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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**FORM 10-Q**

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(Mark One)

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

**For the quarterly period ended September 30, 2019**

**OR**

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

**For the transition period from              to**

**Commission File No. 001-38469**

|  |
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|  |

**AXA Equitable Holdings, Inc.**

**(Exact name of registrant as specified in its charter)**

|  |  |  |
| --- | --- | --- |
|  | | |
|  |  |  |
| **Delaware** |  | **90-0226248** |
| **(State or other jurisdiction of incorporation or organization)** |  | **(I.R.S. Employer Identification No.)** |

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|  | | |
|  |  |  |
| **1290 Avenue of the Americas, New York, New York** |  | **10104** |
| **(Address of principal executive offices)** |  | **(Zip Code)** |

**(212) 554-1234**

**(Registrant’s telephone number, including area code)**

**Not applicable**

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).    Yes  x    No  **¨**

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

|  |  |  |  |
| --- | --- | --- | --- |
|  | | | |
|  |  |  |  |
| Large accelerated filer | ¨ | Accelerated filer | ¨ |
| Non-accelerated filer | x | Smaller reporting company | ¨ |
| Emerging growth company | ¨ |  |  |
| If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13 (a) of the Exchange Act. ¨ | | | |

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

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | | | |
|  |  |  |  |  |
| Title of each class |  | Trading symbol |  | Name of exchange on which registered |
| Common Stock |  | EQH |  | New York Stock Exchange |

As of November 5, 2019, 489,329,559 shares of the registrant’s Common Stock, $0.01 par value, were outstanding.

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**NOTE REGARDING FORWARD-LOOKING STATEMENTS AND INFORMATION**

Certain of the statements included or incorporated by reference in this Quarterly Report on Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as “expects,” “believes,” “anticipates,” “intends,” “seeks,” “aims,” “plans,” “assumes,” “estimates,” “projects,” “should,” “would,” “could,” “may,” “will,” “shall” or variations of such words are generally part of forward-looking statements. Forward-looking statements are made based on management’s current expectations and beliefs concerning future developments and their potential effects upon AXA Equitable Holdings, Inc. (“Holdings”) and its consolidated subsidiaries. “We,” “us” and “our” refer to Holdings and its consolidated subsidiaries, unless the context refers only to Holdings as a corporate entity. There can be no assurance that future developments affecting Holdings will be those anticipated by management. Forward-looking statements include, without limitation, all matters that are not historical facts.

These forward-looking statements are not a guarantee of future performance and involve risks and uncertainties, and there are certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements, including, among others: (i) conditions in the financial markets and economy, including equity market declines and volatility, interest rate fluctuations, impacts on our goodwill and changes in liquidity and access to and cost of capital; (ii) operational factors, including reliance on the payment of dividends to Holdings by its subsidiaries, remediation of our material weaknesses, fulfilling our obligations related to being a public company, indebtedness, elements of our business strategy not being effective in accomplishing our objectives, protection of confidential customer information or proprietary business information, information systems failing or being compromised and strong industry competition; (iii) credit, counterparties and investments, including counterparty default on derivative contracts, failure of financial institutions, defaults, errors or omissions by third parties and affiliates and gross unrealized losses on fixed maturity and equity securities; (iv) our reinsurance and hedging programs; (v) our products, structure and product distribution, including variable annuity guaranteed benefits features within certain of our products, complex regulation and administration of our products, variations in statutory capital requirements, financial strength and claims-paying ratings and key product distribution relationships; (vi) estimates, assumptions and valuations, including risk management policies and procedures, potential inadequacy of reserves, actual mortality, longevity and morbidity experience differing from pricing expectations or reserves, amortization of deferred acquisition costs and financial models; (vii) our Investment Management and Research segment, including fluctuations in assets under management, the industry-wide shift from actively-managed investment services to passive services and potential termination of investment advisory agreements; (viii) legal and regulatory risks, including federal and state legislation affecting financial institutions, insurance regulation and tax reform; (ix) risks related to our continuing relationship with AXA, including conflicts of interest, waiver of corporate opportunities and costs associated with separation and rebranding; and (x) risks related to our common stock and future offerings, including the market price for our common stock being volatile and potential stock price declines due to future sales of shares by existing stockholders.

Forward-looking statements should be read in conjunction with the other cautionary statements, risks, uncertainties and other factors identified in Holdings’ Annual Report on Form 10-K for the year ended December 31, 2018, as amended or supplemented in our subsequently filed Quarterly Reports on Form 10-Q, including in the section entitled “Risk Factors,” and elsewhere in this Quarterly Report on Form 10-Q. Further, any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update or revise any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events, except as otherwise may be required by law.

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**PART I. FINANCIAL INFORMATION**

**Item 1.** Consolidated Financial Statements

**AXA EQUITABLE HOLDINGS, INC.**

**CONSOLIDATED BALANCE SHEETS**

**(UNAUDITED)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **September 30, 2019** | | |  | December 31, 2018 | | |
|  | **(in millions, except share data)** | | | | | | |
| **ASSETS** |  | | |  |  | | |
| Investments: |  | | |  |  | | |
| Fixed maturities available-for-sale, at fair value (amortized cost of $61,951 and $46,801) | **$** | **66,300** |  |  | $ | 46,279 |  |
| Mortgage loans on real estate (net of valuation allowance of $0 and $7) | **12,022** | |  |  | 11,835 | |  |
| Real estate held for production of income (1) | **27** | |  |  | 52 | |  |
| Policy loans | **3,750** | |  |  | 3,779 | |  |
| Other equity investments (1) | **1,330** | |  |  | 1,334 | |  |
| Trading securities, at fair value | **8,939** | |  |  | 16,017 | |  |
| Other invested assets (1) | **2,349** | |  |  | 2,037 | |  |
| Total investments | **94,717** | |  |  | 81,333 | |  |
| Cash and cash equivalents (1) | **4,471** | |  |  | 4,469 | |  |
| Cash and securities segregated, at fair value | **958** | |  |  | 1,170 | |  |
| Broker-dealer related receivables | **1,935** | |  |  | 2,209 | |  |
| Deferred policy acquisition costs | **5,787** | |  |  | 6,745 | |  |
| Goodwill and other intangible assets, net | **4,765** | |  |  | 4,780 | |  |
| Amounts due from reinsurers | **4,656** | |  |  | 4,895 | |  |
| GMIB reinsurance contract asset, at fair value | **2,452** | |  |  | 1,732 | |  |
| Other assets | **3,882** | |  |  | 3,127 | |  |
| Separate Accounts assets | **121,023** | |  |  | 110,337 | |  |
| Total Assets | **$** | **244,646** |  |  | $ | 220,797 |  |
| **LIABILITIES** |  | | |  |  | | |
| Policyholders’ account balances | **$** | **56,719** |  |  | $ | 49,923 |  |
| Future policy benefits and other policyholders' liabilities | **36,310** | |  |  | 30,998 | |  |
| Broker-dealer related payables | **519** | |  |  | 431 | |  |
| Securities sold under agreements to repurchase | **—** | |  |  | 573 | |  |
| Customer related payables | **2,381** | |  |  | 3,095 | |  |
| Amounts due to reinsurers | **1,387** | |  |  | 1,438 | |  |
| Short-term and long-term debt | **4,794** | |  |  | 4,955 | |  |
| Current and deferred income taxes | **864** | |  |  | 68 | |  |
| Other liabilities (1) | **3,833** | |  |  | 3,360 | |  |
| Separate Accounts liabilities | **121,023** | |  |  | 110,337 | |  |
| Total Liabilities | **$** | **227,830** |  |  | $ | 205,178 |  |
| Redeemable noncontrolling interest (1) (2) | **$** | **338** |  |  | $ | 187 |  |
| Commitments and contingent liabilities (Note 14) |  | | |  |  | | |
| **EQUITY** |  | | |  |  | | |
| Equity attributable to Holdings: |  | | |  |  | | |
| Common stock, $0.01 par value, 2,000,000,000 shares authorized; 552,896,328 and 561,000,000 shares issued, respectively; 489,325,547 and 528,861,758 shares outstanding, respectively | **$** | **5** |  |  | $ | 5 |  |
| Additional paid-in capital | **1,897** | |  |  | 1,908 | |  |
| Treasury stock, at cost, 63,570,781 and 32,138,242 shares, respectively | **(1,269** | | **)** |  | (640 | | ) |
| Retained earnings | **12,835** | |  |  | 13,989 | |  |
| Accumulated other comprehensive income (loss) | **1,468** | |  |  | (1,396 | | ) |
| Total equity attributable to Holdings | **14,936** | |  |  | 13,866 | |  |
| Noncontrolling interest | **1,542** | |  |  | 1,566 | |  |
| Total Equity | **16,478** | |  |  | 15,432 | |  |
| **Total Liabilities, Redeemable Noncontrolling Interest and Equity** | **$** | **244,646** |  |  | $ | 220,797 |  |

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| (1) | See Note 2 for details of balances with variable interest entities. |

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| (2) | See Note 13 for details of Redeemable noncontrolling interest. |

See Notes to Consolidated Financial Statements (Unaudited).

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**AXA EQUITABLE HOLDINGS, INC.**

**CONSOLIDATED STATEMENTS OF INCOME (LOSS)**

**(UNAUDITED)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | |  | **Nine Months Ended September 30,** | | | | | | |
|  | **2019** | | |  | 2018 | | |  | **2019** | | |  | 2018 | | |
|  | **(in millions, except per share data)** | | | | | | | | | | | | | | |
| **REVENUES** |  | | |  |  | | |  |  | | |  |  | | |
| Policy charges and fee income | **$** | **929** |  |  | $ | 951 |  |  | **$** | **2,801** |  |  | $ | 2,881 |  |
| Premiums | **284** | |  |  | 269 | |  |  | **847** | |  |  | 823 | |  |
| Net derivative gains (losses) | **(451** | | **)** |  | (2,006 | | ) |  | **(2,317** | | **)** |  | (2,288 | | ) |
| Net investment income (loss) | **824** | |  |  | 681 | |  |  | **2,815** | |  |  | 1,868 | |  |
| Investment gains (losses), net: |  | | |  |  | | |  |  | | |  |  | | |
| Total other-than-temporary impairment losses | **—** | |  |  | (4 | | ) |  | **—** | |  |  | (4 | | ) |
| Other investment gains (losses), net | **199** | |  |  | (31 | | ) |  | **176** | |  |  | 49 | |  |
| Total investment gains (losses), net | **199** | |  |  | (35 | | ) |  | **176** | |  |  | 45 | |  |
| Investment management and service fees | **1,101** | |  |  | 1,088 | |  |  | **3,172** | |  |  | 3,218 | |  |
| Other income | **142** | |  |  | 135 | |  |  | **408** | |  |  | 376 | |  |
| Total revenues | **3,028** | |  |  | 1,083 | |  |  | **7,902** | |  |  | 6,923 | |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| **BENEFITS AND OTHER DEDUCTIONS** |  | | |  |  | | |  |  | | |  |  | | |
| Policyholders’ benefits | **1,757** | |  |  | 318 | |  |  | **3,533** | |  |  | 1,812 | |  |
| Interest credited to policyholders’ account balances | **304** | |  |  | 278 | |  |  | **922** | |  |  | 817 | |  |
| Compensation and benefits | **502** | |  |  | 507 | |  |  | **1,523** | |  |  | 1,606 | |  |
| Commissions and distribution-related payments | **317** | |  |  | 286 | |  |  | **905** | |  |  | 864 | |  |
| Interest expense | **54** | |  |  | 65 | |  |  | **167** | |  |  | 171 | |  |
| Amortization of deferred policy acquisition costs | **85** | |  |  | (183 | | ) |  | **460** | |  |  | 174 | |  |
| Other operating costs and expenses | **449** | |  |  | 430 | |  |  | **1,315** | |  |  | 1,347 | |  |
| Total benefits and other deductions | **3,468** | |  |  | 1,701 | |  |  | **8,825** | |  |  | 6,791 | |  |
| Income (loss) from continuing operations, before income taxes | **(440** | | **)** |  | (618 | | ) |  | **(923** | | **)** |  | 132 | |  |
| Income tax (expense) benefit | **124** | |  |  | 175 | |  |  | **328** | |  |  | 23 | |  |
| Net income (loss) | **(316** | | **)** |  | (443 | | ) |  | **(595** | | **)** |  | 155 | |  |
| Less: Net income (loss) attributable to the noncontrolling interest | **68** | |  |  | 53 | |  |  | **201** | |  |  | 273 | |  |
| Net income (loss) attributable to Holdings | **$** | **(384** | **)** |  | $ | (496 | ) |  | **$** | **(796** | **)** |  | $ | (118 | ) |
|  |  | | |  |  | | |  |  | | |  |  | | |
| **EARNINGS PER SHARE** |  | | |  |  | | |  |  | | |  |  | | |
| Earnings per share - Common stock: |  | | |  |  | | |  |  | | |  |  | | |
| Basic | **$** | **(0.78** | **)** |  | $ | (0.89 | ) |  | **$** | **(1.59** | **)** |  | $ | (0.21 | ) |
| Diluted | **$** | **(0.78** | **)** |  | $ | (0.89 | ) |  | **$** | **(1.59** | **)** |  | $ | (0.21 | ) |
| Weighted-average common shares outstanding: |  | | |  |  | | |  |  | | |  |  | | |
| Basic | **490.4** | |  |  | 560.2 | |  |  | **499.8** | |  |  | 560.5 | |  |
| Diluted | **490.4** | |  |  | 560.2 | |  |  | **499.8** | |  |  | 560.5 | |  |

See Notes to Consolidated Financial Statements (Unaudited).

