of these separate accounts are carried at the quoted market value of the underlying assets. This business has been included in Column 1 of the table below.

There was no separate account business seed money at December 31, 2018 and 2017.

The following table presents information regarding the separate accounts:

(in millions)	Non-indexed Guarantee less than or equal to 4%	Non-guaranteed Separate Accounts	Total
December 31, 2018			
Premiums, considerations or deposits	**$ 124**	**$ 2,402**	**$ 2,526**
Reserves for accounts with assets at:			
Market value	**$ 147**	**$ 32,034**	**$ 32,181**
Amortized costs	**298**	**-**	**298**
Total reserves	**$ 445**	**$ 32,034**	**$ 32,479**
By withdrawal characteristics:			
Subject to discretionary withdrawal with MVA	**$ 298**	**$ 13,574**	**$ 13,872**
At market value	**147**	**18,438**	**18,585**
Subtotal	**445**	**32,012**	**32,457**
Not subject to discretionary withdrawal	**-**	**22**	**22**
Total reserves	**$ 445**	**$ 32,034**	**$ 32,479**
December 31, 2017			
Premiums, considerations or deposits	$ 45	$ 2,041	$ 2,086
Reserves for accounts with assets at:			
Market value	$ 159	$ 36,206	$ 36,365
Amortized costs	179	-	179
Total reserves	$ 338	$ 36,206	$ 36,544
By withdrawal characteristics:			
Subject to discretionary withdrawal with MVA	$ 179	$ 15,723	$ 15,902
At market value	159	20,458	20,617
Subtotal	338	36,181	36,519
Not subject to discretionary withdrawal	-	26	26
Total reserves	$ 338	$ 36,207	$ 36,545

Reconciliation of Net Transfers to or from Separate Accounts

The following table presents a reconciliation of the net transfers to (from) separate accounts:

	Years ended December 31,		
(in millions)	**2018**	2017	2016
Transfers to separate accounts	**$ 2,526**	$ 2,086	$ 1,987
Transfers from separate accounts	**(3,726)**	(3,599)	(3,536)
Net transfers from separate accounts	**(1,200)**	(1,513)	(1,549)
Transfers as reported in the Statutory Statements of Operations	**$ (1,200)**	$ (1,513)	$ (1,549)

12. RESERVES FOR GUARANTEED POLICY BENEFITS AND ENHANCEMENTS

Variable annuity contracts may include certain contractually guaranteed benefits to the contract holder. These guaranteed features include GMDB that are payable in the event of death, and living benefits that are payable in the event of annuitization, or, in other instances, at specified dates during the accumulation period. Living benefits include guaranteed minimum withdrawal benefits (GMWB) and, to a lesser extent, guaranteed minimum accumulation benefits (GMAB), which are no longer offered. A variable annuity contract may include more than one type of guaranteed benefit feature; for example, it may have both a GMDB and a GMWB. However, a policyholder generally can only receive payout from one guaranteed feature on a contract containing a death benefit and a living benefit, i.e. the features are mutually exclusive. A policyholder cannot purchase more than one living benefit on one contract. The net amount at risk for each feature is calculated irrespective of the existence of other features; as a result, the net amount at risk for each feature is not additive to that of other features.

Reserves for GMDB and GMWB were included in the VACARVM reserves. Total reserves in excess of basic reserves were $56 billion and $61 billion at December 31, 2018 and 2017, respectively.

GMDB

Depending on the product, the GMDB feature may provide a death benefit of either (a) total deposits made to the contract less any partial withdrawals plus a minimum return or (b) the highest contract value attained, typically on any anniversary date minus any subsequent withdrawals following the contract anniversary

The net amount at risk, which represents the guaranteed benefit exposure in excess of the current account value if death claims were filed on all contracts related to GMDB, was $520 million and $379 million at December 31, 2018 and 2017, respectively.

GMWB

Certain of the Company's variable annuity contracts offer optional GMWB. With a GMWB, the contract holder can monetize the excess of the guaranteed amount over the account value of the contract only through a series of withdrawals that do not exceed a specific percentage per year of the guaranteed amount. If, after the series of withdrawals, the account value is exhausted, the contract holder will receive a series of annuity payments equal to the remaining guaranteed amount, and, for lifetime GMWB products, the annuity payments continue as long as the covered person(s) are living.

The net amount at risk for GMWB represents the present value of minimum guaranteed withdrawal payments, in accordance with contract terms, in excess of account value. The net amount at risk related to this benefit was $321 million and $105 million at December 31, 2018 and 2017, respectively. The Company uses derivative instruments and other financial instruments to mitigate a portion of the exposure that arises from GMWB.

13. REINSURANCE

At December 31, 2018 and 2017, policy reserves on reinsurance assumed were $103 million and $108 million, respectively.

The Company has modified coinsurance and coinsurance reinsurance agreements with MetLife in Japan, pertaining to certain policies written via its branch in Japan. Under the agreements, the Company assumes liability for a quota share portion of contracts issued by MetLife in Japan that include GMIB and GMWB. The contracts assumed also include a GMDB provision. The GMIB (prior to its utilization date), GMWB and the GMDB have a 100 percent quota share and are assumed under coinsurance agreements. The GMIB (after its utilization date) has a 100 percent quota share and is assumed under the modified coinsurance provisions. The benefits provided by the reinsured contracts are assumed with a 50 percent quota share and varied quota share under the modified coinsurance agreements. The agreements are unlimited in duration, but were terminated for new business after March 31, 2009.

The Company calculates total policy reserves for contracts assumed by MetLife in Japan pursuant to AG 43, which includes all assumed GMIB, GMWB and GMDB benefits. MetLife in Japan holds a modified coinsurance reserve for the contracts under the agreements. The Company holds a reserve equal to the excess, if any, of the AG 43 reserve above the modified coinsurance reserve.

In February 2018, VALIC and its U.S. life insurance company affiliates, AGL and USL each executed their respective Modified Coinsurance (ModCo) Agreements (The Agreements) with Fortitude Reinsurance Company, Ltd (FRL), (formerly DSA Reinsurance Company Limited), a wholly owned AIG subsidiary and registered Class 4 and Class E reinsurer in Bermuda. The Agreements were effective as of January 1, 2017 in respect of certain closed blocks of business (including structured settlements and single premium immediate annuities). Fortitude Group Holdings, LLC (Fortitude Holdings) was formed by AIG to act as a holding company for FRL. On November 13, 2018, AIG completed the sale of a 19.9 percent ownership interest in Fortitude Holdings to TC Group Cayman Investment Holdings, L.P.

(TCG), an affiliate of The Carlyle Group L.P. Subsequent to this sale, Fortitude Holdings owns 100 percent of the outstanding common shares of FRL and AIG has an 80.1 percent ownership interest in Fortitude Holdings.

The initial consideration represented the book value of ModCo Assets held by the Company on behalf of FRL and was equal to the ModCo Reserves ceded at the effective date. While there was no net impact from the initial accounting as of the effective date, there was a significant offsetting impact on certain individual line items in the Summary of Operations. Pursuant to the regulatory approval received in February 2018, the Company has reported all of the ceded activity for this Agreement from the effective date (January 1, 2017) through December 31, 2018 in its 2018 Annual Statement.

Total returns on the ModCo Assets subsequent to the effective date inure to the benefit of FRL and are reported with the ModCo reserve adjustments. The Company did not receive a ceding commission at contract inception.

The Company completed its initial settlement with FRL in June 2018 and settles all payable or receivable balances quarterly.

The table below presents the impact of this transaction by line item in the Company's statements of assets, liabilities, surplus and other funds and on the summary of operations:

	Balance as of December 31, 2018
Statutory Statements of Assets, Liabilities and Capital and Surplus	
Funds withheld	$ 60

Increase (Decrease) (in millions)	Initial Accounting	As of and Year Ended December 31, 2017	As of and Year Ended December 31, 2018	Total
Statutory Statement of Operations				
Premiums and annuity considerations	$ (592)	$ -	$ -	$ (592)
Commissions and expense allowances	-	-	-	-
Reserve adjustments on reinsurance ceded	592	(150)	57	499
Total revenues	-	(150)	57	(93)
Death benefits	-	-	-	-
Annuity benefits	-	(15)	(14)	(29)
Surrender benefits	-	-	-	-
Other benefits	-	(37)	(34)	(71)
Other expenses	-	-	-	-
Total benefits and expenses	-	(52)	(48)	(100)
Net gain from operations before dividends to policyholders and federal income taxes	-	(98)	105	7
Dividends to policyholders	-	-	-	-
Net gain from operations after dividends to policyholders and before federal income taxes	$ -	$ (98)	$ 105	$ 7

14. FEDERAL INCOME TAXES

U.S. Tax Reform Overview

On December 22, 2017, the United States enacted Public Law 115-97, known as the Tax Cuts and Jobs Act ("the Tax Act"). The Tax Act reduced the statutory rate of U.S. federal corporate income tax to 21 percent and enacted numerous other changes impacting the Company.