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**AXA EQUITABLE HOLDINGS, INC.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

**(UNAUDITED)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | |  | **Nine Months Ended September 30,** | | | | | | |
|  | **2019** | | |  | 2018 | | |  | **2019** | | |  | 2018 | | |
|  | **(in millions)** | | | | | | | | | | | | | | |
| **COMPREHENSIVE INCOME (LOSS)** |  | | |  |  | | |  |  | | |  |  | | |
| Net income (loss) | **$** | **(316** | **)** |  | $ | (443 | ) |  | **$** | **(595** | **)** |  | $ | 155 |  |
| Other comprehensive income (loss) net of income taxes: |  | | |  |  | | |  |  | | |  |  | | |
| Change in unrealized gains (losses), net of reclassification adjustment (1) | **581** | |  |  | (361 | | ) |  | **2,784** | |  |  | (1,672 | | ) |
| Changes in defined benefit plan related items not yet recognized in periodic benefit cost, net of reclassification adjustment | **18** | |  |  | 68 | |  |  | **85** | |  |  | 202 | |  |
| Foreign currency translation adjustment (1) | **(12** | | **)** |  | 9 | |  |  | **(12** | | **)** |  | (2 | | ) |
| Total other comprehensive income (loss), net of income taxes | **587** | |  |  | (284 | | ) |  | **2,857** | |  |  | (1,472 | | ) |
| Comprehensive income (loss) | **271** | |  |  | (727 | | ) |  | **2,262** | |  |  | (1,317 | | ) |
| Less: Comprehensive income (loss) attributable to the noncontrolling interest | **63** | |  |  | 54 | |  |  | **194** | |  |  | 288 | |  |
| Comprehensive income (loss) attributable to Holdings | **$** | **208** |  |  | $ | (781 | ) |  | **$** | **2,068** |  |  | $ | (1,605 | ) |

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|  |  |
| --- | --- |
|  |  |
| (1) | A reclassification of $1 million and $2 million has been made to the previously reported amounts for the three and nine months ended September 30, 2018, respectively, to conform to the current period’s presentation. |

See Notes to Consolidated Financial Statements (Unaudited).

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**AXA EQUITABLE HOLDINGS, INC.**

**CONSOLIDATED STATEMENTS OF EQUITY**

**(UNAUDITED)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | **Equity Attributable to Holdings** | | | | | | | | | | | | | | | | | | | | | | |  |  | | |  |  | | |
|  | **Common Stock** | | |  | **Additional Paid-in Capital** | | |  | **Treasury Stock** | | |  | **Retained Earnings** | | |  | **Accumulated Other Comprehensive Income (Loss)** | | |  | **Total Holdings Equity** | | |  | **Non-controlling Interest** | | |  | **Total Equity** | | |
|  | **(in millions)** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| **July 1, 2019** | **$** | **5** |  |  | **$** | **1,901** |  |  | **$** | **(1,232** | **)** |  | **$** | **13,293** |  |  | **$** | **876** |  |  | **$** | **14,843** |  |  | **$** | **1,545** |  |  | **$** | **16,388** |  |
| Stock compensation | **—** | |  |  | **(20** | | **)** |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **(20** | | **)** |  | **4** | |  |  | **(16** | | **)** |
| Purchase of treasury stock | **—** | |  |  | **—** | |  |  | **(37** | | **)** |  | **(1** | | **)** |  | **—** | |  |  | **(38** | | **)** |  | **—** | |  |  | **(38** | | **)** |
| Retirement of common stock | **—** | |  |  | — | |  |  | **—** | |  |  | **1** | |  |  | **—** | |  |  | **1** | |  |  | **—** | |  |  | **1** | |  |
| Repurchase of AB Holding units | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **(9** | | **)** |  | **(9** | | **)** |
| Dividends paid to noncontrolling interest | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **(62** | | **)** |  | **(62** | | **)** |
| Stockholder dividends (cash dividends declared per common share of $0.15 during the three months ended September 30, 2019) | **—** | |  |  | **—** | |  |  | **—** | |  |  | **(74** | | **)** |  | **—** | |  |  | **(74** | | **)** |  | **—** | |  |  | **(74** | | **)** |
| Net income (loss) | **—** | |  |  | **—** | |  |  | **—** | |  |  | **(384** | | **)** |  | **—** | |  |  | **(384** | | **)** |  | **61** | |  |  | **(323** | | **)** |
| Other comprehensive income (loss) | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **592** | |  |  | **592** | |  |  | **(5** | | **)** |  | **587** | |  |
| Other | **—** | |  |  | **16** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **16** | |  |  | **8** | |  |  | **24** | |  |
| **September 30, 2019** | **$** | **5** |  |  | **$** | **1,897** |  |  | **$** | **(1,269** | **)** |  | **$** | **12,835** |  |  | **$** | **1,468** |  |  | **$** | **14,936** |  |  | **$** | **1,542** |  |  | **$** | **16,478** |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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|  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| July 1, 2018 | $ | 5 |  |  | $ | 2,068 |  |  | $ | — |  |  | $ | 12,601 |  |  | $ | (1,310 | ) |  | $ | 13,364 |  |  | $ | 1,487 |  |  | $ | 14,851 |  |
| Stock compensation | — | |  |  | 15 | |  |  | — | |  |  | — | |  |  | — | |  |  | 15 | |  |  | — | |  |  | 15 | |  |
| Purchase of treasury stock | — | |  |  | — | |  |  | (57 | | ) |  | — | |  |  | — | |  |  | (57 | | ) |  | — | |  |  | (57 | | ) |
| Reissuance of treasury stock | — | |  |  | — | |  |  | 1 | |  |  | (1 | | ) |  | — | |  |  | — | |  |  | — | |  |  | — | |  |
| Repurchase of AB Holding units | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | (17 | | ) |  | (17 | | ) |
| Dividends paid to noncontrolling interest | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | (68 | | ) |  | (68 | | ) |
| Stockholder dividends (cash dividends declared per common share of $0.13 during the three months ended September 30, 2018) | — | |  |  | — | |  |  | — | |  |  | (73 | | ) |  | — | |  |  | (73 | | ) |  | — | |  |  | (73 | | ) |
| Net income (loss) | — | |  |  | — | |  |  | — | |  |  | (496 | | ) |  | — | |  |  | (496 | | ) |  | 65 | |  |  | (431 | | ) |
| Other comprehensive income (loss) | — | |  |  | — | |  |  | — | |  |  | — | |  |  | (284 | | ) |  | (284 | | ) |  | — | |  |  | (284 | | ) |
| Other | — | |  |  | (57 | | ) |  | — | |  |  | — | |  |  | (1 | | ) |  | (58 | | ) |  | (7 | | ) |  | (65 | | ) |
| September 30, 2018 | $ | 5 |  |  | $ | 2,026 |  |  | $ | (56 | ) |  | $ | 12,031 |  |  | $ | (1,595 | ) |  | $ | 12,411 |  |  | $ | 1,460 |  |  | $ | 13,871 |  |

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**AXA EQUITABLE HOLDINGS, INC.**

**CONSOLIDATED STATEMENTS OF EQUITY — CONTINUED**

**(UNAUDITED)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Nine Months Ended September 30,** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | **Equity Attributable to Holdings** | | | | | | | | | | | | | | | | | | | | | | |  |  | | |  |  | | |
|  | **Common Stock** | | |  | **Additional Paid-in Capital** | | |  | **Treasury Stock** | | |  | **Retained Earnings** | | |  | **Accumulated Other Comprehensive Income (Loss)** | | |  | **Total Holdings Equity** | | |  | **Non-controlling Interest** | | |  | **Total Equity** | | |
|  | **(in millions)** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| **January 1, 2019** | **$** | **5** |  |  | **$** | **1,908** |  |  | **$** | **(640** | **)** |  | **$** | **13,989** |  |  | **$** | **(1,396** | **)** |  | **$** | **13,866** |  |  | **$** | **1,566** |  |  | **$** | **15,432** |  |
| Stock compensation | **—** | |  |  | **(11** | | **)** |  | **8** | |  |  | **—** | |  |  | **—** | |  |  | **(3** | | **)** |  | **16** | |  |  | **13** | |  |
| Purchase of treasury stock | **—** | |  |  | **—** | |  |  | **(637** | | **)** |  | **(1** | | **)** |  | **—** | |  |  | **(638** | | **)** |  | **—** | |  |  | **(638** | | **)** |
| Retirement of common stock | **—** | |  |  | — | |  |  | **—** | |  |  | **(142** | | **)** |  | **—** | |  |  | **(142** | | **)** |  | **—** | |  |  | **(142** | | **)** |
| Repurchase of AB Holding units | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **(30** | | **)** |  | **(30** | | **)** |
| Dividends paid to noncontrolling interest | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **(186** | | **)** |  | **(186** | | **)** |
| Stockholder dividends (cash dividends declared per common share of $0.43 in 2019) | **—** | |  |  | **—** | |  |  | **—** | |  |  | **(215** | | **)** |  | **—** | |  |  | **(215** | | **)** |  | **—** | |  |  | **(215** | | **)** |
| Net income (loss) | **—** | |  |  | **—** | |  |  | **—** | |  |  | **(796** | | **)** |  | **—** | |  |  | **(796** | | **)** |  | **175** | |  |  | **(621** | | **)** |
| Other comprehensive income (loss) | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **2,864** | |  |  | **2,864** | |  |  | **(7** | | **)** |  | **2,857** | |  |
| Other | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **8** | |  |  | **8** | |  |
| **September 30, 2019** | **$** | **5** |  |  | **$** | **1,897** |  |  | **$** | **(1,269** | **)** |  | **$** | **12,835** |  |  | **$** | **1,468** |  |  | **$** | **14,936** |  |  | **$** | **1,542** |  |  | **$** | **16,478** |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| January 1, 2018 | $ | 5 |  |  | $ | 1,299 |  |  | $ | — |  |  | $ | 12,225 |  |  | $ | (108 | ) |  | $ | 13,421 |  |  | $ | 3,097 |  |  | $ | 16,518 |  |
| Stock compensation | — | |  |  | 15 | |  |  | — | |  |  | — | |  |  | — | |  |  | 15 | |  |  | — | |  |  | 15 | |  |
| Purchase of treasury stock | — | |  |  | — | |  |  | (57 | | ) |  | — | |  |  | — | |  |  | (57 | | ) |  | — | |  |  | (57 | | ) |
| Reissuance of treasury stock | — | |  |  | — | |  |  | 1 | |  |  | (1 | | ) |  | — | |  |  | — | |  |  | — | |  |  | — | |  |
| Repurchase of AB Holding units | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | (29 | | ) |  | (29 | | ) |
| Dividends paid to noncontrolling interest | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | (284 | | ) |  | (284 | | ) |
| Stockholder dividends (cash dividends declared per common share of $0.13 in 2018) | — | |  |  | — | |  |  | — | |  |  | (88 | | ) |  | — | |  |  | (88 | | ) |  | — | |  |  | (88 | | ) |
| Capital contribution from parent | — | |  |  | 695 | |  |  | — | |  |  | — | |  |  | — | |  |  | 695 | |  |  | — | |  |  | 695 | |  |
| Purchase of AB Units by Holdings | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | (1,521 | | ) |  | (1,521 | | ) |
| Purchase of AllianceBernstein Units from noncontrolling interest | — | |  |  | 17 | |  |  | — | |  |  | — | |  |  | — | |  |  | 17 | |  |  | — | |  |  | 17 | |  |
| Cumulative effect of adoption of revenue recognition standard ASC 606 | — | |  |  | — | |  |  | — | |  |  | 13 | |  |  | — | |  |  | 13 | |  |  | 19 | |  |  | 32 | |  |
| Net income (loss) | — | |  |  | — | |  |  | — | |  |  | (118 | | ) |  | — | |  |  | (118 | | ) |  | 251 | |  |  | 133 | |  |
| Other comprehensive income (loss) | — | |  |  | — | |  |  | — | |  |  | — | |  |  | (1,487 | | ) |  | (1,487 | | ) |  | 15 | |  |  | (1,472 | | ) |
| Other | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | (88 | | ) |  | (88 | | ) |
| September 30, 2018 | $ | 5 |  |  | $ | 2,026 |  |  | $ | (56 | ) |  | $ | 12,031 |  |  | $ | (1,595 | ) |  | $ | 12,411 |  |  | $ | 1,460 |  |  | $ | 13,871 |  |

See Notes to Consolidated Financial Statements (Unaudited).

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**AXA EQUITABLE HOLDINGS, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(UNAUDITED)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Nine Months Ended September 30,** | | | | | | |
| **2019** | | |  | 2018 | | |
|  | **(in millions)** | | | | | | |
| **Cash flows from operating activities:** |  | | |  |  | | |
| Net income (loss) | **$** | **(595** | **)** |  | $ | 155 |  |
| Adjustments to reconcile Net income (loss) to Net cash provided by (used in) operating activities: |  | | |  |  | | |
| Interest credited to policyholders’ account balances | **922** | |  |  | 817 | |  |
| Policy charges and fee income | **(2,801** | | **)** |  | (2,881 | | ) |
| Net derivative (gains) losses | **2,317** | |  |  | 2,288 | |  |
| Investment (gains) losses, net | **(176** | | **)** |  | (45 | | ) |
| Realized and unrealized (gains) losses on trading securities | **(485** | | **)** |  | 266 | |  |
| Non-cash long term incentive compensation expense (1) | **90** | |  |  | — | |  |
| Non-cash pension plan restructuring | **—** | |  |  | 105 | |  |
| Amortization and depreciation (1) | **535** | |  |  | 153 | |  |
| Equity (income) loss from limited partnerships (1) | **(67** | | **)** |  | (82 | | ) |
| Changes in: |  | | |  |  | | |
| Net broker-dealer and customer related receivables/payables | **(504** | | **)** |  | 415 | |  |
| Reinsurance recoverable (1) | **(70** | | **)** |  | 90 | |  |
| Segregated cash and securities, net | **211** | |  |  | (438 | | ) |
| Capitalization of deferred policy acquisition costs (1) | **(544** | | **)** |  | (512 | | ) |
| Future policy benefits (1) | **925** | |  |  | (664 | | ) |
| Current and deferred income taxes (1) | **36** | |  |  | 193 | |  |
| Other, net (1) | **(86** | | **)** |  | 5 | |  |
| Net cash provided by (used in) operating activities | **$** | **(292** | **)** |  | $ | (135 | ) |
|  |  | | |  |  | | |
| **Cash flows from investing activities:** |  | | |  |  | | |
| Proceeds from the sale/maturity/prepayment of: |  | | |  |  | | |
| Fixed maturities, available-for-sale | **$** | **9,850** |  |  | $ | 7,476 |  |
| Mortgage loans on real estate | **708** | |  |  | 375 | |  |
| Trading account securities | **8,762** | |  |  | 6,937 | |  |
| Real estate joint ventures (1) | **3** | |  |  | 139 | |  |
| Short-term investments (1) | **2,011** | |  |  | 4,745 | |  |
| Other (1) | **162** | |  |  | 196 | |  |
| Payment for the purchase/origination of: |  | | |  |  | | |
| Fixed maturities, available-for-sale | **(24,448** | | **)** |  | (7,513 | | ) |
| Mortgage loans on real estate | **(912** | | **)** |  | (1,485 | | ) |
| Trading account securities | **(1,072** | | **)** |  | (8,103 | | ) |
| Short-term investments (1) | **(2,148** | | **)** |  | (4,513 | | ) |
| Other (1) | **(302** | | **)** |  | (166 | | ) |
| Cash settlements related to derivative instruments (1) | **179** | |  |  | (1,277 | | ) |
| Repayments of loans to affiliates | **—** | |  |  | 1,230 | |  |
| Investment in capitalized software, leasehold improvements and EDP equipment | **(72** | | **)** |  | (84 | | ) |
| Other, net (1) | **(132** | | **)** |  | 314 | |  |
| Net cash provided by (used in) investing activities | **$** | **(7,411** | **)** |  | $ | (1,729 | ) |
|  |  | | |  |  | | |
| **Cash flows from financing activities:** |  | | |  |  | | |
| Policyholders’ account balances: |  | | |  |  | | |
| Deposits | **$** | **9,944** |  |  | $ | 6,653 |  |
| Withdrawals | **(3,551** | | **)** |  | (3,324 | | ) |
| Transfers (to) from Separate Accounts | **1,358** | |  |  | 1,313 | |  |
| Change in short-term financings | **(163** | | **)** |  | (1,458 | | ) |
| Issuance of long-term debt | **—** | |  |  | 4,057 | |  |
| Repayment of loans from affiliates | **—** | |  |  | (3,000 | | ) |
| Change in collateralized pledged assets | **3** | |  |  | (31 | | ) |
| Change in collateralized pledged liabilities | **1,900** | |  |  | 36 | |  |

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**AXA EQUITABLE HOLDINGS, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS—CONTINUED**

**(UNAUDITED)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Nine Months Ended September 30,** | | | | | | |
| **2019** | | |  | 2018 | | |
|  | **(in millions)** | | | | | | |
| Increase (decrease) in overdrafts payable | **(73** | | **)** |  | (39 | | ) |
| Cash contribution from parent company | **—** | |  |  | 8 | |  |
| Shareholder dividend paid | **(215** | | **)** |  | (88 | | ) |
| Purchase of AB Units by Holdings | **—** | |  |  | (1,330 | | ) |
| Cash paid to repurchase common stock | **(787** | | **)** |  | (57 | | ) |
| Repurchase of AB Holding units from noncontrolling interest | **—** | |  |  | (29 | | ) |
| Purchases (redemptions) of noncontrolling interests of consolidated company-sponsored investment funds | **138** | |  |  | (519 | | ) |
| Distribution to noncontrolling interest of consolidated subsidiaries | **(186** | | **)** |  | (284 | | ) |
| Increase (decrease) in securities sold under agreement to repurchase | **(573** | | **)** |  | 13 | |  |
| Purchase of AB Holding Units to fund long-term incentive compensation plan awards, net | **(82** | | **)** |  | (83 | | ) |
| Other, net | **—** | |  |  | (2 | | ) |
| Net cash provided by (used in) financing activities | **$** | **7,713** |  |  | $ | 1,836 |  |
|  |  | | |  |  | | |
| Effect of exchange rate changes on cash and cash equivalents | **(8** | | **)** |  | (9 | | ) |
| Change in cash and cash equivalents | **2** | |  |  | (37 | | ) |
| Cash and cash equivalents, beginning of year | **4,469** | |  |  | 4,814 | |  |
| Cash and cash equivalents, end of period | **$** | **4,471** |  |  | $ | 4,777 |  |
|  |  | | |  |  | | |
| **Non-cash transactions during the period:** |  | | |  |  | | |
| Capital contribution from parent company | **$** | **—** |  |  | $ | 622 |  |
| (Settlement) issuance of long-term debt | **$** | **—** |  |  | $ | (202 | ) |
| Transfer of assets to reinsurer | **$** | **—** |  |  | $ | (604 | ) |
| Contribution of 0.5% minority interest in AXA Financial | **$** | **—** |  |  | $ | 65 |  |
| Repayment of loans from affiliates | **$** | **—** |  |  | $ | (622 | ) |

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

(1) Prior period amounts have been reclassified to conform to current period’s presentation. See Note 17 for further information.

See Notes to Consolidated Financial Statements (Unaudited).

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**AXA EQUITABLE HOLDINGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**1)    ORGANIZATION**

AXA Equitable Holdings, Inc. (“Holdings” and, collectively with its consolidated subsidiaries, the “Company”) is the holding company for a diversified financial services organization. As of September 30, 2019 and December 31, 2018, AXA S.A. (“AXA”), a French holding company for the AXA Group, owned approximately 39% and 59%, respectively, of the outstanding common stock of Holdings.

The Company conducts operations in four segments: Individual Retirement, Group Retirement, Investment Management and Research, and Protection Solutions. The Company’s management evaluates the performance of each of these segments independently.

|  |  |
| --- | --- |
|  |  |
| • | The Individual Retirement segment offers a diverse suite of variable annuity products which are primarily sold to affluent and high net worth individuals saving for retirement or seeking retirement income. |

|  |  |
| --- | --- |
|  |  |
| • | The Group Retirement segment offers tax-deferred investment and retirement services or products to plans sponsored by educational entities, municipalities and not-for-profit entities as well as small and medium-sized businesses. |

|  |  |
| --- | --- |
|  |  |
| • | The Investment Management and Research segment provides diversified investment management, research and related solutions globally to a broad range of clients through three main client channels—Institutional, Retail and Private Wealth Management—and distributes its institutional research products and solutions through Bernstein Research Services. The Investment Management and Research segment reflects the business of AllianceBernstein Holding L.P. (“AB Holding”), AllianceBernstein L.P. (“ABLP”) and their subsidiaries (collectively, “AB”). |

|  |  |
| --- | --- |
|  |  |
| • | The Protection Solutions segment includes the Company’s life insurance and group employee benefits businesses. The life insurance business offers a variety of variable universal life, indexed universal life and term life products to help affluent and high net worth individuals, as well as small and medium-sized business owners, with their wealth protection, wealth transfer and corporate needs. The Company’s group employee benefits business offers a suite of life, short- and long-term disability, dental and vision insurance products to small and medium-size businesses across the United States. |

The Company reports certain activities and items that are not included in its segments in Corporate and Other. Corporate and Other includes certain of our financing and investment expenses. It also includes: the AXA Advisors broker-dealer business, closed block of life insurance (the “Closed Block”), run-off variable annuity reinsurance business, run-off group pension business, run-off health business, benefit plans for our employees, certain strategic investments and certain unallocated items, including capital and related investments, interest expense and financing fees and corporate expense.

At both September 30, 2019 and December 31, 2018, the Company’s economic interest in AB was approximately 65%. The general partner of AB, AllianceBernstein Corporation (the “General Partner”), is a wholly-owned subsidiary of the Company. Because the General Partner has the authority to manage and control the business of AB, AB is consolidated in the Company’s financial statements for all periods.

**2)    SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation

The unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) on a basis consistent with reporting interim financial information in accordance with instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission (“SEC”). Intercompany balances and transactions have been eliminated.

In the opinion of management, all adjustments necessary for a fair statement of the financial position and results of operations have been made. All such adjustments are of a normal, recurring nature. Interim results are not necessarily indicative of the results that may be expected for the full year. These financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2018.

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**AXA EQUITABLE HOLDINGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

The terms “third quarter 2019” and “third quarter 2018” refer to the three months ended September 30, 2019 and 2018, respectively. The terms “first nine months of 2019” and “first nine months of 2018” refer to the nine months ended September 30, 2019 and 2018, respectively.

Adoption of New Accounting Pronouncements

|  |  |
| --- | --- |
|  | |
|  |  |
| **Description** | **Effect on the Financial Statement or Other Significant Matters** |
| ***ASU 2017-12:*** *Derivatives and Hedging (Topic 815),* as clarified and amended by**ASU 2019-04:***Codification Improvements to Topic 326, Financial Instruments—Credit Losses; Topic 815, Derivatives and Hedging; and Topic 825, Financial Instruments* | |
| The amendments in these ASUs better align an entity’s risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. | On January 1, 2019, the Company adopted the new hedging guidance. Adoption of this guidance did not have a material impact on the Company’s consolidated financial statements. |
| ***ASU 2017-08:*** *Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20)* | |
| This ASU requires certain premiums on callable debt securities to be amortized to the earliest call date and is intended to better align interest income recognition with the manner in which market participants price these instruments. | On January 1, 2019, the Company adopted the new guidance on accounting for certain premiums on callable debt securities. As the Company’s existing accounting practices aligned with the guidance in the ASU, adoption of the new standard did not have a material impact on the Company’s consolidated financial statements. |
| ***ASU 2016-02:****Leases (Topic 842)* | |
| This ASU contains revised guidance to lease accounting that will require lessees to recognize on the balance sheet a “right-of-use” asset and a lease liability for virtually all lease arrangements, including those embedded in other contracts. Lessor accounting will remain substantially unchanged from the current model but has been updated to align with certain changes made to the lessee model. | On January 1, 2019, the Company adopted the new leases standard using the simplified modified retrospective transition method, as of the adoption date. Prior comparable periods will not be adjusted or presented under this method. We applied several practical expedients offered by ASC 842 upon adoption of this standard. These included continuing to account for existing leases based on judgment made under legacy U.S. GAAP as it relates to determining classification of leases, unamortized initial direct costs and whether contracts are leases or contain leases. We also used the practical expedient to use hindsight in determining lease terms (using knowledge and expectations as of the standard’s adoption date instead of the previous assumptions under legacy U.S. GAAP) and evaluated impairment of our right-of-use (“RoU”) assets in the transition period (using most up-to-date information.) Adoption of this standard resulted in the recognition, as of January 1, 2019, of additional RoU operating lease assets of $799 million reported in Other assets and operating lease liabilities of $1.0 billion reported in Other liabilities in accompanying consolidated balance sheets. The operating RoU assets recognized as of January 1, 2019 are net of deferred rent of $105 million and liabilities associated with previously recognized impairments of $120 million. See Note 8 for additional information. |

Future Adoption of New Accounting Pronouncements

|  |  |  |
| --- | --- | --- |
|  | | |
|  |  |  |
| **Description** | **Effective Date and Method of Adoption** | **Effect on the Financial Statement or Other Significant Matters** |
| **ASU 2018-17:** *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities* | | |
| This ASU provides guidance requiring that indirect interests held through related parties in common control arrangements be considered on a proportional basis for determining whether fees paid to decision makers and service providers are variable interests. | Effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. All entities are required to apply the amendments in this update retrospectively with a cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented. | The Company will adopt this new standard effective for January 1, 2020. Management does not expect the adoption of this standard to materially impact the Company’s financial position or results of operations. |

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**AXA EQUITABLE HOLDINGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

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| **Description** | **Effective Date and Method of Adoption** | **Effect on the Financial Statement or Other Significant Matters** |
| **ASU 2018-13:** *Fair Value Measurement (Topic 820)* | | |
| This ASU improves the effectiveness of fair value disclosures in the notes to financial statements. Amendments in this ASU modify disclosure requirements in Topic 820, including the removal or modification of certain disclosure requirements, and the addition of new disclosure requirements. | Effective for fiscal years beginning after December 15, 2019. Early adoption is permitted, with the option to early adopt amendments to remove or modify disclosures, with full adoption of additional requirements delayed until their effective date. Amendments on changes in unrealized gains and losses, the range and weighted-average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively. All other amendments should be applied retrospectively. | Management has elected to early adopt the removed disclosures relating to transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels and valuation processes for Level 3 fair value measurements. The Company will delay adoption of the additional disclosures until their effective date. |
| **ASU 2018-12:** *Financial Services—Insurance (Topic 944)* | | |
| This ASU provides targeted improvements to existing recognition, measurement, presentation, and disclosure requirements for long-duration contracts issued by an insurance entity. The ASU primarily impacts four key areas, including:  Measurement of the liability for future policy benefits for traditional and limited payment contracts. The ASU requires companies to review, and if necessary, update, cash flow assumptions at least annually for non-participating traditional and limited-payment insurance contracts.  Interest rates used to discount the liability will need to be updated quarterly using an upper medium grade (low credit risk) fixed-income instrument yield.  Measurement of market risk benefits (“MRBs”). MRBs, as defined under the ASU, will encompass certain GMxB features associated with variable annuity products and other general account annuities with other than nominal market risk. The ASU requires MRBs to be measured at fair value with changes in value attributable to changes in instrument-specific credit risk recognized in OCI. | Effective for fiscal years beginning after December 31, 2020. Early adoption is permitted.  On October 16, 2019, the FASB affirmed its previous decision to delay the effective date to fiscal years beginning after December 15, 2021, and interim periods within those fiscal years.  For the liability for future policyholder benefits for traditional and limited payment contracts, companies can elect one of two adoption methods. Companies can either elect a modified retrospective transition method applied to contracts in force as of the beginning of the earliest period presented on the basis of their existing carrying amounts, adjusted for the removal of any related amounts in AOCI or a full retrospective transition method using actual historical experience information as of contract inception. The same adoption method must be used for deferred policy acquisition costs.  For MRBs, the ASU should be applied retrospectively as of the beginning of the earliest period presented. | Management currently is evaluating the impact that adoption of this guidance will have on the Company’s consolidated financial statements, however the adoption of the ASU is expected to have a significant impact on the Company’s consolidated financial condition, results of operations, cash flows and required disclosures, as well as processes and controls. |
| Amortization of deferred policy acquisition costs. The ASU simplifies the amortization of deferred policy acquisition costs and other balances amortized in proportion to premiums, gross profits, or gross margins, requiring such balances to be amortized on a constant level basis over the expected term of the contracts. Deferred costs will be required to be written off for unexpected contract terminations but will not be subject to impairment testing. |  |  |

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**AXA EQUITABLE HOLDINGS, INC.**

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| **Description** | **Effective Date and Method of Adoption** | **Effect on the Financial Statement or Other Significant Matters** |
| **ASU 2018-12:** *Financial Services—Insurance (Topic 944), Continued* | | |
| Expanded footnote disclosures. The ASU requires additional disclosures including disaggregated rollforwards of beginning to ending balances of the liability for future policy benefits, policyholder account balances, MRBs, Separate Accounts liabilities and deferred policy acquisition costs. Companies will also be required to disclose information about significant inputs, judgements, assumptions and methods used in measurement. | For deferred policy acquisition costs,  companies can elect one of two adoption methods. Companies can either elect a modified retrospective transition method applied to contracts in force as of the beginning of the earliest period presented on the basis of their existing carrying amounts, adjusted for the removal of any related amounts in AOCI or a full retrospective transition method using actual historical experience information as of contract inception. The same adoption method must be used for the liability for future policyholder benefits for traditional and limited payment contracts. |  |
| **ASU 2016-13:** *Financial Instruments—Credit Losses (Topic 326)*, as clarified and amended by **ASU 2018-19:***Codification Improvements to Topic 326, Financial Instruments—Credit Losses,* **ASU 2019-04:***Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments* and**ASU 2019-05:***Financial Instruments—Credit Losses (Topic 326) Targeted Transition Relief* | | |
| ASU 2016-13 contains new guidance which introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments. It also modifies the impairment model for available-for-sale debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination.  ASU 2019-05 provides entities that have instruments within the scope of Subtopic 326-20 an option to irrevocably elect the fair value option on an instrument-by instrument basis upon adoption of Topic 326. ASU 2018-19 and ASU 2019-05, clarified the codification guidance and did not materially change the standards. | Effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. These amendments should be applied through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. | The Company is continuing to develop, validate and implement its updated expected credit loss models, processes and controls related to the identified financial assets that fall within the scope of the new standard. While Management expects the adoption will not materially impact the Company’s financial position or results of operations, it currently anticipates that the standard will have the most impact to its commercial and agricultural mortgage loan portfolios. However, the extent of the impact will depend on various factors including the economic environment, structure and size of the Company’s loan portfolio and other assets impacted by the standard. |

Accounting and Consolidation of Variable Interest Entities (“VIEs”)

At September 30, 2019, the Company held $1.2 billion of investment assets in the form of equity interests issued by non-corporate legal entities determined under the guidance to be VIEs, such as limited partnerships and limited liability companies, including hedge funds, private equity funds and real estate-related funds. As an equity investor, the Company is considered to have a variable interest in each of these VIEs as a result of its participation in the risks and/or rewards these funds were designed to create by their defined portfolio objectives and strategies. Primarily through qualitative assessment, including consideration of related party interests or other financial arrangements, if any, the Company was not identified as primary beneficiary of any of these VIEs, largely due to its inability to direct the activities that most significantly impact their economic performance. Consequently, the Company continues to reflect these equity interests in the consolidated balance sheets as Other equity investments and to apply the equity method of accounting for these positions. The net assets of these non-consolidated VIEs are $169.6 billion at September 30, 2019. The Company’s maximum exposure to loss from its direct involvement with these VIEs is the carrying value of its investment of $1.2 billion and $936 million of unfunded commitments at September 30, 2019. The Company has no further economic interest in these VIEs in the form of guarantees, derivatives, credit enhancements or similar instruments and obligations.