Consistent with Staff Accounting Bulletin No. 118 released by the Securities and Exchange Commission, the NAIC issued INT 18-01: Updated Tax Estimates under the Tax Cuts and Jobs Act ("INT 18-01"), which provided guidance on statutory accounting for the tax effects of the Tax Act. INT 18-01 addressed situations where accounting for certain income tax effects of the Tax Act under SSAP 101, Income Taxes, ("SSAP 101") may be incomplete upon issuance of an entity's financial statements and provides a one-year measurement period from enactment date to complete the accounting under SSAP 101. In accordance with INT 18-01, a company was required to reflect the following:

- Income tax effects of those aspects of the Tax Act for which accounting under SSAP 101 is complete.
- Provisional estimate of income tax effects of the Tax Act to the extent accounting is incomplete but a reasonable estimate is determinable.
- If a provisional estimate cannot be determined, SSAP 101 should still be applied on the basis of tax law provisions that were in effect immediately before the enactment of the Tax Act.

At December 31, 2017, the Company originally recorded a provisional estimate of income tax effects of the Tax Act of $267 million attributable to the reduction in the U.S. corporate income tax. The Company's provisional estimate was based in part on a reasonable estimate of the effects of the statutory income tax rate reduction on existing deferred tax balances and of certain provisions of the Tax Act. The Company filed its 2017 consolidated U.S. income tax return and has completed its review of the primary impact of the Tax Act provisions on its deferred taxes. As a result, the Company considers the accounting for the effects of the rate change on deferred tax balances to be complete and no material measurement period changes were recorded for this item. As further guidance is issued by the U.S. tax authority, any resulting changes in the Company's estimates will be treated in accordance with the relevant accounting guidance.

The Tax Act includes provisions for Global Intangible Low-Taxed Income ("GILTI"), under which taxes on foreign income are imposed on the excess of a deemed return on tangible assets of foreign corporations and for Base Erosion and Anti-Abuse Tax ("BEAT"), under which taxes are imposed on certain base eroding payments to affiliated foreign companies. There are substantial uncertainties in the interpretation of BEAT and GILTI and while certain formal guidance was issued by the U.S. tax authority, there are still aspects of the Tax Act that remain unclear and additional guidance is expected in 2019. Such guidance may result in changes to the interpretations and assumptions the Company made and actions the Company may take, which may impact amounts recorded with respect to international provisions of the Tax Act, possibly materially. Consistent with accounting guidance, the Company treats BEAT as a period tax charge in the period the tax is incurred and has made an accounting policy election to treat GILTI taxes in a similar manner. No provision for income tax related to GILTI or BEAT was recorded as of December 31, 2018.

Tax effects for which a reasonable estimate can be determined

Provisions Impacting Life Insurance Companies

The Tax Act modified computations of insurance reserves for Life insurance companies. Specifically, the Act directs that tax reserves be computed with reference to the NAIC reserves. Adjustments related to the differences in insurance reserves balances computed historically versus under the Tax Act have to be taken into income over eight years. Accordingly, these changes give rise to new deferred tax liabilities. At December 31, 2017, the Company recorded a provisional estimate of $14 million with respect to such deferred tax assets. This increase in deferred tax assets was

offset by an increase in the deferred tax liabilities related to insurance reserves as a result of applying the new provisions of the Tax Act.

As of December 31, 2018, the Company has completed its review and accounting of the tax reserve computations, and recorded offsetting decreases of $26 million to both deferred tax liabilities and deferred tax assets.

Provisions Impacting Projections of Taxable Income and Admissibility of Deferred Tax Assets

Certain provisions of the Tax Act impact the Company's projections of future taxable income used in analyzing realizability of its deferred tax assets. In certain instances, provisional estimates have been included in the Company's future taxable income projections for these specific provisions to reflect application of the new tax law. The Company does not currently anticipate that its reliance on provisional estimates would have a material impact on its determination of realizability of its deferred tax assets.

Tax effects for which no estimate can be determined

The Tax Act may affect the results in certain investments and partnerships in which the Company is a non-controlling interest owner. At December 31, 2017, the information needed to determine a provisional estimate was not available (such as for interest deduction limitations in those entities and the changed definition of a U.S. Shareholder), and accordingly, no provisional estimates were recorded. The Company has since completed its review of these investments and partnerships. The Company considers the accounting for this item to be complete and no measurement period change was recorded.

U.S. Tax Reform – INT 18-01 Measurement Period Completion

As of December 31, 2018, the Company has fully completed its accounting for the tax effects of the Tax Act. Although the prescribed measurement period has ended, there are aspects of the Tax Act that remain unclear and additional guidance from the U.S. tax authority is pending. As further guidance is issued by the U.S. tax authority, any resulting changes in the Company's estimates will be treated in accordance with the relevant accounting guidance.

The following table presents the components of the net deferred tax assets and liabilities:

	December 31, 2018			December 31, 2017			Change		
(in millions)	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Gross DTA	**$ 317**	**$ 226**	**$ 543**	$ 248	$ 238	$ 486	$ 69	$ (12)	$ 57
Statutory valuation allowance adjustment	**-**	**54**	**54**	-	-	-	-	54	54
Adjusted gross DTA	**317**	**172**	**489**	248	238	486	69	(66)	3
DTA non-admitted	**239**	**172**	**411**	165	238	403	74	(66)	8
Net admitted DTA	**78**	**-**	**78**	83	-	83	(5)	-	(5)
DTL	**29**	**-**	**29**	24	-	24	5	-	5
Total	**$ 49**	**$ -**	**$ 49**	$ 59	$ -	$ 59	$ (10)	$ -	$ (10)

The following table presents the ordinary and capital DTA admitted assets as the result of the application of SSAP 101:

	December 31, 2018			December 31, 2017			Change		
(in millions)	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Admission calculation components SSAP 101									
Federal income taxes paid in prior years recoverable through loss carry backs	**$ -**	**$ -**	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -
Adjusted gross DTA expected to be realized (excluding amount of DTA from above) after application of the threshold limitation	**49**	**-**	**49**	59	-	59	(10)	-	(10)
1. Adjusted gross DTA expected to be realized following the reporting date	**49**	**-**	**49**	59	-	59	(10)	-	(10)
2. Adjusted gross DTA allowed per limitation threshold	**-**	**-**	**477**	-	-	490	-	-	(13)
Adjusted gross DTA (excluding the amount of DTA from above) offset by gross DTL	**29**	**-**	**29**	24	-	24	5	-	5
DTA admitted as the result of application of SSAP 101	**$ 78**	**$ -**	**$ 78**	$ 83	$ -	$ 83	$ (5)	$ -	$ (5)

The following table presents the ratio percentage and amount of adjusted capital to determine the recovery period and threshold limitation amount:

	Years ended December 31,	
($ in millions)	**2018**	2017
Ratio percentage used to determine recovery period and threshold limitation amount	**789** %	996 %
Amount of adjusted capital and surplus used to determine recovery period and threshold limitation amount	**$ 3,181**	$ 3,267

The Company has no tax planning strategies used in the determination of adjusted gross DTA's or net admitted DTA's.

The Company's planning strategy does not include the use of reinsurance.

The Company is not aware of any significant DTLs that are not recognized in the statutory financial statements.

The following tables present the major components of the current income tax expense and net deferred tax assets (liabilities):

	Years Ended December 31,		
(in millions)	**2018**	2017	2016
Current income tax expense			
Federal	**$ 189**	$ 218	$ 130
Federal income tax on net capital gains (losses)	**(9)**	(48)	46
Federal income tax incurred	**$ 180**	$ 170	$ 176

	Years Ended December 31,		
(in millions)	**2018**	2017	Change
Deferred tax assets:			
Ordinary:			
Policyholder reserves	**$ 98**	$ 32	$ 66
Investments	**31**	48	(17)
Deferred acquisition costs	**8**	8	-
Fixed assets	**115**	94	21
Compensation and benefits accrual	**-**	3	(3)
Tax credit carryforward	**61**	62	(1)
Other (including items less than 5% of total ordinary tax assets)	**4**	1	3
Subtotal	**317**	248	69
Non-admitted	**239**	166	73
Admitted ordinary deferred tax assets	**78**	82	(4)
Capital:			
Investments	**226**	238	(12)
Subtotal	**226**	238	(12)
Statutory valuation allowance adjustment	**54**	-	54
Non-admitted	**172**	238	(66)
Admitted capital deferred tax assets	**-**	-	-
Admitted deferred tax assets	**78**	82	(4)
Deferred tax liabilities:			
Ordinary:			
Investments	**19**	10	9
Policyholder reserves	**10**	14	(4)
Other (including items less than 5% of total ordinary tax liabilities)	**-**	-	-
Subtotal	**29**	24	5
Capital:			
Other (including items less than 5% of total capital tax liabilities)	**-**	-	-
Subtotal	**-**	-	-
Deferred tax liabilities	**29**	24	5
Net deferred tax assets (liabilities)	**$ 49**	$ 58	$ (9)

The change in net deferred income taxes is comprised of the following (this analysis is exclusive of non-admitted assets as the change in non-admitted assets and the change in net deferred income taxes are reported in separate components of capital and surplus):

	Years Ended December 31,		
(in millions)	**2018**	2017	Change
Total adjusted deferred tax assets	**$ 489**	$ 486	$ 3
Total deferred tax liabilities	**29**	24	5
Net adjusted deferred tax assets	**$ 460**	$ 462	(2)
Tax effect of unrealized capital gains (losses)			(14)
Change in net deferred income tax			$ (16)