At September 30, 2019, the Company consolidated one real estate joint venture for which it was identified as primary beneficiary under the VIE model. The consolidated entity is jointly owned by AXA Equitable Life Insurance Company (“AXA Equitable Life”) and AXA France and holds an investment in a real estate venture. Included in the Company’s consolidated balance sheet at September 30, 2019 related to this VIE is $33 million of Real estate held for production of income. In addition, one non-consolidated real estate joint venture totaling $19 million at September 30, 2019 has been deemed to be “held for sale” and is reported in Other invested assets.

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**AXA EQUITABLE HOLDINGS, INC.**

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Included in the Company’s consolidated balance sheet at September 30, 2019 are assets of $408 million, liabilities of $18 million and redeemable noncontrolling interest of $244 million associated with the consolidation of AB-sponsored investment funds under the VIE model. Also included in the Company’s consolidated balance sheet at September 30, 2019 are assets of $182 million, liabilities of $20 million and redeemable noncontrolling interest of $47 million from consolidation of AB-sponsored investment funds under the Voting Interest Entity (“VOE”) model. Of the assets of these consolidated funds, $180 million are presented within Other invested assets and $2 million are presented in Cash and cash equivalents and $20 million liabilities of these consolidated funds are presented with Other liabilities in the Company’s consolidated balance sheet at September 30, 2019. Ownership interests not held by the Company relating to consolidated VIEs and VOEs are presented either as redeemable or non-redeemable noncontrolling interest, as appropriate. The Company is not required to provide financial support to these company-sponsored investment funds, and only the assets of such funds are available to settle each fund’s own liabilities.

As of September 30, 2019, the net assets of investment products sponsored by AB that are non-consolidated VIEs are approximately $72.0 billion, and the Company’s maximum exposure to loss from its direct involvement with these VIEs is its investment of $11 million at September 30, 2019. The Company has no further commitments to or economic interest in these VIEs.

Assumption Updates and Model Changes

The Company conducts its annual review of its assumptions and models during the third quarter of each year. The annual review encompasses assumptions underlying the valuation of unearned revenue liabilities, embedded derivatives for the Company’s insurance business, liabilities for future policyholder benefits, deferred policy acquisition cost (“DAC”) and deferred sales inducement (“DSI”) assets. There was no material impact from model changes during the third quarter of 2019 and 2018 to our Income (loss) from continuing operations, before income taxes or Net income (loss).

The net impact of assumption changes in the third quarter of 2019 increased Policy charges and fee income by $3 million, increased Policyholders’ benefits by $875 million, increased Net derivative losses by $578 million, decreased Interest credited to policyholders’ account balances by $13 million and decreased Amortization of DAC by $46 million. This resulted in a decrease in Income (loss) from operations, before income taxes of $1.4 billion and decreased Net income (loss) by $1.1 billion.

The net impact of assumption changes in the third quarter of 2018 decreased Policy charges and fee income by $24 million, decreased Policyholders’ benefits by $673 million, increased Net derivative losses by $1.1 billion, and decreased the Amortization of DAC by $286 million. This resulted in a decrease in Income (loss) from operations, before income taxes of $160 million and decreased Net income (loss) by $131 million.

Reclassification of DAC Capitalization

During the fourth quarter of 2018, the Company changed the presentation of the capitalization of DAC in the consolidated statements of income for all prior periods presented herein by netting the capitalized amounts within the applicable expense line items, such as Compensation and benefits, Commissions and distribution-related payments and Other operating costs and expenses. Previously, the Company had netted the capitalized amounts within the Amortization of DAC. There was no impact on Net income (loss) or Comprehensive income (loss) from this reclassification.

The reclassification adjustments for the three and nine months ended September 30, 2018 are presented in the table below. Capitalization of DAC reclassified to Compensation and benefits, Commissions and distribution-related payments, and Other operating costs and expenses reduced the amounts previously reported in those expense line items, while the capitalization of DAC reclassified from the Amortization of deferred policy acquisition costs line item increases that expense line item.

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**AXA EQUITABLE HOLDINGS, INC.**

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**(UNAUDITED)**

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30, 2018** | | | | | | | | | | | | | | |  | **Nine Months Ended September 30, 2018** | | | | | | | | | | | | | | |
|  | **Individual Retirement** | | |  | **Group Retirement** | | |  | **Protection Solutions** | | |  | **Consoli-dated** | | |  | **Individual Retirement** | | |  | **Group Retirement** | | |  | **Protection Solutions** | | |  | **Consoli-dated** | | |
|  | **(in millions)** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| **Reductions to expense line items:** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Compensation and benefits | $ | 18 |  |  | $ | 8 |  |  | $ | 15 |  |  | $ | 41 |  |  | $ | 53 |  |  | $ | 23 |  |  | $ | 44 |  |  | $ | 120 |  |
| Commissions and distri-bution-related payments | 89 | |  |  | 13 | |  |  | 36 | |  |  | 139 | |  |  | 242 | |  |  | 42 | |  |  | 106 | |  |  | 390 | |  |
| Other operating costs and expenses | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | 2 | |  |  | 2 | |  |
| Total reductions | $ | 107 |  |  | $ | 21 |  |  | $ | 51 |  |  | $ | 180 |  |  | $ | 295 |  |  | $ | 65 |  |  | $ | 152 |  |  | $ | 512 |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| **Increase to expense line item:** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Amortization of deferred policy acquisition costs | $ | 107 |  |  | $ | 21 |  |  | $ | 51 |  |  | $ | 180 |  |  | $ | 295 |  |  | $ | 65 |  |  | $ | 152 |  |  | $ | 512 |  |

Revision of Prior Period Financial Statements

During the fourth quarter of 2018, the Company identified certain cash flows that were incorrectly classified in the Company’s consolidated statements of cash flows. The Company has determined that these misclassifications were not material to its financial statements of any period.

The impact of items included in the revision tables within Note 17 on the consolidated statement of cash flows for the nine months ended September 30, 2018 were corrected in the comparative consolidated statements of cash flows included herein. See Note 17 for further information.

**3)    INVESTMENTS**

Fixed Maturities

The following tables provide information relating to fixed maturities classified as available-for-sale (“AFS”).

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**AXA EQUITABLE HOLDINGS, INC.**

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**Available-for-Sale Fixed Maturities by Classification**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Amortized Cost** | | |  | **Gross Unrealized Gains** | | |  | **Gross Unrealized Losses** | | |  | **Fair Value** | | |  | **OTTI in AOCI (4)** | | |
|  | **(in millions)** | | | | | | | | | | | | | | | | | | |
| **September 30, 2019:** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Fixed Maturities: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Corporate (1) | **$** | **45,337** |  |  | **$** | **2,417** |  |  | **$** | **51** |  |  | **$** | **47,703** |  |  | **$** | **—** |  |
| U.S. Treasury, government and agency | **14,286** | |  |  | **1,890** | |  |  | **55** | |  |  | **16,121** | |  |  | **—** | |  |
| States and political subdivisions | **623** | |  |  | **83** | |  |  | **1** | |  |  | **705** | |  |  | **—** | |  |
| Foreign governments | **487** | |  |  | **44** | |  |  | **6** | |  |  | **525** | |  |  | **—** | |  |
| Residential mortgage-backed (2) | **199** | |  |  | **14** | |  |  | **—** | |  |  | **213** | |  |  | **—** | |  |
| Asset-backed (3) | **612** | |  |  | **4** | |  |  | **2** | |  |  | **614** | |  |  | **—** | |  |
| Redeemable preferred stock | **407** | |  |  | **16** | |  |  | **4** | |  |  | **419** | |  |  | **—** | |  |
| Total at September 30, 2019 | **$** | **61,951** |  |  | **$** | **4,468** |  |  | **$** | **119** |  |  | **$** | **66,300** |  |  | **$** | **—** |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| December 31, 2018: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Fixed Maturities: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Corporate (1) | $ | 30,572 |  |  | $ | 406 |  |  | $ | 800 |  |  | $ | 30,178 |  |  | $ | — |  |
| U.S. Treasury, government and agency | 14,004 | |  |  | 295 | |  |  | 470 | |  |  | 13,829 | |  |  | — | |  |
| States and political subdivisions | 415 | |  |  | 47 | |  |  | 1 | |  |  | 461 | |  |  | — | |  |
| Foreign governments | 524 | |  |  | 19 | |  |  | 13 | |  |  | 530 | |  |  | — | |  |
| Residential mortgage-backed (2) | 225 | |  |  | 10 | |  |  | 1 | |  |  | 234 | |  |  | — | |  |
| Asset-backed (3) | 612 | |  |  | 1 | |  |  | 12 | |  |  | 601 | |  |  | 2 | |  |
| Redeemable preferred stock | 449 | |  |  | 15 | |  |  | 18 | |  |  | 446 | |  |  | — | |  |
| Total at December 31, 2018 | $ | 46,801 |  |  | $ | 793 |  |  | $ | 1,315 |  |  | $ | 46,279 |  |  | $ | 2 |  |

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|  |  |
| (1) | Corporate fixed maturities includes both public and private issues. |

|  |  |
| --- | --- |
|  |  |
| (2) | Includes publicly traded agency pass-through securities and collateralized obligations. |

|  |  |
| --- | --- |
|  |  |
| (3) | Includes credit-tranched securities collateralized by sub-prime mortgages and other asset types and credit tenant loans. |

|  |  |
| --- | --- |
|  |  |
| (4) | Amounts represent OTTI losses in AOCI, which were not included in Net income (loss). |

The contractual maturities of AFS fixed maturities at September 30, 2019 are shown in the table below. Bonds not due at a single maturity date have been included in the table in the final year of maturity. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

**Contractual Maturities of Available-for-Sale Fixed Maturities**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Amortized Cost** | | |  | **Fair Value** | | |
|  | **(in millions)** | | | | | | |
| **September 30, 2019:** |  | | |  |  | | |
| Due in one year or less | **$** | **3,530** |  |  | **$** | **3,551** |  |
| Due in years two through five | **14,717** | |  |  | **15,161** | |  |
| Due in years six through ten | **17,866** | |  |  | **19,093** | |  |
| Due after ten years | **24,620** | |  |  | **27,249** | |  |
| Subtotal | **60,733** | |  |  | **65,054** | |  |
| Residential mortgage-backed | **199** | |  |  | **213** | |  |
| Asset-backed | **612** | |  |  | **614** | |  |
| Redeemable preferred stock | **407** | |  |  | **419** | |  |
| Total at September 30, 2019 | **$** | **61,951** |  |  | **$** | **66,300** |  |

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**AXA EQUITABLE HOLDINGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

The following table shows proceeds from sales, gross gains (losses) from sales for AFS fixed maturities during the three and nine months ended September 30, 2019 and 2018.

**Proceeds and Gains (Losses) on Sales for Available-for-Sale Fixed Maturities**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | |  | **Nine Months Ended September 30,** | | | | | | |
|  | **2019** | | |  | 2018 | | |  | **2019** | | |  | 2018 | | |
|  | **(in millions)** | | | | | | | | | | | | | | |
| Proceeds from sales | **$** | **3,849** |  |  | $ | 1,029 |  |  | **$** | **6,913** |  |  | $ | 6,054 |  |
| Gross gains on sales | **$** | **205** |  |  | $ | 6 |  |  | **$** | **223** |  |  | $ | 178 |  |
| Gross losses on sales | **$** | **(4** | **)** |  | $ | (31 | ) |  | **$** | **(29** | **)** |  | $ | (119 | ) |
|  |  | | |  |  | | |  |  | | |  |  | | |
| Total OTTI | **$** | **—** |  |  | $ | (4 | ) |  | **$** | **—** |  |  | $ | (4 | ) |
| Non-credit losses recognized in OCI | **—** | |  |  | — | |  |  | **—** | |  |  | — | |  |
| Credit losses recognized in Net income (loss) | **$** | **—** |  |  | $ | (4 | ) |  | **$** | **—** |  |  | $ | (4 | ) |

The following table sets forth the amount of credit loss impairments on AFS fixed maturities held by the Company at the dates indicated and the corresponding changes in such amounts.