The provision for incurred federal taxes is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes. The following table presents the significant items causing this difference:

	December 31, 2018		December 31, 2017		December 31, 2016	
(in millions)	Amount	Effective Tax Rate	Amount	Effective Tax Rate	Amount	Effective Tax Rate
Income tax expense at applicable rate	**$ 181**	**21.0 %**	$ 287	35.0 %	$ 316	35.0 %
Change in valuation adjustment	**54**	**6.3**	(102)	(12.4)	(13)	(1.4)
Dividends received deduction	**(23)**	**(2.7)**	(56)	(6.9)	(81)	(9.1)
Amortization of interest maintenance reserve	**(11)**	**(1.2)**	(9)	(1.1)	(8)	(0.9)
Prior year return true-ups and adjustments	**(8)**	**(0.9)**	(6)	(0.8)	(8)	(0.8)
Change in non-admitted assets	**3**	**0.3**	7	0.9	4	0.4
Impact of Tax Act	**-**	**-**	275	33.4	-	-
Surplus adjustments	**-**	**-**	24	2.9	(1)	(0.2)
Other permanent adjustments	**-**	**-**	5	0.7	-	-
Disregarded entities	**-**	**-**	1	0.1	4	0.5
Separate account income	**-**	**-**	-	-	18	2.0
Expiration of excess capital losses	**-**	**-**	-	-	3	0.4
Statutory income tax expense	**$ 196**	**22.8 %**	$ 426	51.8 %	$ 234	25.9 %
Federal income taxes incurred	**$ 180**	**20.9 %**	$ 171	20.8 %	$ 176	19.5 %
Change in net deferred income taxes	**16**	**1.9**	255	31.0	58	6.4
Statutory income tax expense	**$ 196**	**22.8 %**	$ 426	51.8 %	$ 234	25.9 %

At December 31, 2018, the Company had the following foreign tax credits carryforwards:

(in millions)

Year Expires	Amount
2019	$ 4
2020	8
2021	10
2022	7
2023	8
2024	4
Total	$ 41

At December 31, 2018, the Company had no operating loss carryforwards or capital loss carryforwards.

At December 31, 2018, the Company had the following general business credit carryforwards:

(in millions)

Year Expires	Amount
2027	$ 1
2028	6
2029	4
2030	1
2033	8
Total	$ 20

The following table presents income tax incurred that is available for recoupment in the event of future net losses:

(in millions) December 31,		Capital
2016	$	34
2017		48
2018		-
Total	$	82

In general, realization of DTAs depends on a company's ability to generate sufficient taxable income of the appropriate character within the carryforward periods in the jurisdictions in which the net operating losses and deductible temporary differences were incurred. In accordance with the requirements established in SSAP 101, the Company assessed its ability to realize DTAs of $543 million and concluded that a valuation allowance of $54 million was required at December 31, 2018. Similarly, the Company concluded that no valuation allowance was required on the DTAs of $486 million at December 31, 2017.

The Company had no deposits admitted under Internal Revenue Code Section 6603.

The Company joins in the filing of a consolidated federal income tax return with AIG Parent.

The Company has a written agreement with AIG Parent under which each subsidiary agrees to pay AIG Parent an amount equal to the consolidated federal income tax expense multiplied by the ratio that the subsidiary's separate return tax liability bears to the consolidated tax liability, plus one hundred percent of the excess of the subsidiary's separate return tax liability over the allocated consolidated tax liability. AIG Parent agrees to pay each subsidiary for the tax benefits, if any, of net operating losses, net capital losses and tax credits which are not usable by the subsidiary but which are used by other members of the consolidated group.

The following table presents a reconciliation of the beginning and ending balances of the total amounts of gross unrecognized tax benefits, excluding interest and penalties:

	Years Ended December 31,			
(in millions)		**2018**		2017
Gross unrecognized tax benefits at beginning of year	**$**	**16**	$	19
Increases in tax position for prior years		**1**		-
Decreases in tax position for prior years		**-**		(3)
Gross unrecognized tax benefits at end of year	**$**	**17**	$	16

At December 31, 2018 and 2017, the amounts of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate were $17 million and $16 million, respectively.

Interest and penalties related to unrecognized tax benefits are recognized in income tax expenses. At December 31, 2018 and 2017, the Company had accrued $4 million and $3 million, respectively, for the payment of interest (net of the federal benefit) and penalties. In both 2018 and 2017, the Company recognized expense of less than $1 million of interest (net of the federal benefit) and penalties. In 2016, the Company recognized income of $2 million of interest (net of the federal benefit) and penalties.

The Company regularly evaluates proposed adjustments by taxing authorities. At December 31, 2018, such proposed adjustments would not have resulted in a material change to the Company’s financial condition, although it is possible that the effect could be material to the Company’s results of operations for an individual reporting period. Although it is reasonably possible that a change in the balance of unrecognized tax benefits may occur within the next twelve months, based on the information currently available, the Company does not expect any change to be material to its financial condition.

The Company is currently under Internal Revenue Service (IRS) examination for the taxable years 2007-2013. Although the final outcome of possible issues raised in any future examination are uncertain, the Company believes that the ultimate liability, including interest, will not materially exceed amounts recorded in the financial statements. The Company's taxable years 2001-2018 remain subject to examination by major tax jurisdictions.

15. CAPITAL AND SURPLUS

RBC standards are designed to measure the adequacy of an insurer's statutory capital and surplus in relation to the risks inherent in its business. The RBC standards consist of formulas that establish capital requirements relating to asset, insurance, business and interest rate risks. The standards are intended to help identify companies that are under-capitalized, and require specific regulatory actions in the event an insurer's RBC is deficient. The RBC formula develops a risk-adjusted target level of adjusted statutory capital and surplus by applying certain factors to various asset, premium and reserve items. Higher factors are applied to more risky items and lower factors are applied to less risky items. Thus, the target level of statutory surplus varies not only because of the insurer's size, but also on the risk profile of the insurer's operations. At December 31, 2018, the Company exceeded RBC requirements that would require any regulatory action.

Dividends that the Company may pay to the Parent in any year without prior approval of the TDI are limited by statute. The maximum amount of dividends in a twelve-month period, measured retrospectively from the date of payment, which the Company can pay without obtaining the prior approval of the TDI is limited to the greater of: (1) 10 percent of the Company's statutory surplus as regards to policyholders at the preceding December 31; or (2) the Company's preceding year's statutory net gain from operations. Additionally, unless prior approval of the TDI is obtained, dividends can only be paid out of unassigned surplus. Subject to the TDI requirements, the maximum dividend payout that may be made in 2019 without prior approval of the TDI is $425 million. Dividend payments in excess of positive retained earnings were classified and reported as a return of capital.

Dividends are paid as determined by the Board of Directors and are noncumulative. The following table presents the dividends paid by the Company during 2018, 2017 and 2016:

Date	Type	Cash or Non-cash	Amount (in millions)
2018			
March 27, 2018	Ordinary	Cash	**$ 49**
June 26,2018	Ordinary	Cash	**100**
September 24,2018	Ordinary	Cash	**100**
December 26,2018	Ordinary	Cash	**400**
2017			
March 30, 2017	Return of Capital	Cash	$ 23
March 30, 2017	Extraordinary	Cash	2
June 29, 2017	Extraordinary	Cash	114
September 28,2017	Extraordinary	Cash	140
December 26, 2017	Extraordinary	Cash	90

16. RETIREMENT PLANS AND SHARE-BASED AND DEFERRED COMPENSATION PLANS

The Company does not directly sponsor any defined benefit or defined contribution plans and does not participate in any multi-employer plans.

Employee Retirement Plan

The Company's employees participate in various AIG Parent-sponsored defined benefit pension and postretirement plans. AIG Parent, as sponsor, is ultimately responsible for the maintenance of these plans in compliance with applicable laws. The Company is not directly liable for obligations under these plans; its obligation results from AIG Parent's allocation of the Company's share of expenses from the plans based on participants' earnings for the pension plans and on estimated claims less contributions from participants for the postretirement plans.

Effective January 1, 2016, the U.S. defined benefit pension plans were frozen. Consequently, these plans are closed to new participants and current participants no longer earn benefits. However, interest credits continue to accrue on the existing cash balance accounts and participants are continuing to accrue years of service for purposes of vesting and early retirement eligibility and subsidies as they continue to be employed by AIG Parent and its subsidiaries.

The following table presents information about employee-related costs (expense credits) allocated to the Company:

	Years ended December 31,		
(in millions)	**2018**	2017	2016
Defined benefit plans	**$ (10)**	$ (3)	$ 1

Defined Contribution Plan

AIG Parent sponsors a 401(k) plan which provides for pre-tax salary reduction contributions by its U.S. employees. The Company made matching contributions of 100 percent of the first six percent of participant contributions, subject to IRS-imposed limitations.

Effective January 1, 2016, AIG Parent provides participants in the plan an additional fully vested, non-elective, non-discretionary employer contribution equal to three percent of the participant's annual base compensation for the plan year, paid each pay period regardless of whether the participant currently contributes to the plan, and subject to the IRS-imposed limitations.