**Available-for-Sale Fixed Maturities - Credit Loss Impairments**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | |  | **Nine Months Ended September 30,** | | | | | | |
|  | **2019** | | |  | 2018 | | |  | **2019** | | |  | 2018 | | |
|  | **(in millions)** | | | | | | | | | | | | | | |
| Balances, beginning of period | **$** | **(25** | **)** |  | $ | (17 | ) |  | **$** | **(58** | **)** |  | $ | (18 | ) |
| Previously recognized impairments on securities that matured, paid, prepaid or sold | **4** | |  |  | — | |  |  | **37** | |  |  | 1 | |  |
| Recognized impairments on securities impaired to fair value this period (1) | **—** | |  |  | — | |  |  | **—** | |  |  | — | |  |
| Impairments recognized this period on securities not previously impaired | **—** | |  |  | (4 | | ) |  | **—** | |  |  | (4 | | ) |
| Additional impairments this period on securities previously impaired | **—** | |  |  | — | |  |  | **—** | |  |  | — | |  |
| Increases due to passage of time on previously recorded credit losses | **—** | |  |  | — | |  |  | **—** | |  |  | — | |  |
| Accretion of previously recognized impairments due to increases in expected cash flows | **—** | |  |  | — | |  |  | **—** | |  |  | — | |  |
| Balances at September 30, | **$** | **(21** | **)** |  | $ | (21 | ) |  | **$** | **(21** | **)** |  | $ | (21 | ) |

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| --- | --- |
|  |  |
| (1) | Represents circumstances where the Company determined in the current period that it intends to sell the security, or it is more likely than not that it will be required to sell the security before recovery of the security’s amortized cost. |

Net unrealized investment gains (losses) on fixed maturities classified as AFS are included in the consolidated balance sheets as a component of AOCI.

Changes in net unrealized investment gains (losses) recognized in AOCI include reclassification adjustments to reflect amounts realized in Net income (loss) for the current period that had been part of OCI in earlier periods. The tables that follow below present a roll-forward of net unrealized investment gains (losses) recognized in AOCI:

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**AXA EQUITABLE HOLDINGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**Net Unrealized Gains (Losses) on Available-for-Sale Fixed Maturities**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Net Unrealized Gains (Losses) on Investments** | | |  | **DAC** | | |  | **Policyholders’ Liabilities** | | |  | **Deferred Income Tax Asset (Liability)** | | |  | **AOCI Gain (Loss) Related to Net Unrealized Investment Gains (Losses)** | | |
|  | **(in millions)** | | | | | | | | | | | | | | | | | | |
| Balances at July 1, 2019 | **$** | **2,929** |  |  | **$** | **(552** | **)** |  | **$** | **(88** | **)** |  | **$** | **(481** | **)** |  | **$** | **1,808** |  |
| Net investment gains (losses) arising during the period | **1,619** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **1,619** | |  |
| Reclassification adjustment: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Included in Net income (loss) | **(199** | | **)** |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **(199** | | **)** |
| Excluded from Net income (loss) (1) | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |
| Impact of net unrealized investment gains (losses) on: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| DAC | **—** | |  |  | **(390** | | **)** |  | **—** | |  |  | **—** | |  |  | **(390** | | **)** |
| Deferred income taxes | **—** | |  |  | **—** | |  |  | **—** | |  |  | **(150** | | **)** |  | **(150** | | **)** |
| Policyholders’ liabilities | **—** | |  |  | **—** | |  |  | **(315** | | **)** |  | **—** | |  |  | **(315** | | **)** |
| Net unrealized investment gains (losses) excluding OTTI losses | **4,349** | |  |  | **(942** | | **)** |  | **(403** | | **)** |  | **(631** | | **)** |  | **2,373** | |  |
| Net unrealized investment gains (losses) with OTTI losses | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |
| Balances at September 30, 2019 | **$** | **4,349** |  |  | **$** | **(942** | **)** |  | **$** | **(403** | **)** |  | **$** | **(631** | **)** |  | **$** | **2,373** |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Balances at July 1, 2018 | $ | (268 | ) |  | $ | 87 |  |  | $ | (120 | ) |  | $ | (66 | ) |  | $ | (367 | ) |
| Net investment gains (losses) arising during the period | (564 | | ) |  | — | |  |  | — | |  |  | — | |  |  | (564 | | ) |
| Reclassification adjustment: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Included in Net income (loss) | 36 | |  |  | — | |  |  | — | |  |  | — | |  |  | 36 | |  |
| Excluded from Net income (loss) (1) | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |
| Impact of net unrealized investment gains (losses) on: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| DAC | — | |  |  | 36 | |  |  | — | |  |  | — | |  |  | 36 | |  |
| Deferred income taxes | — | |  |  | — | |  |  | — | |  |  | 118 | |  |  | 118 | |  |
| Policyholders’ liabilities | — | |  |  | — | |  |  | (66 | | ) |  | — | |  |  | (66 | | ) |
| Net unrealized investment gains (losses) excluding OTTI losses | (796 | | ) |  | 123 | |  |  | (186 | | ) |  | 52 | |  |  | (807 | | ) |
| Net unrealized investment gains (losses) with OTTI losses | 1 | |  |  | — | |  |  | — | |  |  | — | |  |  | 1 | |  |
| Balances at September 30, 2018 | $ | (795 | ) |  | $ | 123 |  |  | $ | (186 | ) |  | $ | 52 |  |  | $ | (806 | ) |

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|  |  |
| --- | --- |
|  |  |
| (1) | Represents “transfers out” related to the portion of OTTI losses during the period that were not recognized in Net income (loss) for securities with no prior OTTI losses. |

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**AXA EQUITABLE HOLDINGS, INC.**

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**(UNAUDITED)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Net Unrealized Gains (Losses) on Investments** | | |  | **DAC** | | |  | **Policyholders’ Liabilities** | | |  | **Deferred Income Tax Asset (Liability)** | | |  | **AOCI Gain (Loss) Related to Net Unrealized Investment Gains (Losses)** | | |
|  | **(in millions)** | | | | | | | | | | | | | | | | | | |
| Balances at January 1, 2019 | **$** | **(522** | **)** |  | **$** | **100** |  |  | **$** | **(73** | **)** |  | **$** | **104** |  |  | **$** | **(391** | **)** |
| Net investment gains (losses) arising during the period | **5,075** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **5,075** | |  |
| Reclassification adjustment: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Included in Net income (loss) | **(204** | | **)** |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **(204** | | **)** |
| Excluded from Net income (loss) (1) | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |
| Impact of net unrealized investment gains (losses) on: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| DAC | **—** | |  |  | **(1,042** | | **)** |  | **—** | |  |  | **—** | |  |  | **(1,042** | | **)** |
| Deferred income taxes | **—** | |  |  | **—** | |  |  | **—** | |  |  | **(735** | | **)** |  | **(735** | | **)** |
| Policyholders’ liabilities | **—** | |  |  | **—** | |  |  | **(330** | | **)** |  | **—** | |  |  | **(330** | | **)** |
| Net unrealized investment gains (losses) excluding OTTI losses | **4,349** | |  |  | **(942** | | **)** |  | **(403** | | **)** |  | **(631** | | **)** |  | **2,373** | |  |
| Net unrealized investment gains (losses) with OTTI losses | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |
| Balances at September 30, 2019 | **$** | **4,349** |  |  | **$** | **(942** | **)** |  | **$** | **(403** | **)** |  | **$** | **(631** | **)** |  | **$** | **2,373** |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Balances at January 1, 2018 | $ | 1,871 |  |  | $ | (358 | ) |  | $ | (238 | ) |  | $ | (397 | ) |  | $ | 878 |  |
| Net investment gains (losses) arising during the period | (2,613 | | ) |  | — | |  |  | — | |  |  | — | |  |  | (2,613 | | ) |
| Reclassification adjustment: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Included in Net income (loss) | (54 | | ) |  | — | |  |  | — | |  |  | — | |  |  | (54 | | ) |
| Excluded from Net income (loss) (1) | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |
| Impact of net unrealized investment gains (losses) on: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| DAC | — | |  |  | 481 | |  |  | — | |  |  | — | |  |  | 481 | |  |
| Deferred income taxes | — | |  |  | — | |  |  | — | |  |  | 449 | |  |  | 449 | |  |
| Policyholders’ liabilities | — | |  |  | — | |  |  | 52 | |  |  | — | |  |  | 52 | |  |
| Net unrealized investment gains (losses) excluding OTTI losses | (796 | | ) |  | 123 | |  |  | (186 | | ) |  | 52 | |  |  | (807 | | ) |
| Net unrealized investment gains (losses) with OTTI losses | 1 | |  |  | — | |  |  | — | |  |  | — | |  |  | 1 | |  |
| Balances at September 30, 2018 | $ | (795 | ) |  | $ | 123 |  |  | $ | (186 | ) |  | $ | 52 |  |  | $ | (806 | ) |

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|  |  |
| --- | --- |
|  |  |
| (1) | Represents “transfers out” related to the portion of OTTI losses during the period that were not recognized in Net income (loss) for securities with no prior OTTI losses. |

The following tables disclose the fair values and gross unrealized losses of the 353 securities at September 30, 2019 and the 1,700 securities at December 31, 2018 that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position for the specified periods at the dates indicated:

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**AXA EQUITABLE HOLDINGS, INC.**

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**Continuous Gross Unrealized Losses for Available-for-Sale Fixed Maturities**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Less Than 12 Months** | | | | | | |  | **12 Months or Longer** | | | | | | |  | **Total** | | | | | | |
|  | **Fair Value** | | |  | **Gross Unrealized Losses** | | |  | **Fair Value** | | |  | **Gross Unrealized Losses** | | |  | **Fair Value** | | |  | **Gross Unrealized Losses** | | |
|  | **(in millions)** | | | | | | | | | | | | | | | | | | | | | | |
| **September 30, 2019:** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Fixed Maturities: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Corporate | **$** | **2,496** |  |  | **$** | **25** |  |  | **$** | **581** |  |  | **$** | **26** |  |  | **$** | **3,077** |  |  | **$** | **51** |  |
| U.S. Treasury, government and agency | **1,573** | |  |  | **55** | |  |  | **—** | |  |  | **—** | |  |  | **1,573** | |  |  | **55** | |  |
| States and political subdivisions | **36** | |  |  | **1** | |  |  | **—** | |  |  | **—** | |  |  | **36** | |  |  | **1** | |  |
| Foreign governments | **—** | |  |  | **—** | |  |  | **47** | |  |  | **6** | |  |  | **47** | |  |  | **6** | |  |
| Asset-backed | **319** | |  |  | **1** | |  |  | **75** | |  |  | **1** | |  |  | **394** | |  |  | **2** | |  |
| Redeemable preferred stock | **—** | |  |  | **—** | |  |  | **53** | |  |  | **4** | |  |  | **53** | |  |  | **4** | |  |
| Total at September 30, 2019 | **$** | **4,424** |  |  | **$** | **82** |  |  | **$** | **756** |  |  | **$** | **37** |  |  | **$** | **5,180** |  |  | **$** | **119** |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| December 31, 2018: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Fixed Maturities: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Corporate | $ | 8,964 |  |  | $ | 313 |  |  | $ | 8,244 |  |  | $ | 487 |  |  | $ | 17,208 |  |  | $ | 800 |  |
| U.S. Treasury, government and agency | 1,077 | |  |  | 53 | |  |  | 4,306 | |  |  | 417 | |  |  | 5,383 | |  |  | 470 | |  |
| States and political subdivisions | — | |  |  | — | |  |  | 19 | |  |  | 1 | |  |  | 19 | |  |  | 1 | |  |
| Foreign governments | 109 | |  |  | 3 | |  |  | 76 | |  |  | 10 | |  |  | 185 | |  |  | 13 | |  |
| Residential mortgage-backed | — | |  |  | — | |  |  | 29 | |  |  | 1 | |  |  | 29 | |  |  | 1 | |  |
| Asset-backed | 563 | |  |  | 11 | |  |  | 13 | |  |  | 1 | |  |  | 576 | |  |  | 12 | |  |
| Redeemable preferred stock | 165 | |  |  | 13 | |  |  | 33 | |  |  | 5 | |  |  | 198 | |  |  | 18 | |  |
| Total at December 31, 2018 | $ | 10,878 |  |  | $ | 393 |  |  | $ | 12,720 |  |  | $ | 922 |  |  | $ | 23,598 |  |  | $ | 1,315 |  |

The Company’s investments in fixed maturities do not include concentrations of credit risk of any single issuer greater than 10% of the consolidated equity of the Company, other than securities of the U.S. government, U.S. government agencies, and certain securities guaranteed by the U.S. government. The Company maintains a diversified portfolio of corporate securities across industries and issuers and does not have exposure to any single issuer in excess of 0.7% of total corporate securities. The largest exposures to a single issuer of corporate securities held at September 30, 2019 and December 31, 2018 were $318 million and $226 million, respectively, representing 1.9% and 1.5% of the consolidated equity of the Company.

Corporate high yield securities, consisting primarily of public high yield bonds, are classified as other than investment grade by the various rating agencies, i.e., a rating below Baa3/BBB- or the National Association of Insurance Commissioners (“NAIC”) designation of 3 (medium investment grade), 4 or 5 (below investment grade) or 6 (in or near default). At September 30, 2019 and December 31, 2018, respectively, approximately $1.4 billion and $1.3 billion, or 2.3% and 2.7%, of the $62.0 billion and $46.8 billion aggregate amortized cost of fixed maturities held by the Company were considered to be other than investment grade. These securities had unrealized losses of $21 million and $31 million at September 30, 2019 and December 31, 2018, respectively.

At September 30, 2019 and December 31, 2018, respectively, the $37 million and $922 million of gross unrealized losses of twelve months or more were concentrated in corporate and U.S. Treasury, government and agency securities. In accordance with the policy described in Note 2, the Company concluded that an adjustment to income for OTTI for these securities was not warranted at either September 30, 2019 or 2018. At September 30, 2019 and December 31, 2018, the Company did not intend to sell the securities nor will it likely be required to dispose of the securities before the anticipated recovery of their remaining amortized cost basis.

At September 30, 2019 and December 31, 2018, the fair value of the Company’s trading account securities was $8.9 billion and $16.0 billion, respectively. At September 30, 2019 and December 31, 2018, trading account securities

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**AXA EQUITABLE HOLDINGS, INC.**

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**(UNAUDITED)**

included the General Account’s investment in Separate Accounts which had carrying values of $54 million and $49 million, respectively.