The Company's pre-tax expense associated with this plan were $19 million, $18 million and $17 million in 2018, 2017 and 2016, respectively.

Share-based and Deferred Compensation Plans

During 2016 and 2015, certain Company employees were granted performance share units under the AIG Parent 2013 Long Term Incentive Plan that provide them the opportunity to receive shares of AIG Parent common stock base on AIG Parent achieving specified performance goals at the end of a three-year performance period and the employee satisfies service requirements. The Company recognized compensation expense of $8 million per year for 2018 and 2017. The Company recognized compensation expense of $4 million for 2016.

Prior to 2013, some of the Company's officers and key employees were granted restricted stock units and stock appreciation rights that provide for cash settlement linked to the value of AIG Parent common stock if certain requirements were met. The Company did not recognize any expense for unsettled awards during both 2018 and 2017.

17. DEBT

The Company is a member of the FHLB of Dallas.

Membership with the FHLB provides the Company with collateralized borrowing opportunities, primarily as an additional source of liquidity or for other uses deemed appropriate by management. The Company's ownership in the FHLB stock is reported as common stock. Pursuant to the membership terms, the Company elected to pledge such stock to the FHLB as collateral for the Company's obligations under agreements entered into with the FHLB.

Cash advances obtained from the FHLB are reported in and accounted for as borrowed money. The Company may periodically obtain cash advances on a same-day basis, up to a limit determined by management and applicable laws. The Company is required to pledge certain mortgage-backed securities, government and agency securities and other qualifying assets to secure advances obtained from the FHLB. To provide adequate collateral for potential advances, the Company has pledged securities to the FHLB in excess of outstanding borrowings. Upon any event of default by the Company, the recovery by the FHLB would generally be limited to the amount of the Company's liability under advances borrowed.

The following table presents the aggregate carrying value of stock held with the FHLB of Dallas and the classification of the stock:

	December 31,	
(in millions)	**2018**	2017
Membership stock - Class B	**$ 7**	$ 7
Activity stock	**9**	-
Excess stock	**-**	2
Total	**$ 16**	$ 9
Actual or estimated borrowing capacity as determined by the insurer	**$ 2,547**	$ 2,639

The Company did not hold any Class A at either December 31, 2018 or 2017.

The following table presents the amount of collateral pledged, including FHLB common stock held, to secure advances from the FHLB:

	December 31, 2018		December 31, 2017	
(in millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Amount pledged	**$ 486**	**$ 484**	$ 142	$ 145
Maximum amount pledged during reporting period	**$ 488**	**$ 478**	$ 170	$ 173

The Company's borrowing capacity determined quarterly based upon the borrowing limit imposed by statute in the state of domicile.

The following table presents the outstanding funding agreement amounts and maximum borrowings from the FHLB:

	December 31,	
(in millions)	**2018**	2017
Maximum amount borrowed during reporting period	**$ 214**	$ 20

While the funding agreements are presented herein to show all amounts received from the FHLB, the funding agreements are treated as deposit-type contracts, consistent with the other funding agreements for which the Company's intent is to earn a spread and not to fund operations. There were no advances taken by the Company as debt which were outstanding at December 31, 2018 and 2017.

On February 15, 2018, the Company entered into a funding agreement with FHLB of Dallas in the amount of $209 million for a 10-year term with a floating interest rate.

18. COMMITMENTS AND CONTINGENCIES

Commitments

The Company had commitments to provide funding to various limited partnerships totaling $206 million and $119 million at December 31, 2018 and 2017, respectively. The commitments to invest in limited partnerships and other funds are called at the discretion of each fund, as needed and subject to the provisions of such fund's governing documents, for funding new investments, follow-on investments and/or fees and other expenses of the fund. Of the total commitments at December 31, 2018, $134 million are currently expected to expire in 2019 and the remainder by 2020, based on the expected life cycle of the related fund, and the Company's historical funding trends for such commitments.

At December 31, 2018 and 2017, the Company had $281 million and $166 million, respectively, of outstanding commitments related to various funding obligations associated with its investments in commercial mortgage loans. Of the total current commitments, $163 million are expected to expire in 2019 and the remainder by 2025, based on the expected life cycle of the related loans, and the Company's historical funding trends for such commitments.

The Company has various long-term, noncancelable operating leases, primarily for office space and equipment, which expire at various dates over the next several years. At December 31, 2018, the future minimum lease payments under the operating leases are as follows:

(in millions)		
2019	$	3
2020		3
2021		2
2022		3
2023		1
Remaining years after 2023		-
Total	$	12

Rent expense was $3 million at 2018, 2017 and 2016.

Contingencies

Legal Matters

At December 31, 2018, the Company was defending an appeal in respect of a lawsuit filed in the Circuit Court of Kanawha County, West Virginia on November 12, 2009 by The West Virginia Investment Management Board and The West Virginia Consolidated Public Retirement Board (the "WV Boards"). The litigation concerns a contractual dispute regarding whether the WV Boards were entitled in 2008 to the immediate and complete withdrawal of funds invested in an annuity product issued by VALIC. The WV Boards asserted damages in excess of $100,000,000. In 2016, the parties stipulated to resolve the matter through final and non-appealable arbitration before an arbitration panel composed of three West Virginia Business Court judges. The panel issued its decision on April 28, 2017, and no recovery was awarded to the WV Boards. Thereafter, the claims against VALIC were dismissed and the Company's accrual for this contingent liability was reversed. In May 2017, notwithstanding the parties' stipulation that the arbitral decision would be final and non-appealable, the WV Boards appealed the arbitration decision to the West Virginia Supreme Court of Appeals. The appeal was denied on July 5, 2018, and the WV Boards' motion for reconsideration was denied on November 14, 2018. The WV Boards have not appealed further, and the matter is concluded.

Various lawsuits against the Company have arisen in the ordinary course of business. The Company believes it is unlikely that contingent liabilities arising from such lawsuits will have a material adverse effect on the Company's financial position, results of operations or cash flows.

Regulatory Matters

All fifty states and the District of Columbia have laws requiring solvent life insurance companies, through participation in guaranty associations, to pay assessments to protect the interests of policyholders of insolvent life insurance companies. These state insurance guaranty associations generally levy assessments, up to prescribed limits, on member insurers in a particular state based on the proportionate share of the premiums written by member insurers in the lines of business in which the impaired, insolvent or failed insurer is engaged. Such assessments are used to pay certain contractual insurance benefits owed pursuant to insurance policies issued by impaired, insolvent or failed insurers. Some states permit member insurers to recover assessments paid through full or partial premium tax offsets. The Company accrues liabilities for guaranty fund assessments when an assessment is probable and can be reasonably estimated. The Company estimates the liability using the latest information available from the National Organization of Life and Health Insurance Guaranty Associations. While the Company cannot predict the amount and timing of any future guaranty fund assessments, the Company has established reserves it believes are adequate for assessments relating to insurance companies that are currently subject to insolvency proceedings.

The Company had accrued $8 million for these guarantee fund assessments at December 31, 2018 and 2017. The Company had receivables of $3 million at December 31, 2018 and 2017, for expected recoveries against the payment of future premium taxes.

The Company is not subject to the risk-sharing provisions of the Affordable Care Act.

Various federal, state or other regulatory agencies may from time to time review, examine or inquire into the operations, practices and procedures of the Company, such as through financial examinations, subpoenas, investigations, market conduct exams or other regulatory inquiries. Based on the current status of pending regulatory examinations, investigations, and inquiries involving the Company, the Company believes it is not likely that these regulatory examinations or inquiries will have a material adverse effect on the financial position, results of operations or cash flows of the Company.

The Company provides products and services that are subject to the Employee Retirement Income Security Act of 1974, as amended (ERISA), or the Internal Revenue Code of 1986, as amended (the Internal Revenue Code). Plans subject to ERISA include certain pension and profit sharing plans and welfare plans, including health, life and disability plans. As a result, the Company's activities are subject to the restrictions imposed by ERISA and the Internal Revenue Code, including the requirement under ERISA that fiduciaries must perform their duties solely in the interests of ERISA plan participants and beneficiaries, and that, fiduciaries may not cause a covered plan to engage in certain prohibited transactions.

The SEC, federal and state lawmakers and state insurance regulators continue their efforts at evaluating what is an appropriate regulatory framework around a standard of care for the sale of investment products and services. For example, on April 18, 2018, the SEC proposed a package of rulemakings and interpretations designed to address the standard of care issues and the transparency of retail investors' relationships with investment advisors and broker-dealers. Additionally, on July 18, 2018, the New York State Department of Financial Services adopted a best interest standard of care regulation applicable to annuity and life transactions through issuance of the First Amendment to Insurance Regulation 187 – Suitability and Best Interests in Life Insurance and Annuity Transactions (Regulation 187). The compliance date for Regulation 187 is August 1, 2019 for annuity products and February 1, 2020 for life products. As amended, Regulation 187 requires producers to act in their client's best interest when making point-of-sale and inforce recommendations, and provide in writing the basis for the recommendation, as well as the facts and analysis to support the recommendation. The amended regulation also imposes additional duties on life insurance companies in relation to these transactions, such as requiring insurers to establish and maintain procedures designed to prevent financial exploitation and abuse. The Company will implement and enhance processes and procedures, where needed, to comply with this regulation. Other states, such as Nevada, Maryland and New Jersey, have also proposed similar standard of care regulations applicable to insurance producers and/or insurance companies. The Company continues to closely follow these proposals and other relevant federal and state-level regulatory and legislative developments in this area. While management cannot predict the long-term impact of these developments on the Company's businesses, the Company believes its diverse product offerings and distribution relationships position the Company to compete effectively in this evolving marketplace.

19. RELATED PARTY TRANSACTIONS

Events Related to AIG Parent

AIG Parent formed Fortitude Group Holdings, LLC (Fortitude Holdings) to act as a holding company for Fortitude Re. On November 13, 2018, AIG Parent completed the sale of a 19.9 percent ownership interest in Fortitude Holdings to TC Group Cayman Investment Holdings, L.P. (TCG), an affiliate of The Carlyle Group L.P. (Carlyle) (the Fortitude Re Closing). Fortitude Holdings owns 100 percent of the outstanding common shares of Fortitude Re and AIG Parent has an 80.1 percent ownership interest in Fortitude Holdings. In connection with the sale, AIG Parent agreed to certain investment commitment targets into various Carlyle strategies and to certain minimum investment management fee payments within thirty-six months following the Fortitude Re Closing. AIG Parent also will be required to pay a proportionate amount of an agreed make-whole fee to the extent AIG Parent fails to satisfy such investment commitment targets. In connection with the Fortitude Re Closing, the Company's insurance company subsidiaries, AGL and USL, have each also entered into an investment management agreement with a Carlyle affiliate pursuant to which such subsidiary retained the Carlyle affiliate to manage certain assets in its general account investment portfolio.

AIG Parent continues to execute initiatives focused on organizational simplification, operational efficiency, and business rationalization. In keeping with AIG's broad and ongoing efforts to transform for long-term competitiveness, AIG Parent recognized restructuring costs of $395 million, $413 million and $694 million of pre-tax restructuring and other costs in 2018, 2017 and 2016, respectively, primarily comprised of employee severance charges.

Additional information on AIG Parent is publicly available in AIG Parent's regulatory filings with the SEC, which can be found at www.sec.gov. Information regarding AIG Parent as described herein is qualified by regulatory filings AIG Parent files from time to time with the SEC.

Selkirk Transactions

During 2013 and 2014, the Company entered into securitization transactions in which portfolios of the Company's commercial mortgage loans were transferred to special purpose entities, with the Company retaining a significant beneficial interest in the securitized loans. As consideration for the transferred loans, the Company received beneficial interests in certain special purpose entities and cash proceeds from the securitized notes issued to third party investors by other special purpose entities. The transfer was accounted for as a sale and the Company derecognized the commercial mortgage loans transferred. The beneficial interests in loan-backed and structured securities and equity interests received by the Company were initially recognized at fair value as unaffiliated investments, as these securities are non-recourse to the issuer, and interest and principal payments are dependent upon the cash flows from the underlying unaffiliated mortgage loans.

Lighthouse VI

During 2013, the Company, along with an affiliate, executed three transactions in which a portfolio of securities was, in each transaction, transferred into a newly established Common Trust Fund (CTF) in exchange for proportionate interests in all assets within each CTF as evidenced by specific securities controlled by and included within the Company's Representative Security Account (RSA).

In each transaction, a portion of the Company's securities were transferred to the RSA of the affiliate, AGL, in exchange for other AGL securities.

Ambrose

During 2012, 2013 and 2014, the Company entered into securitization transactions in which the Company transferred portfolios of high grade corporate securities, and structured securities acquired from AIG, to newly formed special purpose entities (the Ambrose entities). As consideration for the transferred securities, the Company received beneficial interests in tranches of structured securities issued by each Ambrose entity. These structured securities were designed to closely replicate the interest and principal amortization payments of the transferred securities.

The Ambrose entities received capital commitments from a non-U.S. subsidiary of AIG, which are guaranteed by AIG. Pursuant to these capital commitments, the promissor will contribute funds to the respective Ambrose entity upon demand.

These capital commitments received by the Ambrose entities range from $200 million to $400 million per entity.

American Home Guarantee

The Company has a General Guarantee Agreement with American Home Assurance Company (American Home), an indirect wholly owned subsidiary of AIG Parent. Pursuant to the terms of the agreement, American Home has unconditionally and irrevocably guaranteed insurance policies that the Company issued between March 3, 2003 and December 29, 2006. American Home's audited statutory financial statements are filed with the SEC in the Company's registration statements for variable products that are subject to the Guarantee.

Affiliated Transactions

The Company purchases or sells securities, at fair market value, to or from affiliates in the ordinary course of business.

In 2018, the Company and several of its U.S. insurance company affiliates restructured their respective ownership interests in certain real estate equity investments previously originated by an affiliate, AIG Global Real Estate Investment Corp. (including its investment management affiliates, "AIGGRE"), by contributing such interests to three separate real estate investment funds managed by AIGGRE – AIGGRE U.S. Real Estate Fund I, LP ("U.S. Fund I"), AIGGRE U.S. Real Estate Fund II, LP ("U.S. Fund II" and, together with U.S. Fund I, the "U.S. Funds"), and AIGGRE Europe Real Estate Fund I S.C.SP ("Europe Fund I"). The U.S. Funds each closed on November 1, 2018. In connection with the closing of U.S. Fund I, the Company made a capital commitment to the fund of up to $36 million (representing approximately 3% equity interest therein), and contributed to the fund the Company's interests in certain real estate equity investments with an aggregate fair value of approximately $66 million and received a cash payment from the fund of approximately $42 million. In connection with the closing of U.S. Fund II, the Company made a capital commitment to the fund of up to $108 million (representing approximately 4% equity interest therein), and contributed to the fund the Company's interests in certain real estate equity investments with an aggregate fair value of approximately $148.9 million and received a cash payment from the fund of approximately $65.7 million. Further, Europe Fund I closed on November 2, 2018. In connection with the closing of Europe Fund I, the Company made a capital commitment to the fund of up to $19.6 million (representing approximately 3% equity interest therein), and contributed to the fund the Company's interests in certain real estate equity investments with an aggregate fair value of approximately $19.2 million and received a cash payment from the fund of approximately $6.3 million.

As a result of this transaction, the Company received equity in the Funds equaling the fair value of the assets transferred. The transfer is accounted for at fair value with any gain deferred until permanence of transfer of risk and rewards can be established. Any loss is recognized immediately, if any. The difference between the carrying value of the assets transferred and consideration received is recorded as a basis difference, which will be admitted subject to applicable limits and amortized over the duration of the Funds.

At December 31, 2018, the Company's unfunded capital commitment to U.S. Fund I, U.S. Fund II and Europe Fund I were approximately $11.9 million, $23.3 million and $8.9 million, respectively.

In December 2018, The USL transferred bonds to the Company, with an aggregate fair market value of $210 million, in exchange for bonds, leveraged loans and cash of equivalent value. These exchanges were intended to better balance investment risks and returns between the Company and this affiliate.

In July 2018, the Company purchased from AGL and USL securities with an aggregate fair market value of $648 million and $29 million, respectively, in exchange for cash.

In February 2018, the Company executed a Modified Coinsurance (ModCo) Agreement with Fortitude Reinsurance Company, Ltd (FRL), (formerly DSA Reinsurance Company Limited), an AIG subsidiary and registered Class 4 and Class E reinsurer in Bermuda. See Note 13 for additional information regarding this reinsurance transaction.

In October 2017, the Company's subsidiary, AIG Home Loan 3, transferred a portfolio of U.S. residential mortgage loans with a carrying value of approximately $165 million to a newly formed special purpose vehicle. The transaction involved securitization of the transferred loans and the special purpose vehicle issued residential mortgage-backed securities. The residential mortgage-backed securities purchased by the Company from the special purpose vehicle are accounted for as non-affiliated securities and are valued and reported in accordance with the designation assigned by the NAIC Securities Valuation Office and SSAP 43 - Revised – Loan-Backed and Structured Securities.

In May 2017, the Company's wholly owned subsidiary, AIG Home Loan 3, LLC, transferred certain residential mortgage loans (RMLs) to the Company as a return of capital distribution. The RMLs were recorded by the Company in the amount of $525 million, which was the loans' adjusted carrying value at the time of transfer. Prior to the transfer, the RMLs were indirectly owned by the Company through its investment in AIG Home Loan 3, LLC, which was reported on Schedule BA. After the transfer, the RMLs are directly owned by the Company and reported as Schedule B assets.

In February 2017, the Company purchased commercial mortgage loans from certain affiliated AIG domestic property casualty insurance companies for initial cash consideration totaling approximately $197 million, based on the outstanding principal balance of each loan, which was ultimately trued up to fair value based on underlying property appraisals and valuations.

In January and February 2017, the Company purchased investment grade private placement bonds from certain affiliated AIG domestic property casualty insurance companies, at fair market value, for cash consideration totaling approximately $220 million.

On September 27, 2016, the Company purchased securities from its affiliate AGL, at fair market value, for total cash consideration of $508 million.