Net unrealized and realized gains (losses) on trading account equity securities are included in Net investment income (loss) in the Consolidated Statements of Income (Loss). The table below shows a breakdown of Net investment income (loss) from trading account securities during the three and nine months ended September 30, 2019 and 2018:

**Net Investment Income (Loss) from Trading Account Securities**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | |  | **Nine Months Ended September 30,** | | | | | | |
|  | **2019** | | |  | 2018 | | |  | **2019** | | |  | 2018 | | |
|  | **(in millions)** | | | | | | | | | | | | | | |
| Net investment gains (losses) recognized during the period on securities held at the end of the period | **$** | **15** |  |  | $ | (35 | ) |  | **$** | **492** |  |  | $ | (255 | ) |
| Net investment gains (losses) recognized on securities sold during the period | **14** | |  |  | 6 | |  |  | **(7** | | **)** |  | (11 | | ) |
| Net investment gains (losses) on trading securities arising during the period | **29** | |  |  | (29 | | ) |  | **485** | |  |  | (266 | | ) |
| Interest and dividend income from trading securities | **62** | |  |  | 84 | |  |  | **227** | |  |  | 243 | |  |
| Net investment income (loss) from trading securities | **$** | **91** |  |  | $ | 55 |  |  | **$** | **712** |  |  | $ | (23 | ) |

Mortgage Loans

The payment terms of mortgage loans may from time to time be restructured or modified.

At September 30, 2019 and December 31, 2018, the carrying values of problem commercial mortgage loans on real estate that had been classified as non-accrual loans were $– and $19 million, respectively.

Allowances for credit losses for commercial mortgage loans were $– and $7 million for the nine months ended September 30, 2019 and 2018, respectively. There were no allowances for credit losses for agricultural mortgage loans for the nine months ended September 30, 2019 and 2018.

The following tables provide information relating to the loan-to-value and debt service coverage ratios for commercial and agricultural mortgage loans at September 30, 2019 and December 31, 2018. The values used in these ratio calculations were developed as part of the periodic review of the commercial and agricultural mortgage loan portfolio, which includes an evaluation of the underlying collateral value.

**Mortgage Loans by Loan-to-Value and Debt Service Coverage Ratios**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Debt Service Coverage Ratio (1)** | | | | | | | | | | | | | | | | | | | | | | |  | **Total Mortgage Loans** | | |
| **Loan-to-Value Ratio (2):** | **Greater than 2.0x** | | |  | **1.8x to 2.0x** | | |  | **1.5x to 1.8x** | | |  | **1.2x to 1.5x** | | |  | **1.0x to 1.2x** | | |  | **Less than 1.0x** | | |  |
|  | **(in millions)** | | | | | | | | | | | | | | | | | | | | | | | | | | |
| **September 30, 2019:** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Commercial Mortgage Loans: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| 0% - 50% | **$** | **811** |  |  | **$** | **39** |  |  | **$** | **215** |  |  | **$** | **24** |  |  | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **1,089** |  |
| 50% - 70% | **4,296** | |  |  | **1,041** | |  |  | **1,255** | |  |  | **769** | |  |  | **208** | |  |  | **—** | |  |  | **7,569** | |  |
| 70% - 90% | **158** | |  |  | **110** | |  |  | **70** | |  |  | **98** | |  |  | **142** | |  |  | **—** | |  |  | **578** | |  |
| 90% plus | **—** | |  |  | **—** | |  |  | **46** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **46** | |  |
| Total Commercial Mortgage Loans | **$** | **5,265** |  |  | **$** | **1,190** |  |  | **$** | **1,586** |  |  | **$** | **891** |  |  | **$** | **350** |  |  | **$** | **—** |  |  | **$** | **9,282** |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |

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**AXA EQUITABLE HOLDINGS, INC.**

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Debt Service Coverage Ratio (1)** | | | | | | | | | | | | | | | | | | | | | | |  | **Total Mortgage Loans** | | |
| **Loan-to-Value Ratio (2):** | **Greater than 2.0x** | | |  | **1.8x to 2.0x** | | |  | **1.5x to 1.8x** | | |  | **1.2x to 1.5x** | | |  | **1.0x to 1.2x** | | |  | **Less than 1.0x** | | |  |
|  | **(in millions)** | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Agricultural Mortgage Loans: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| 0% - 50% | **$** | **291** |  |  | **$** | **108** |  |  | **$** | **257** |  |  | **$** | **568** |  |  | **$** | **327** |  |  | **$** | **45** |  |  | **$** | **1,596** |  |
| 50% - 70% | **106** | |  |  | **81** | |  |  | **240** | |  |  | **403** | |  |  | **263** | |  |  | **32** | |  |  | **1,125** | |  |
| 70% - 90% | **—** | |  |  | **—** | |  |  | **—** | |  |  | **19** | |  |  | **—** | |  |  | **—** | |  |  | **19** | |  |
| 90% plus | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |
| Total Agricultural Mortgage Loans | **$** | **397** |  |  | **$** | **189** |  |  | **$** | **497** |  |  | **$** | **990** |  |  | **$** | **590** |  |  | **$** | **77** |  |  | **$** | **2,740** |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Total Mortgage Loans: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| 0% - 50% | **$** | **1,102** |  |  | **$** | **147** |  |  | **$** | **472** |  |  | **$** | **592** |  |  | **$** | **327** |  |  | **$** | **45** |  |  | **$** | **2,685** |  |
| 50% - 70% | **4,402** | |  |  | **1,122** | |  |  | **1,495** | |  |  | **1,172** | |  |  | **471** | |  |  | **32** | |  |  | **8,694** | |  |
| 70% - 90% | **158** | |  |  | **110** | |  |  | **70** | |  |  | **117** | |  |  | **142** | |  |  | **—** | |  |  | **597** | |  |
| 90% plus | **—** | |  |  | **—** | |  |  | **46** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **46** | |  |
| Total Mortgage Loans | **$** | **5,662** |  |  | **$** | **1,379** |  |  | **$** | **2,083** |  |  | **$** | **1,881** |  |  | **$** | **940** |  |  | **$** | **77** |  |  | **$** | **12,022** |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| December 31, 2018: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Commercial Mortgage Loans: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| 0% - 50% | $ | 797 |  |  | $ | 21 |  |  | $ | 247 |  |  | $ | 24 |  |  | $ | — |  |  | $ | — |  |  | $ | 1,089 |  |
| 50% - 70% | 4,908 | |  |  | 656 | |  |  | 1,146 | |  |  | 325 | |  |  | 151 | |  |  | — | |  |  | 7,186 | |  |
| 70% - 90% | 260 | |  |  | — | |  |  | 117 | |  |  | 370 | |  |  | 98 | |  |  | — | |  |  | 845 | |  |
| 90% plus | — | |  |  | — | |  |  | — | |  |  | 27 | |  |  | — | |  |  | — | |  |  | 27 | |  |
| Total Commercial Mortgage Loans | $ | 5,965 |  |  | $ | 677 |  |  | $ | 1,510 |  |  | $ | 746 |  |  | $ | 249 |  |  | $ | — |  |  | $ | 9,147 |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Agricultural Mortgage Loans: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| 0% - 50% | $ | 282 |  |  | $ | 147 |  |  | $ | 267 |  |  | $ | 543 |  |  | $ | 321 |  |  | $ | 51 |  |  | $ | 1,611 |  |
| 50% - 70% | 112 | |  |  | 46 | |  |  | 246 | |  |  | 379 | |  |  | 224 | |  |  | 31 | |  |  | 1,038 | |  |
| 70% - 90% | — | |  |  | — | |  |  | — | |  |  | 19 | |  |  | 27 | |  |  | — | |  |  | 46 | |  |
| 90% plus | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |
| Total Agricultural Mortgage Loans | $ | 394 |  |  | $ | 193 |  |  | $ | 513 |  |  | $ | 941 |  |  | $ | 572 |  |  | $ | 82 |  |  | $ | 2,695 |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Total Mortgage Loans: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| 0% - 50% | $ | 1,079 |  |  | $ | 168 |  |  | $ | 514 |  |  | $ | 567 |  |  | $ | 321 |  |  | $ | 51 |  |  | $ | 2,700 |  |
| 50% - 70% | 5,020 | |  |  | 702 | |  |  | 1,392 | |  |  | 704 | |  |  | 375 | |  |  | 31 | |  |  | 8,224 | |  |
| 70% - 90% | 260 | |  |  | — | |  |  | 117 | |  |  | 389 | |  |  | 125 | |  |  | — | |  |  | 891 | |  |
| 90% plus | — | |  |  | — | |  |  | — | |  |  | 27 | |  |  | — | |  |  | — | |  |  | 27 | |  |
| Total Mortgage Loans | $ | 6,359 |  |  | $ | 870 |  |  | $ | 2,023 |  |  | $ | 1,687 |  |  | $ | 821 |  |  | $ | 82 |  |  | $ | 11,842 |  |

\_\_\_\_\_\_\_\_\_\_\_\_\_\_

|  |  |
| --- | --- |
|  |  |
| (1) | The debt service coverage ratio is calculated using the most recently reported operating income results from property operations divided by annual debt service. |

|  |  |
| --- | --- |
|  |  |
| (2) | The loan-to-value ratio is derived from current loan balance divided by the most recent fair value estimate of the property. The fair value of the underlying commercial properties is updated annually. |

The following table provides information relating to the aging analysis of past due mortgage loans at September 30, 2019 and December 31, 2018.

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**Age Analysis of Past Due Mortgage Loans**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **30-59 Days** | | |  | **60-89 Days** | | |  | **90 Days or More** | | |  | **Total** | | |  | **Current** | | |  | **Total Financing Receivables** | | |  | **Recorded Investment 90 Days or More and Accruing** | | |
|  |  | | |  |  | | |  |  | | |  | **(in millions)** | | | | | | |  |  | | |  |  | | |
| **September 30, 2019:** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Commercial | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **9,282** |  |  | **$** | **9,282** |  |  | **$** | **—** |  |
| Agricultural | **25** | |  |  | **5** | |  |  | **75** | |  |  | **105** | |  |  | **2,635** | |  |  | **2,740** | |  |  | **75** | |  |
| Total Mortgage Loans | **$** | **25** |  |  | **$** | **5** |  |  | **$** | **75** |  |  | **$** | **105** |  |  | **$** | **11,917** |  |  | **$** | **12,022** |  |  | **$** | **75** |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| December 31, 2018: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Commercial | $ | — |  |  | $ | — |  |  | $ | 27 |  |  | $ | 27 |  |  | $ | 9,120 |  |  | $ | 9,147 |  |  | $ | — |  |
| Agricultural | 18 | |  |  | 8 | |  |  | 42 | |  |  | 68 | |  |  | 2,627 | |  |  | 2,695 | |  |  | 40 | |  |
| Total Mortgage Loans | $ | 18 |  |  | $ | 8 |  |  | $ | 69 |  |  | $ | 95 |  |  | $ | 11,747 |  |  | $ | 11,842 |  |  | $ | 40 |  |

**4)    DERIVATIVES**

The Company uses derivatives as part of its overall asset/liability risk management primarily to reduce exposures to equity market and interest rate risks. Derivative hedging strategies are designed to reduce these risks from an economic perspective and are all executed within the framework of a “Derivative Use Plan” approved by applicable states’ insurance law. Derivatives are generally not accounted for using hedge accounting, with the exception of Treasury Inflation-Protected Securities (“TIPS”), which is discussed further below. Operation of these hedging programs is based on models involving numerous estimates and assumptions, including, among others, mortality, lapse, surrender and withdrawal rates, election rates, fund performance, market volatility and interest rates. A wide range of derivative contracts are used in these hedging programs, including exchange traded equity, currency and interest rate futures contracts, total return and/or other equity swaps, interest rate swap and floor contracts, bond and bond-index total return swaps, swaptions, variance swaps and equity options, credit and foreign exchange derivatives, as well as bond and repo transactions to support the hedging. The Company bought interest rate swaptions during the second quarter of 2019 to reduce the impact of unfavorable changes in interest rates. The derivative contracts are collectively managed in an effort to reduce the economic impact of unfavorable changes in guaranteed benefits’ exposures attributable to movements in capital markets. In addition, as part of its hedging strategy, the Company targets an asset level for all variable annuity products at or above a CTE98 level under most economic scenarios. CTE is a statistical measure of tail risk which quantifies the total asset requirement to sustain a loss if an event outside a given probability level has occurred. CTE98 denotes the financial resources a company would need to cover the average of the worst 2% of scenarios.

Derivatives Utilized to Hedge Exposure to Variable Annuities with Guarantee Features

The Company has issued and continues to offer variable annuity products with GMxB features. The risk associated with the GMDB feature is that under-performance of the financial markets could result in GMDB benefits, in the event of death, being higher than what accumulated policyholders’ account balances would support. The risk associated with the GMIB feature is that under-performance of the financial markets could result in the present value of GMIB, in the event of annuitization, being higher than what accumulated policyholders’ account balances would support, taking into account the relationship between current annuity purchase rates and the GMIB guaranteed annuity purchase rates. The risk associated with products that have a GMxB derivative features liability is that under-performance of the financial markets could result in the GMxB derivative features’ benefits being higher than what accumulated policyholders’ account balances would support.

For GMxB features, the Company retains certain risks including basis, credit spread, some volatility risk and risk associated with actual versus expected actuarial assumptions for mortality, lapse and surrender, withdrawal and policyholder election rates, among other things. The derivative contracts are managed to correlate with changes in the value of the GMxB features that result from financial markets movements. A portion of exposure to realized equity volatility is hedged using equity options and variance swaps and a portion of exposure to credit risk is hedged using

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total return swaps on fixed income indices. Additionally, the Company is party to total return swaps for which the reference U.S. Treasury securities are contemporaneously purchased from the market and sold to the swap counterparty. As these transactions result in a transfer of control of the U.S. Treasury securities to the swap counterparty, the Company derecognizes these securities with consequent gain or loss from the sale. The Company has also purchased reinsurance contracts to mitigate the risks associated with GMDB features and the impact of potential market fluctuations on future policyholder elections of GMIB features contained in certain annuity contracts issued by the Company.

The Company has in place an economic hedge program using interest rate swaps and treasury futures to partially protect the overall profitability of future variable annuity sales against declining interest rates.

Derivatives Utilized to Hedge Crediting Rate Exposure on SCS, SIO, MSO and IUL Products/Investment Options

The Company hedges crediting rates in the Structured Capital Strategies (“SCS”) variable annuity, Structured Investment Option in the EQUI-VEST variable annuity series (“SIO”), Market Stabilizer Option (“MSO”) in the variable life insurance products and Indexed Universal Life (“IUL”) insurance products. These products permit the contract owner to participate in the performance of an index, ETF or commodity price movement up to a cap for a set period of time. They also contain a protection feature, in which the Company will absorb, up to a certain percentage, the loss of value in an index, ETF or commodity price, which varies by product segment.

In order to support the returns associated with these features, the Company enters into derivative contracts whose payouts, in combination with fixed income investments, emulate those of the index, ETF or commodity price, subject to caps and buffers, thereby substantially reducing any exposure to market-related earnings volatility.

Derivatives Used to Hedge Equity Market Risks Associated with the General Account’s Seed Money Investments in Retail Mutual Funds

The Company’s General Account seed money investments in retail mutual funds expose us to market risk, including equity market risk which is partially hedged through equity-index futures contracts to minimize such risk.

Derivatives Used for General Account Investment Portfolio

The Company maintains a strategy in its General Account investment portfolio to replicate the credit exposure of fixed maturity securities otherwise permissible for investment under its investment guidelines through the sale of credit default swaps (“CDSs”). Under the terms of these swaps, the Company receives quarterly fixed premiums that, together with any initial amount paid or received at trade inception, replicate the credit spread otherwise currently obtainable by purchasing the referenced entity’s bonds of similar maturity. These credit derivatives generally have terms of five years or less and are recorded at fair value with changes in fair value, including the yield component that emerges from initial amounts paid or received, reported in Net derivative gains (losses).

The Company manages its credit exposure taking into consideration both cash and derivatives-based positions and selects the reference entities in its replicated credit exposures in a manner consistent with its selection of fixed maturities. In addition, the Company generally transacts the sale of CDSs in single name reference entities of investment grade credit quality and with counterparties subject to collateral posting requirements. If there is an event of default by the reference entity or other such credit event as defined under the terms of the swap contract, the Company is obligated to perform under the credit derivative and, at the counterparty’s option, either pay the referenced amount of the contract less an auction-determined recovery amount or pay the referenced amount of the contract and receive in return the defaulted or similar security of the reference entity for recovery by sale at the contract settlement auction.

To date, there have been no events of default or circumstances indicative of a deterioration in the credit quality of the named referenced entities to require or suggest that the Company will have to perform under these CDSs. The maximum potential amount of future payments the Company could be required to make under these credit derivatives is limited to the par value of the referenced securities which is the U.S. dollar or euro-equivalent of the derivative’s notional amount. The Standard North American CDS Contract (“SNAC”) or Standard European Corporate Contract (“STEC”) under which the Company executes these CDS sales transactions does not contain recourse provisions for recovery of amounts paid under the credit derivative.

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The Company purchased 30-year TIPS and other sovereign bonds, both inflation linked and non-inflation linked, as General Account investments and enters into asset or cross-currency basis swaps, to result in payment of the given bond’s coupons and principal at maturity in the bond’s specified currency to the swap counterparty in return for fixed dollar amounts. These swaps, when considered in combination with the bonds, together result in a net position that is intended to replicate a dollar-denominated fixed-coupon cash bond with a yield higher than a term-equivalent U.S. Treasury bond.

In June 2019, the Company terminated a program to mitigate its duration gap using total return swaps for which the reference U.S. Treasury securities are sold to the swap counterparty under arrangements economically similar to repurchase agreements. The Company terminated $3.9 billion, in notional, of total return swaps reported in other invested assets in the Company’s balance sheet. The terminated total return swaps had a gain of $121 million.

The tables below present quantitative disclosures about the Company’s derivative instruments, including those embedded in other contracts required to be accounted for as derivative instruments.

**Derivative Instruments by Category**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **At September 30, 2019** | | | | | | | | | | |  | **Gains (Losses) Reported in Net Income (Loss) Nine Months Ended September 30, 2019** | | |
|  |  | | |  | **Fair Value** | | | | | | |  |
|  | **Notional**  **Amount** | | |  | **Asset**  **Derivatives** | | |  | **Liability**  **Derivatives** | | |  |
|  | **(in millions)** | | | | | | | | | | | | | | |
| **Freestanding Derivatives (1) (2):** |  | | |  |  | | |  |  | | |  |  | | |
| Equity contracts: |  | | |  |  | | |  |  | | |  |  | | |
| Futures | **$** | **7,586** |  |  | **$** | **1** |  |  | **$** | **—** |  |  | **$** | **(990** | **)** |
| Swaps | **9,650** | |  |  | **82** | |  |  | **56** | |  |  | **(1,279** | | **)** |
| Options | **49,184** | |  |  | **3,963** | |  |  | **1,515** | |  |  | **1,255** | |  |
| Interest rate contracts: |  | | |  |  | | |  |  | | |  |  | | |
| Swaps | **25,875** | |  |  | **1,199** | |  |  | **385** | |  |  | **2,843** | |  |
| Futures | **16,422** | |  |  | **—** | |  |  | **—** | |  |  | **188** | |  |
| Swaptions | **3,201** | |  |  | **196** | |  |  | **—** | |  |  | **146** | |  |
| Credit contracts: |  | | |  |  | | |  |  | | |  |  | | |
| Credit default swaps | **1,464** | |  |  | **21** | |  |  | **6** | |  |  | **9** | |  |
| Other freestanding contracts: |  | | |  |  | | |  |  | | |  |  | | |
| Foreign currency contracts | **1,179** | |  |  | **13** | |  |  | **13** | |  |  | **(11** | | **)** |
| Margin | **—** | |  |  | **20** | |  |  | **—** | |  |  | **—** | |  |
| Collateral | **—** | |  |  | **—** | |  |  | **3,488** | |  |  | **—** | |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| **Embedded Derivatives (2):** |  | | |  |  | | |  |  | | |  |  | | |
| GMIB reinsurance contracts | **—** | |  |  | **2,452** | |  |  | **—** | |  |  | **741** | |  |
| GMxB derivative features liability (3) | **—** | |  |  | **—** | |  |  | **9,568** | |  |  | **(3,664** | | **)** |
| SCS, SIO, MSO and IUL indexed features (4) | **—** | |  |  | **—** | |  |  | **2,272** | |  |  | **(1,555** | | **)** |
| **Total** | **$** | **114,561** |  |  | **$** | **7,947** |  |  | **$** | **17,303** |  |  | **$** | **(2,317** | **)** |

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|  |  |
| --- | --- |
|  |  |
| (1) | Reported in Other invested assets in the consolidated balance sheets. |

|  |  |
| --- | --- |
|  |  |
| (2) | Reported in Net derivative gains (losses) in the consolidated statements of income (loss). |

|  |  |
| --- | --- |
|  |  |
| (3) | Reported in Future policy benefits and other policyholders’ liabilities in the consolidated balance sheets. |

|  |  |
| --- | --- |
|  |  |
| (4) | SCS, SIO, MSO and IUL indexed features are reported in Policyholders’ account balances in the consolidated balance sheets. |

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**AXA EQUITABLE HOLDINGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | At December 31, 2018 | | | | | | | | | | |  | Gains (Losses) Reported in Net Income (Loss) Nine Months Ended September 30, 2018 | | |
|  |  | | |  | Fair Value | | | | | | |  |
|  | Notional  Amount | | |  | Asset  Derivatives | | |  | Liability  Derivatives | | |  |
|  | (in millions) | | | | | | | | | | | | | | |
| Freestanding Derivatives (1) (2): |  | | |  |  | | |  |  | | |  |  | | |
| Equity contracts: |  | | |  |  | | |  |  | | |  |  | | |
| Futures | $ | 11,143 |  |  | $ | 2 |  |  | $ | 3 |  |  | $ | (508 | ) |
| Swaps | 7,796 | |  |  | 143 | |  |  | 168 | |  |  | (455 | | ) |
| Options | 21,821 | |  |  | 2,133 | |  |  | 1,164 | |  |  | 701 | |  |
| Interest rate contracts: |  | | |  |  | | |  |  | | |  |  | | |
| Swaps | 27,116 | |  |  | 634 | |  |  | 196 | |  |  | (1,214 | | ) |
| Futures | 11,792 | |  |  | — | |  |  | — | |  |  | 45 | |  |
| Credit contracts: |  | | |  |  | | |  |  | | |  |  | | |
| Credit default swaps | 1,376 | |  |  | 20 | |  |  | 3 | |  |  | 3 | |  |
| Other freestanding contracts: |  | | |  |  | | |  |  | | |  |  | | |
| Foreign currency contracts | 2,184 | |  |  | 35 | |  |  | 22 | |  |  | 60 | |  |
| Margin | — | |  |  | 18 | |  |  | 5 | |  |  | — | |  |
| Collateral | — | |  |  | 8 | |  |  | 1,581 | |  |  | — | |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| Embedded Derivatives: |  | | |  |  | | |  |  | | |  |  | | |
| GMIB reinsurance contracts (2) | — | |  |  | 1,732 | |  |  | — | |  |  | (522 | | ) |
| GMxB derivative features liability (2) (3) | — | |  |  | — | |  |  | 5,614 | |  |  | 452 | |  |
| SCS, SIO, MSO and IUL indexed features (2) (4) | — | |  |  | — | |  |  | 715 | |  |  | (850 | | ) |
| Net derivative gains (loss) |  | | |  |  | | |  |  | | |  | (2,288 | | ) |
| Cross currency swaps (5) (6) | — | |  |  | — | |  |  | — | |  |  | 9 | |  |
| Total | $ | 83,228 |  |  | $ | 4,725 |  |  | $ | 9,471 |  |  | $ | (2,279 | ) |

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|  |  |
| --- | --- |
|  |  |
| (1) | Reported in Other invested assets in the consolidated balance sheets. |

|  |  |
| --- | --- |
|  |  |
| (2) | Reported in Net derivative gains (losses) in the consolidated statements of income (loss). |

|  |  |
| --- | --- |
|  |  |
| (3) | Reported in Future policy benefits and other policyholders’ liabilities in the consolidated balance sheets. |

|  |  |
| --- | --- |
|  |  |
| (4) | SCS, SIO, MSO and IUL indexed features are reported in Policyholders’ account balances in the consolidated balance sheets. |

|  |  |
| --- | --- |
|  |  |
| (5) | Reported in Other assets or Other liabilities in the consolidated balance sheets. |

|  |  |
| --- | --- |
|  |  |
| (6) | Reported in Other income in the consolidated statements of income (loss). |

Equity-Based and Treasury Futures Contracts Margin

All outstanding equity-based and treasury futures contracts at September 30, 2019 are exchange-traded and net settled daily in cash. At September 30, 2019, the Company had open exchange-traded futures positions on: (i) the S&P 500, Russell 2000, and Emerging Market indices, having initial margin requirements of $285 million, (ii) the 2-year, 5-year and 10-year U.S. Treasury Notes on U.S. Treasury bonds and ultra-long bonds, having initial margin requirements of $45 million and (iii) the Euro Stoxx, FTSE 100, Topix, ASX 200, and European, Australasia, and Far East (“EAFE”) indices as well as corresponding currency futures on the Euro/U.S. dollar, Pound/U.S. dollar, Australian dollar/U.S. dollar, and Yen/U.S. dollar, having initial margin requirements of $26 million.

Collateral Arrangements

The Company generally has executed a Credit Support Annex (“CSA”) under the International Swaps and Derivatives Association Master Agreement (“ISDA Master Agreement”) it maintains with each of its over-the-counter (“OTC”) derivative counterparties that requires both posting and accepting collateral either in the form of cash or high-quality securities, such as U.S. Treasury securities, U.S. government and government agency securities and investment grade corporate bonds. The Company nets the fair value of all derivative financial instruments with counterparties for which an ISDA Master Agreement and related CSA have been executed. At September 30, 2019 and December 31, 2018,

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respectively, the Company held $3.5 billion and $1.6 billion in cash and securities collateral delivered by trade counterparties, representing the fair value of the related derivative agreements. The unrestricted cash collateral is reported in Other invested assets. The Company posted collateral of $– and $8 million at September 30, 2019 and December 31, 2018, respectively, in the normal operation of its collateral arrangements.

Securities Repurchase and Reverse Repurchase Transactions

Securities repurchase and reverse repurchase transactions are conducted by the Company under a standardized securities industry master agreement, amended to suit the requirements of each respective counterparty. The Company’s securities repurchase and reverse repurchase agreements are accounted for as secured borrowing or lending arrangements, respectively, and are reported in the consolidated balance sheets on a gross basis. At September 30, 2019 and December 31, 2018, the balance outstanding under securities repurchase transactions was $– and $573 million, respectively. The Company utilized these repurchase and reverse repurchase agreements for asset liability and cash management purposes. For other instruments used for asset and liability management purposes, see Note 14.

The following table presents information about the Company’s offsetting of financial assets and liabilities and derivative instruments at September 30, 2019.

**Offsetting of Financial Assets and Liabilities and Derivative Instruments**

**At September 30, 2019**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Gross Amount Recognized** | | |  | **Gross Amount Offset in the Balance Sheets** | | |  | **Net Amount Presented in the Balance Sheets** | | |
|  | **(in millions)** | | | | | | | | | | |
| **Assets:** |  | | |  |  | | |  |  | | |
| Total derivatives (1) | **$** | **5,496** |  |  | **$** | **5,437** |  |  | **$** | **59** |  |
| Other financial instruments | **2,290** | |  |  | **—** | |  |  | **2,290** | |  |
| Other invested assets | **$** | **7,786** |  |  | **$** | **5,437** |  |  | **$** | **2,349** |  |
|  |  | | |  |  | | |  |  | | |
| **Liabilities:** |  | | |  |  | | |  |  | | |
| Total derivatives (2) | **$** | **5,462** |  |  | **$** | **5,437** |  |  | **$** | **25** |  |
| Other financial liabilities | **3,808** | |  |  | **—** | |  |  | **3,808** | |  |
| Other liabilities | **$** | **9,270** |  |  | **$** | **5,437** |  |  | **$** | **3,833** |  |

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|  |  |
| --- | --- |
|  |  |
| (1) | Excludes Investment Management and Research segment’s derivative assets of consolidated VIEs/VOEs. |

|  |  |
| --- | --- |
|  |  |
| (2) | Excludes Investment Management and Research segment’s derivative liabilities of consolidated VIEs/VOEs. |

The following table presents information about the Company’s gross collateral amounts that are not offset in the consolidated balance sheets at September 30, 2019.