During 2016, the Company transferred certain hedge fund and private equity investments at fair market value to American Home, in exchange for cash and marketable securities totaling $421 million, as part of an initiative to improve asset-liability management in AIG's domestic life and property casualty insurance companies.

Financing Agreements

On January 1, 2015, the Company and certain of its affiliates entered into a revolving loan facility with AIG Parent, in which the Company and each such affiliate can borrow monies from AIG Parent subject to certain terms and conditions. Principal amounts borrowed under this facility may be repaid and re-borrowed, in whole or in part, from time to time, without penalty. However, the total aggregate amount of loans borrowed by all borrowers under the facility cannot exceed $500 million. The loan facility also sets forth individual borrowing limits for each borrower, with the Company's maximum borrowing limit being $500 million.

At December 31, 2018 and 2017, the Company did not have any amounts outstanding under the facility.

Investments in Subsidiary, Controlled and Affiliated

The following table presents information regarding the Company's investments in non-insurance SCA entities as of December 31, 2018:

(in millions)	Gross Amount	Non-admitted Amount	Admitted Asset Amount	Date of NAIC Filing
VALIC Finl Advisors Inc	$ 88	$ 88	$ -	April 30, 2018
AIG Home Loan 3, LLC	77	-	77	Not Applicable
Selkirk No. 2 Investments	12	-	12	Not Applicable
Selkirk No. 3V Investments	2	-	2	Not Applicable
Total	$ 179	$ 88	$ 91	

Operating Agreements

Pursuant to service and expense agreements, AIG and affiliates provide, or cause to be provided, administrative, marketing, investment management, accounting, occupancy, and data processing services to the Company. The allocation of costs for services is based generally on estimated levels of usage, transactions or time incurred in providing the respective services. Generally, these agreements provide for the allocation of costs upon either the specific identification basis or a proportional cost allocation basis which management believes to be reasonable. In all cases, billed amounts pursuant to these agreements do not exceed the cost to AIG or the affiliate providing the service. The Company was charged $332 million, $291 million and $270 million as part of the cost sharing expenses attributed to the Company but incurred by AIG Parent and affiliates in 2018, 2017 and 2016, respectively.

Pursuant to an amended and restated investment advisory agreement, the majority of the Company's invested assets are managed by an affiliate. The investment management fees incurred were $38 million, $38 million and $36 million in 2018, 2017 and 2016 respectively.

20. SUBSEQUENT EVENTS

Management considers events or transactions that occur after the reporting date, but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosures. The Company has evaluated subsequent events through April 22, 2019, the date the financial statements were issued.

In January 2019, VALIC and several of its U.S. insurance company affiliates established AIGGRE U.S. Real Estate Fund III, LP ("U.S. Fund III"), a real estate investment fund managed by AIGGRE. At the closing of U.S. Fund III on January 2, 2019, the Company made a capital commitment to the fund of up to $296 million, which represents approximately 19.7% equity interests in the fund. In connection with the closing of U.S. Fund III, the Company contributed to the fund its interests in certain real estate equity investments with an aggregate fair value of approximately $63.6 million and received a cash payment of approximately $16.8 million. The Company's unfunded capital commitment to U.S. Fund III at January 2, 2019, upon the closing of U.S. Fund III, was approximately $249.2 million.

21. LOAN-BACKED AND STRUCTURED SECURITY IMPAIRMENTS AND STRUCTURED NOTES HOLDINGS

LBaSS

The following table presents the LBaSS held by the Company at December 31, 2018 for which it had recognized non-interest related OTTI subsequent to the adoption of SSAP 43R:

(in thousands)

CUSIP	Amortized Cost Before Current Period OTTI	Present Value of Projected Cash Flows	Recognized OTTI	Amortized Cost After OTTI	Fair Value at Time of OTTI	Date of Financial Statement Where Reported
43710EAD2	$ 1,138	$ 1,113	$ 25	$ 1,113	$ 1,077	3/31/2018
65538DAA3	7,898	7,704	194	7,704	7,067	3/31/2018
Quarterly Total	**$ 9,036**	**$ 8,817**	**$ 219**	**$ 8,817**	**$ 8,144**	
94983KAA7	$ 43,897	$ 43,820	$ 77	$ 43,820	$ 43,130	6/30/2018
88522EAC7	5,368	5,117	251	5,117	5,343	6/30/2018
15132EFM5	323	219	104	219	109	6/30/2018
007036UQ7	2,693	2,610	83	2,610	2,630	6/30/2018
452550AB2	8,927	8,856	71	8,856	8,919	6/30/2018
69371VBH9	1,043	1,004	39	1,004	1,036	6/30/2018
Quarterly Total	**$ 62,251**	**$ 61,626**	**$ 625**	**$ 61,626**	**$ 61,167**	
264407AA5	$ 15,582	$ 13,465	$ 2,117	$ 13,465	$ 12,110	9/30/2018
52109PAJ4	19,048	13,958	5,090	13,958	14,055	9/30/2018
22541QYX4	319	40	279	40	221	9/30/2018
45669BAA0	7,733	5,646	2,087	5,646	7,692	9/30/2018
02660TCH4	19,344	19,077	267	19,077	19,093	9/30/2018
225470UK7	4,890	4,736	154	4,736	4,873	9/30/2018
761118LK2	5,325	5,300	25	5,300	5,207	9/30/2018
161546DU7	1,356	1,352	4	1,352	1,344	9/30/2018
12669DVU9	797	705	92	705	512	9/30/2018
55265K3E7	1,017	1,009	8	1,009	1,016	9/30/2018
12652CBB4	5,170	5,163	7	5,163	4,890	9/30/2018
12652CBC2	1,778	1,772	6	1,772	1,720	9/30/2018
Quarterly Total	**$ 82,359**	**$ 72,223**	**$ 10,136**	**$ 72,223**	**$ 72,733**	
45254NQX8	$ 14,825	$ 14,620	$ 205	$ 14,620	$ 13,305	12/31/2018
86360QAA3	77,943	76,738	1,205	76,738	76,095	12/31/2018
933634AG2	3,658	3,650	8	3,650	3,621	12/31/2018
12637HAP3	31,073	30,879	194	30,879	29,310	12/31/2018
855541AC2	10,256	10,093	163	10,093	10,106	12/31/2018
46628FAN1	1,049	642	407	642	1,023	12/31/2018
12669DPS1	867	683	184	683	471	12/31/2018
22541QR87	1,669	1,554	115	1,554	1,311	12/31/2018
151314GG0	1,570	1,564	6	1,564	1,516	12/31/2018
760985TN1	1,019	1,015	4	1,015	978	12/31/2018
12669FK85	646	564	82	564	447	12/31/2018
126694JT6	4,719	4,628	91	4,628	4,708	12/31/2018
126670QT8	80,853	80,455	398	80,455	79,776	12/31/2018
16163HAE1	2,890	2,528	362	2,528	2,688	12/31/2018
05946XR62	2,726	2,700	26	2,700	2,697	12/31/2018
12641NBA6	13,332	12,705	627	12,705	13,196	12/31/2018
92922F5W4	2,894	2,889	5	2,889	2,862	12/31/2018
693680BG4	1,686	1,673	13	1,673	1,569	12/31/2018
225458X29	935	886	49	886	923	12/31/2018
Quarterly Total	**$ 254,610**	**$ 250,466**	**$ 4,144**	**$ 250,466**	**$ 246,602**	
		Year-end total	**$ 15,124**			

Structured Notes

The following table presents the structured notes held by the Company at December 31, 2018:

(in thousands)

CUSIP	Actual Cost	Fair Value	Book/Adjusted Carrying Value
03350FAA4	$ 506	$ 448	$ 505
05565AAB9	4,120	4,080	4,114
05954TAJ0	723	719	703
06051GGM5	73,091	68,493	73,036
111021AE1	5,940	5,410	5,521
13643EAA3	5,446	5,727	5,286
21987DAB0	15,479	14,963	15,391
225401AF5	9,000	8,373	9,000
23311PAA8	642	579	642
25156PAC7	5,570	5,217	5,214
30711XCL6*	10,500	12,034	10,500
61744YAP3	11,000	10,525	11,000
35177PAL1	3,779	3,792	3,562
38148YAA6	25,061	23,002	25,085
46647PAJ5	58,353	52,675	58,339
46647PAL0	9,696	9,294	9,702
539439AQ2	19,000	16,901	19,000
59156RAP3	114	113	114
61744YAK4	7,000	6,619	7,000
61744YAL2	42,064	38,273	42,061
337358BH7	10,589	10,419	10,504
726503AE5	411	360	411
780097BG5	6,000	5,727	6,000
78009PEH0	25,000	24,107	25,000
80928HAA1	755	749	755
912810FH6	254	352	276
984121CQ4	703	711	704
G2214RAE1	1,596	1,552	1,571
M88269TJ0	1,443	764	933
Total	**$ 353,835**	**$ 331,978**	**$ 351,929**

* Structured notes held by the Company that are defined as a Mortgage-Referenced Security by the IAO.

Supplemental Information

THE VARIABLE ANNUITY LIFE INSURANCE COMPANY
SUPPLEMENTAL SCHEDULE OF ASSETS AND LIABILITIES

(in millions)		December 31, 2018
Investment income earned:		
Government bonds	$	25
Bonds exempt from U.S. tax		-
Other bonds (unaffiliated)		1,743
Bonds of affiliates		-
Preferred stocks (unaffiliated)		2
Common stocks (unaffiliated)		-
Common stocks of affiliates		30
Cash and short-term investments		2
Mortgage loans		297
Real estate		8
Contract loans		31
Other invested assets		61
Derivative instruments		56
Miscellaneous income		4
Gross investment income	$	2,259
Real estate owned - book value less encumbrances	$	29
Mortgage loans - book value:		
Commercial mortgages	$	6,069
Residential mortgages		571
Mezzanine loans		10
Total mortgage loans	$	6,650
Mortgage loans by standing - book value:		
Good standing	$	6,650
Good standing with restructured terms		-
Interest overdue more than 90 days, not in foreclosure		-
Foreclosure in process		-
Total mortgage loans	$	6,650
Partnerships - statement value	$	-
Bonds and stocks of parents, subsidiaries and affiliates - statement value:		
Bonds	$	-
Common stocks		-
Bonds and short-term investments by class and maturity:		
Bonds and short-term investments by maturity - statement value:		
Due within one year or less	$	2,286
Over 1 year through 5 years		10,197
Over 5 years through 10 years		12,937
Over 10 years through 20 years		7,033
Over 20 years		3,368
Total maturity	$	35,821
Bonds and short-term investments by class - statement value:		
Class 1	$	20,677
Class 2		12,223
Class 3		1,292
Class 4		1,114
Class 5		432
Class 6		83
Total by class	$	35,821
Total bonds and short-term investments publicly traded	$	20,843
Total bonds and short-term investments privately placed		14,978
Preferred stocks - statement value	$	41
Common stocks - market value		21
Short-term investments - book value		46
Options, caps and floors owned - statement value		100
Collar, swap and forward agreements open - statement value		114
Futures contracts open - current value		(2)
Cash on deposit		119

THE VARIABLE ANNUITY LIFE INSURANCE COMPANY
SUPPLEMENTAL SCHEDULE OF ASSETS AND LIABILITIES (Continued)

(in millions)		December 31, 2018
Life insurance in-force:		
Industrial		-
Ordinary	$	2
Credit		-
Group		-
Amount of accidental death insurance in-force under ordinary policies		-
Life insurance policies with disability provisions in-force:		
Industrial		-
Ordinary		-
Group life		-
Supplementary contracts in-force:		
Ordinary - not involving life contingencies:		
Amount on deposit		26
Income payable		-
Ordinary - involving life contingencies:		
Amount on deposit		329
Income payable		-
Annuities:		
Ordinary:		
Immediate - amount of income payable	$	20
Deferred, fully paid - account balance		22,786
Deferred, not fully paid - account balance		-
Group:		
Amount of income payable		14
Fully paid - account balance		17,917
Not fully paid - account balance		-
Accident and health insurance - premiums in-force:		
Other	$	-
Group		-
Credit		-
Deposit funds and dividend accumulations:		
Deposit funds - account balance	$	-
Dividend accumulations - account balance		-
Claim payments in 2018:		
Group accident & health:		
2018	$	-
2017		-
2016		-
2015		-
2014		-
Prior		-
Other accident & health:		
2018		-
2017		-
2016		-
2015		-
2014		-
Prior		-

THE VARIABLE ANNUITY LIFE INSURANCE COMPANY
SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES
DECEMBER 31, 2018

(in millions)

1. The Company's total admitted assets as of December 31, 2018 are $78.5 billion.

The Company's total admitted assets, excluding separate accounts, as of December 31, 2018 are $46.0 billion.

2. Following are the 10 largest exposures to a single issuer/borrower/investment, by investment category, excluding: (i) U.S. Government, U.S. Government agency securities and those U.S. Government money market funds listed in the Appendix to the IAO Practices and Procedures Manual as exempt, (ii) property occupied by the Company, and (iii) policy loans:

	Issuer	Description of Exposure		Amount	Percentage of Total Admitted Assets
a.	The Ambrose Financial Group Inc	BONDS	$	873	1.90%
b.	Ambrose 2013-4	BONDS		858	1.90
c.	JPMORGAN CHASE	BONDS		473	1.00
d.	WELLS FARGO	BONDS		447	1.00
e.	Comm Mortgage Trust	BONDS		380	0.80
f.	Morgan Stanley	BONDS		308	0.70
g.	Varagon Sdlp Senior Note Trust	BONDS		278	0.60
h.	Citigroup	BONDS		207	0.50
i.	Morgan Stanley Bank of America Merrill Lynch Trust	BONDS		176	0.40
j.	California, State of	BONDS		168	0.40

3. The Company's total admitted assets held in bonds and preferred stocks, by NAIC rating, are:

Bonds and Short-Term Investments				Preferred Stocks			
NAIC Rating		Amount	Percentage of Total Admitted Assets	NAIC Rating		Amount	Percentage of Total Admitted Assets
NAIC - 1	$	20,677	45.00 %	P/RP - 1	$	8	- %
NAIC - 2		12,223	26.60	P/RP - 2		27	0.10
NAIC - 3		1,292	2.80	P/RP - 3		-	-
NAIC - 4		1,114	2.40	P/RP - 4		-	-
NAIC - 5		432	0.90	P/RP - 5		6	-
NAIC - 6		83	0.20	P/RP - 6		-	-

4. Assets held in foreign investments:

			Amount	Percentage of Total Admitted Assets
a.	Total admitted assets held in foreign investments	$	9,551	20.80 %
b.	Foreign currency denominated investments		2,185	4.80
c.	Insurance liabilities denominated in that same foreign currency		-	-

(in millions)

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

	Amount	Percentage of Total Admitted Assets
a. Countries rated NAIC - 1	$ 8,274	18.00 %
b. Countries rated NAIC - 2	952	2.10
c. Countries rated NAIC - 3 or below	325	0.70

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

	Amount	Percentage of Total Admitted Assets
a. Countries rated NAIC - 1		
Country 1: United Kingdom	$ 3,066	6.70 %
Country 2: Australia	1,413	3.10
b. Countries rated NAIC - 2		
Country 1: Mexico	192	0.40
Country 2: Peru	107	0.20
c. Countries rated NAIC - 3 or below		
Country 1: Brazil	111	0.20
Country 2: South Africa	92	0.20

7. Aggregate unhedged foreign currency exposure:

	Amount	Percentage of Total Admitted Assets
Aggregate unhedged foreign currency exposure	$ 2,189	4.80 %

8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign rating:

	Amount	Percentage of Total Admitted Assets
a. Countries rated NAIC - 1	$ 2,176	4.70 %
b. Countries rated NAIC - 2	5	-
c. Countries rated NAIC - 3 or below	7	-

(in millions)

9. Two largest unhedged foreign currency exposures to a single country, categorized by the country's NAIC sovereign rating:

		Amount	Percentage of Total Admitted Assets	
a. Countries rated NAIC - 1				
Country 1: United Kingdom	$	1,149	2.50	%
Country 2: Ireland		315	0.70	
b. Countries rated NAIC - 2				
Country 1: Peru		2	-	
Country 2: Mexico		2	-	
c. Countries rated NAIC - 3 or below				
Country 1: Turkey		3	-	
Country 2: Brazil		2	-	

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

	NAIC Rating		Amount	Percentage of Total Admitted Assets	
a. PegasusLife Development Limited	COMMERCIAL MORTGAGE LOAN	$	153	0.30	%
b. Silverstone Master Issuer PLC	NAIC 1		106	0.20	
c. JIB Group Limited	NAIC 2		101	0.20	
d. SWAN FUNDING 2 LIMITED	NAIC 1		100	0.20	
e. DEXUS Funds Management Limited	NAIC 1		96	0.20	
f. GS LONDON PORTFOLIO II UNIT TRUST	COMMERCIAL MORTGAGE LOAN		94	0.20	
g. Cooperatieve Rabobank U.A.	NAIC 1/2		89	0.20	
h. DV4 EADON CO. LIMITED	COMMERCIAL MORTGAGE LOAN		88	0.20	
i. Compass Group PLC	NAIC 1		83	0.20	
j. Fosse Master Issuer PLC	NAIC 1		80	0.20	

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

12. Assets held in investments with contractual sales restrictions are less than 2.5 percent of the Company's total admitted assets.

13. The Company's admitted assets held in the ten largest equity interests (including investments in the shares of mutual funds, preferred stocks, publicly traded equity securities, and other equity securities and excluding money market and bond mutual funds listed in the Appendix to the SVO Practices and Procedures Manual as exempt or Class 1) are:

		Amount	Percentage of Total Admitted Assets	
a. VALIC Financial Advisors, Inc.	$	88	0.20	%
b. AIG Home Loan 3 LLC		77	0.20	
c. Marina		76	0.20	
d. TIGER GLOBAL		70	0.20	
e. Metropark Investor LLC		59	0.10	
f. AIGGRE U.S. Real Estate Fund II LP		53	0.10	
g. Bayshore Shopping Center Investor LLC		51	0.10	
h. Two Creeks Capital Partners LP		29	0.10	
i. Beehive		29	0.10	
j. Centaur Funding Corporation		28	0.10	

14. Assets held in nonaffiliated, privately placed equities:

		Amount	Percentage of Total Admitted Assets	
Aggregate statement value of investment held in nonaffiliated, privately placed equities:	$	175	0.40	%
Largest three investments held in nonaffiliated, privately placed equities:				
a. Marina	$	76	0.20	
b. TIGER GLOBAL		70	0.20	
c. Two Creeks Capital Partners LP		29	0.10	

15. Assets held in general partnership interests are less than 2.5 percent of the Company's total admitted assets.

16. Mortgage loans reported in Schedule B, include the following ten largest aggregate mortgage interests. The aggregate mortgage interest represents the combined value of all mortgages secured by the same property or same group of properties:

		Amount	Percentage of Total Admitted Assets	
a. COMMERCIAL MORTGAGE LOAN, Loan No. 5555060, GBR	$	124	0.30	%
b. COMMERCIAL MORTGAGE LOAN, Loan No. 8002626, NY		123	0.30	
c. COMMERCIAL MORTGAGE LOAN, Loan No. 8002642, FL		100	0.20	
d. COMMERCIAL MORTGAGE LOAN, Loan No. 8002507, NY		99	0.20	
e. COMMERCIAL MORTGAGE LOAN, Loan No. 5555143, GBR		95	0.20	
f. COMMERCIAL MORTGAGE LOAN, Loan No. 8002282, HI		93	0.20	
g. COMMERCIAL MORTGAGE LOAN, Loan No. 5555143, GBR		88	0.20	
h. COMMERCIAL MORTGAGE LOAN, Loan No. 8002587, NY		85	0.20	
i. COMMERCIAL MORTGAGE LOAN, Loan No. 8002157, NY		85	0.20	
j. COMMERCIAL MORTGAGE LOAN, Loan No. 8002538, CA		81	0.20	

Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

	Amount	Percentage of Total Admitted Assets
a. Construction loans	$ 34	0.10 %
b. Mortgage loans over 90 days past due	-	-
c. Mortgage loans in the process of foreclosure	-	-
d. Mortgage loans foreclosed	-	-
e. Restructured mortgage loans	-	-

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

	Residential		Commercial		Agricultural	
Loan-to-Value	Amount	Percentage of Total Admitted Assets	Amount	Percentage of Total Admitted Assets	Amount	Percentage of Total Admitted Assets
a. above 95%	$ -	- %	$ 1	- %	$ -	- %
b. 91% to 95%	5	-	-	-	-	-
c. 81% to 90%	172	0.40	-	-	-	-
d. 71% to 80%	233	0.50	234	0.50	-	-
e. below 70%	160	0.30	5,795	12.60	-	-

18. Assets held in each of the five largest investments in one parcel or group of contiguous parcels of real estate reported in Schedule A are less than 2.5 percent of the Company's total admitted assets.

19. Assets held in mezzanine real estate loans are less than 2.5 percent of the Company's total admitted assets.

20. The Company's total admitted assets subject to the following types of agreements as of the following dates:

	At Year-End		Unaudited At End of Each Quarter 1st Quarter	2nd Quarter	3rd Quarter
	Amount	Percentage of Total Admitted Assets	Amount	Amount	Amount
a. Securities lending (do not include assets held as collateral for such transactions)	$ 359	0.80 %	$ 455	$ 309	$ 284
b. Repurchase agreements	41	0.10	17	34	48
c. Reverse repurchase agreements	-	-	-	-	-
d. Dollar repurchase agreements	-	-	-	-	-
e. Dollar reverse repurchase agreements	-	-	-	-	-

21. The Company's potential exposure to warrants not attached to other financial instruments, options, caps, and floors:

	Owned		Written	
	Amount	Percentage of Total Admitted Assets	Amount	Percentage of Total Admitted Assets
a. Hedging	$ -	- %	$ -	- %
b. Income generation	-	-	-	-
c. Other	-	-	-	-

22. The Company's potential exposure (defined as the amount determined in accordance with the NAIC Annual Statement Instructions) for collars, swaps, and forwards as of the following dates:

	At Year-End		Unaudited At End of Each Quarter 1st Quarter	2nd Quarter	3rd Quarter
	Amount	Percentage of Total Admitted Assets	Amount	Amount	Amount
a. Hedging	$ 66	0.10 %	$ 58	$ 64	$ 66
b. Income generation	-	-	-	-	-
c. Replications	-	-	-	-	-
d. Other	-	-	-	-	-

23. The Company's potential exposure (defined as the amount determined in accordance with the NAIC Annual Statement Instructions) for futures contracts as of the following dates:

	At Year-End		Unaudited At End of Each Quarter 1st Quarter	2nd Quarter	3rd Quarter
	Amount	Percentage of Total Admitted Assets	Amount	Amount	Amount
a. Hedging	$ -	- %	$ 22	$ 25	$ -
b. Income generation	-	-	-	-	-
c. Replications	-	-	-	-	-
d. Other	-	-	-	-	-

THE VARIABLE ANNUITY LIFE INSURANCE COMPANY
SUPPLEMENTAL SUMMARY INVESTMENT SCHEDULE
DECEMBER 31, 2018

(in millions)	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
Investment Categories	Amount	Percentage	Amount	Securities Lending Reinvested Collateral Amount	Total Amount	Percentage
Bonds:						
U.S. treasury securities	$ 259	0.6 %	$ 259	$ -	$ 259	0.6 %
U.S. government agency obligations (excluding mortgage-backed securities):						
Issued by U.S. government agencies	-	-	-	-	-	-
Issued by U.S. government sponsored agencies	30	0.1	30	-	30	0.1
Non-U.S. government (including Canada, excluding mortgage-backed securities)	1,191	2.7	1,191	-	1,191	2.7
Securities issued by states, territories and possessions and political subdivisions in the U.S.:						
States, territories and possessions general obligations	255	0.6	255	-	255	0.6
Political subdivisions of states, territories and possessions and political subdivisions general obligations	168	0.4	168	-	168	0.4
Revenue and assessment obligations	1,278	2.8	1,278	-	1,278	2.8
Industrial development and similar obligations	7	-	7	-	7	-
Mortgage-backed securities (includes residential and commercial MBS):						
Pass-through securities:						
Issued or guaranteed by GNMA	-	-	-	-	-	-
Issued or guaranteed by FNMA and FHLMC	797	1.8	797	-	797	1.8
All other	1,332	3.0	1,332	-	1,332	3.0
CMOs and REMICs:						
Issued or guaranteed by GNMA, FNMA, FHLMC or VA	1,962	4.4	1,962	-	1,962	4.4
Issued by non-U.S. Government issuers and collateralized by mortgage-based securities issued or guaranteed by agencies shown in Line 1.521	-	-	-	-	-	-
All other	4,669	10.4	4,669	-	4,669	10.4
Other debt and other fixed income securities (excluding short-term):						
Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	15,294	34.1	15,294	-	15,294	34.1
Unaffiliated non-U.S. securities (including Canada)	8,533	19.0	8,533	-	8,533	19.0
Affiliated securities	-	-	-	-	-	-

THE VARIABLE ANNUITY LIFE INSURANCE COMPANY
SUPPLEMENTAL SUMMARY INVESTMENT SCHEDULE (Continued)
DECEMBER 31, 2018

(in millions)	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
Investment Categories	Amount	Percentage	Amount	Securities Lending Reinvested Collateral Amount	Total Amount	Percentage
Equity interests:						
Investments in mutual funds	$ -	- %	$ -	$ -	$ -	- %
Preferred stocks:						
Affiliated	-	-	-	-	-	-
Unaffiliated	41	0.1	41	-	41	0.1
Publicly traded equity securities (excluding preferred stocks):						
Affiliated	-	-	-	-	-	-
Unaffiliated	17	-	17	-	17	-
Other equity securities:						
Affiliated	-	-	-	-	-	-
Unaffiliated	4	-	4	-	4	-
Other equity interests including tangible personal property under lease:						
Affiliated	-	-	-	-	-	-
Unaffiliated	-	-	-	-	-	-
Mortgage loans:						
Construction and land development	380	0.8	380	-	380	0.8
Agricultural	-	-	-	-	-	-
Single family residential properties	571	1.3	571	-	571	1.3
Multifamily residential properties	1,585	3.5	1,585	-	1,585	3.5
Commercial loans	4,054	9.0	4,054	-	4,054	9.0
Mezzanine real estate loans	11	-	11	-	11	-
Real estate investments:						
Property occupied by company	4	-	4	-	4	-
Property held for production of income (includes $0 million of property acquired in satisfaction of debt)	-	-	-	-	-	-
Property held for sale (includes $25 million of property acquired in satisfaction of debt)	25	0.1	25	-	25	0.1
Contract loans	609	1.4	609	-	609	1.4
Derivatives	213	0.5	213	-	213	0.5
Receivables for securities	79	0.2	79	-	79	0.2
Securities lending reinvested collateral assets	354	0.8	354	XXX	XXX	XXX
Cash, cash equivalents and short-term investments	189	0.4	189	354	543	1.2
Other invested assets	883	2.0	883	-	883	2.0
Total invested assets	$ 44,794	100.0 %	$ 44,794	$ 354	$ 44,794	100.0 %