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**AXA EQUITABLE HOLDINGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**Collateral Amounts Not Offset in the Consolidated Balance Sheets**

**At September 30, 2019**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Net Amount of Derivative Contracts** | | |  | **Collateral (Received)/Paid** | | | | | | |  |  | | |
|  | **Financial Instruments** | | |  | **Cash** | | |  | **Net Amount** | | |
|  | **(in millions)** | | | | | | | | | | | | | | |
| **Assets:** | | | |  |  | | |  |  | | |  |  | | |
| Total derivatives (1) | **$** | **3,501** |  |  | **$** | **10** |  |  | **$** | **3,432** |  |  | **$** | **59** |  |
| Other financial instruments | **2,290** | |  |  | **—** | |  |  | **—** | |  |  | **2,290** | |  |
| Other invested assets | **$** | **5,791** |  |  | **$** | **10** |  |  | **$** | **3,432** |  |  | **$** | **2,349** |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| **Liabilities:** |  | | |  |  | | |  |  | | |  |  | | |
| Total derivatives (2) | **$** | **25** |  |  | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **25** |  |
| Other financial liabilities | **3,808** | |  |  | **—** | |  |  | **—** | |  |  | **3,808** | |  |
| Other liabilities | **$** | **3,833** |  |  | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **3,833** |  |

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|  |  |
| --- | --- |
|  |  |
| (1) | Excludes Investment Management and Research segment’s derivative assets of consolidated VIEs/VOEs. |

|  |  |
| --- | --- |
|  |  |
| (2) | Excludes Investment Management and Research segment’s derivative liabilities of consolidated VIEs/VOEs. |

The Company had no securities sold under agreements to repurchase at September 30, 2019.

The following table presents information about the Company’s offsetting financial assets and liabilities and derivative instruments at December 31, 2018.

**Offsetting of Financial Assets and Liabilities and Derivative Instruments**

**At December 31, 2018**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | Gross Amount Recognized | | |  | Gross Amount Offset in the Balance Sheets | | |  | Net Amount Presented in the Balance Sheets | | |
|  | (in millions) | | | | | | | | | | |
| Assets: |  | | |  |  | | |  |  | | |
| Total derivatives (1) | $ | 2,993 |  |  | $ | 2,945 |  |  | $ | 48 |  |
| Other financial instruments | 1,989 | |  |  | — | |  |  | 1,989 | |  |
| Other invested assets | $ | 4,982 |  |  | $ | 2,945 |  |  | $ | 2,037 |  |
|  |  | | |  |  | | |  |  | | |
| Liabilities: |  | | |  |  | | |  |  | | |
| Total derivatives (2) | $ | 3,142 |  |  | $ | 2,945 |  |  | $ | 197 |  |
| Other financial liabilities | 3,163 | |  |  | — | |  |  | 3,163 | |  |
| Other liabilities | $ | 6,305 |  |  | $ | 2,945 |  |  | $ | 3,360 |  |
|  |  | | |  |  | | |  |  | | |
| Securities sold under agreement to repurchase (3) | $ | 571 |  |  | $ | — |  |  | $ | 571 |  |

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|  |  |
| --- | --- |
|  |  |
| (1) | Excludes Investment Management and Research segment’s derivative assets of consolidated VIEs/VOEs. |

|  |  |
| --- | --- |
|  |  |
| (2) | Excludes Investment Management and Research segment’s derivative liabilities of consolidated VIEs/VOEs. |

|  |  |
| --- | --- |
|  |  |
| (3) | Excludes expense of $2 million in Securities sold under agreement to repurchase on the consolidated balance sheets. |

The following table presents information about the Company’s gross collateral amounts that are not offset in the consolidated balance sheets at December 31, 2018.

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**AXA EQUITABLE HOLDINGS, INC.**

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**Collateral Amounts Not Offset in the Consolidated Balance Sheets**

**At December 31, 2018**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Net Amount of Derivative Contracts | | |  | Collateral (Received)/Paid | | | | | | |  |  | | |
|  | Financial Instruments | | |  | Cash | | |  | Net Amount | | |
|  | (in millions) | | | | | | | | | | | | | | |
| Assets: |  | | |  |  | | |  |  | | |  |  | | |
| Total derivatives (1) | $ | 1,411 |  |  | $ | — |  |  | $ | (1,363 | ) |  | $ | 48 |  |
| Other financial instruments | 1,989 | |  |  | — | |  |  | — | |  |  | 1,989 | |  |
| Other invested assets | $ | 3,400 |  |  | $ | — |  |  | $ | (1,363 | ) |  | $ | 2,037 |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| Liabilities: |  | | |  |  | | |  |  | | |  |  | | |
| Total derivatives (2) | $ | 197 |  |  | $ | — |  |  | $ | — |  |  | $ | 197 |  |
| Other financial liabilities | 3,163 | |  |  | — | |  |  | — | |  |  | 3,163 | |  |
| Other liabilities | $ | 3,360 |  |  | $ | — |  |  | $ | — |  |  | $ | 3,360 |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| Securities sold under agreement to repurchase (3) (4) (5) | $ | 571 |  |  | $ | (588 | ) |  | $ | — |  |  | $ | (17 | ) |

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|  |  |
| --- | --- |
|  |  |
| (1) | Excludes Investment Management and Research segment’s derivative assets of consolidated VIEs/VOEs. |

|  |  |
| --- | --- |
|  |  |
| (2) | Excludes Investment Management and Research segment’s derivative liabilities of consolidated VIEs/VOEs. |

|  |  |
| --- | --- |
|  |  |
| (3) | Excludes expense of $2 million in Securities sold under agreement to repurchase. |

|  |  |
| --- | --- |
|  |  |
| (4) | U.S. Treasury and agency securities are in Fixed maturities available-for-sale on the consolidated balance sheets. |

|  |  |
| --- | --- |
|  |  |
| (5) | Cash is included in Cash and cash equivalents on consolidated balance sheets. |

The following table presents information about repurchase agreements accounted for as secured borrowings in the consolidated balance sheets at December 31, 2018.

**Repurchase Agreement Accounted for as Secured Borrowings**

**At December 31, 2018**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Remaining Contractual Maturity of the Agreements | | | | | | | | | | | | | | | | | | |
|  | Overnight  and   Continuous | | |  | Up to 30 days | | |  | 30–90 days | | |  | Greater  Than 90 days | | |  | Total | | |
|  | (in millions) | | | | | | | | | | | | | | | | | | |
| Securities sold under agreement to repurchase(1): |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| U.S. Treasury and agency securities | $ | — |  |  | $ | 571 |  |  | $ | — |  |  | $ | — |  |  | $ | 571 |  |
| Total | $ | — |  |  | $ | 571 |  |  | $ | — |  |  | $ | — |  |  | $ | 571 |  |

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|  |  |
| --- | --- |
|  |  |
| (1) | Excludes expense of $2 million in Securities sold under agreement to repurchase on the consolidated balance sheets. |

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**AXA EQUITABLE HOLDINGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**5)    CLOSED BLOCK**

Summarized financial information for the Company’s Closed Block is as follows:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **September 30, 2019** | | |  | December 31, 2018 | | |
|  | **(in millions)** | | | | | | |
| **Closed Block Liabilities:** |  | | |  |  | | |
| Future policy benefits, policyholders’ account balances and other | **$** | **6,558** |  |  | $ | 6,709 |  |
| Policyholder dividend obligation | **5** | |  |  | — | |  |
| Other liabilities | **61** | |  |  | 47 | |  |
| Total Closed Block liabilities | **6,624** | |  |  | 6,756 | |  |
|  |  | | |  |  | | |
| **Assets Designated to the Closed Block:** |  | | |  |  | | |
| Fixed maturities available-for-sale, at fair value (amortized cost of $3,658 and $3,680) | **3,869** | |  |  | 3,672 | |  |
| Mortgage loans on real estate, net of valuation allowance of $0 and $0 | **1,800** | |  |  | 1,824 | |  |
| Policy loans | **716** | |  |  | 736 | |  |
| Cash and other invested assets | **10** | |  |  | 76 | |  |
| Other assets | **167** | |  |  | 179 | |  |
| Total assets designated to the Closed Block | **6,562** | |  |  | 6,487 | |  |
|  |  | | |  |  | | |
| Excess of Closed Block liabilities over assets designated to the Closed Block | **62** | |  |  | 269 | |  |
| Amounts included in accumulated other comprehensive income (loss): |  | | |  |  | | |
| Net unrealized investment gains (losses), net of policyholders' dividend obligation $5 and $0 | **219** | |  |  | 8 | |  |
| **Maximum future earnings to be recognized from Closed Block assets and liabilities** | **$** | **281** |  |  | $ | 277 |  |

The Company’s Closed Block revenues and expenses are as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | |  | **Nine Months Ended September 30,** | | | | | | |
|  | **2019** | | |  | 2018 | | |  | **2019** | | |  | 2018 | | |
|  | **(in millions)** | | | | | | | | | | | | | | |
| **Revenues:** |  | | |  |  | | |  |  | | |  |  | | |
| Premiums and other income | **$** | **42** |  |  | $ | 44 |  |  | **$** | **136** |  |  | $ | 144 |  |
| Net investment income (loss) | **69** | |  |  | 72 | |  |  | **208** | |  |  | 218 | |  |
| Investment gains (losses), net | **—** | |  |  | — | |  |  | **(1** | | **)** |  | 1 | |  |
| Total revenues | **111** | |  |  | 116 | |  |  | **343** | |  |  | 363 | |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| **Benefits and Other Deductions:** |  | | |  |  | | |  |  | | |  |  | | |
| Policyholders’ benefits and dividends | **108** | |  |  | 123 | |  |  | **343** | |  |  | 372 | |  |
| Other operating costs and expenses | **—** | |  |  | 1 | |  |  | **1** | |  |  | 3 | |  |
| Total benefits and other deductions | **108** | |  |  | 124 | |  |  | **344** | |  |  | 375 | |  |
| Net income (loss) before income taxes | **3** | |  |  | (8 | | ) |  | **(1** | | **)** |  | (12 | | ) |
| Income tax (expense) benefit | **—** | |  |  | 2 | |  |  | **(2** | | **)** |  | 2 | |  |
| **Net income (loss)** | **$** | **3** |  |  | $ | (6 | ) |  | **$** | **(3** | **)** |  | $ | (10 | ) |

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**AXA EQUITABLE HOLDINGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**6)    INSURANCE LIABILITIES**

Variable Annuity Contracts – GMDB, GMIB, GIB and GWBL and Other Features

The Company has certain variable annuity contracts with GMDB, GMIB, GIB and GWBL and other features in-force that guarantee one of the following:

|  |  |
| --- | --- |
|  |  |
| • | Return of Premium: the benefit is the greater of current account value or premiums paid (adjusted for withdrawals); |

|  |  |
| --- | --- |
|  |  |
| • | Ratchet: the benefit is the greatest of current account value, premiums paid (adjusted for withdrawals), or the highest account value on any anniversary up to contractually specified ages (adjusted for withdrawals); |

|  |  |
| --- | --- |
|  |  |
| • | Roll-Up: the benefit is the greater of current account value or premiums paid (adjusted for withdrawals) accumulated at contractually specified interest rates up to specified ages; |

|  |  |
| --- | --- |
|  |  |
| • | Combo: the benefit is the greater of the ratchet benefit or the roll-up benefit, which may include either a five year or an annual reset; or |

|  |  |
| --- | --- |
|  |  |
| • | Withdrawal: the withdrawal is guaranteed up to a maximum amount per year for life. |

***Liabilities for Variable Annuity Contracts with GMDB and GMIB Features without No-Lapse Guarantee Rider (“NLG”) Feature***

The change in the liabilities for variable annuity contracts with GMDB and GMIB features and no NLG feature are summarized in the tables below. The amounts for the direct contracts (before reinsurance ceded) and assumed contracts are reflected in the consolidated balance sheets in Future policy benefits and other policyholders’ liabilities. The amounts for the ceded contracts are reflected in the consolidated balance sheets in Amounts due from reinsurers.

**Change in Liability for Variable Annuity Contracts with GMDB Features and No NLG Feature**

**Three and Nine Months Ended September 30, 2019 and 2018**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | | | | | | | | | | | | | | | | | |
|  | **2019** | | | | | | | | | | |  | 2018 | | | | | | | | | | |
|  | **Direct** | | |  | **Assumed** | | |  | **Ceded** | | |  | Direct | | |  | Assumed | | |  | Ceded | | |
|  | **(in millions)** | | | | | | | | | | | | | | | | | | | | | | |
| Beginning balance | **$** | **4,714** |  |  | **$** | **76** |  |  | **$** | **(106** | **)** |  | $ | 4,129 |  |  | $ | 82 |  |  | $ | (102 | ) |
| Paid guarantee benefits | **(102** | | **)** |  | **(6** | | **)** |  | **3** | |  |  | (91 | | ) |  | (6 | | ) |  | 3 | |  |
| Other changes in reserve | **160** | |  |  | **4** | |  |  | **(4** | | **)** |  | 485 | |  |  | 7 | |  |  | (10 | | ) |
| Ending balance | **$** | **4,772** |  |  | **$** | **74** |  |  | **$** | **(107** | **)** |  | $ | 4,523 |  |  | $ | 83 |  |  | $ | (109 | ) |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
|  | **Nine Months Ended September 30,** | | | | | | | | | | | | | | | | | | | | | | |
|  | **2019** | | | | | | | | | | |  | 2018 | | | | | | | | | | |
|  | **Direct** | | |  | **Assumed** | | |  | **Ceded** | | |  | Direct | | |  | Assumed | | |  | Ceded | | |
|  | **(in millions)** | | | | | | | | | | | | | | | | | | | | | | |
| Beginning balance | **$** | **4,659** |  |  | **$** | **82** |  |  | **$** | **(113** | **)** |  | $ | 4,059 |  |  | $ | 95 |  |  | $ | (108 | ) |
| Paid guarantee benefits | **(328** | | **)** |  | **(17** | | **)** |  | **11** | |  |  | (291 | | ) |  | (18 | | ) |  | 13 | |  |
| Other changes in reserve | **441** | |  |  | **9** | |  |  | **(5** | | **)** |  | 755 | |  |  | 6 | |  |  | (14 | | ) |
| Ending balance | **$** | **4,772** |  |  | **$** | **74** |  |  | **$** | **(107** | **)** |  | $ | 4,523 |  |  | $ | 83 |  |  | $ | (109 | ) |

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**AXA EQUITABLE HOLDINGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**Change in Liability for Variable Annuity Contracts with GMIB Features and No NLG Feature**

**Three and Nine Months Ended September 30, 2019 and 2018**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | | | | | | | | | | | | | | | | | |
|  | **2019** | | | | | | | | | | |  | 2018 | | | | | | | | | | |
|  | **Direct** | | |  | **Assumed** | | |  | **Ceded** | | |  | Direct | | |  | Assumed | | |  | Ceded | | |
|  | **(in millions)** | | | | | | | | | | | | | | | | | | | | | | |
| Beginning balance | **$** | **3,761** |  |  | **$** | **192** |  |  | **$** | **(1,896** | **)** |  | $ | 4,702 |  |  | $ | 158 |  |  | $ | (1,638 | ) |
| Paid guarantee benefits | **(70** | | **)** |  | **15** | |  |  | **20** | |  |  | (43 | | ) |  | (22 | | ) |  | 1 | |  |
| Other changes in reserve | **992** | |  |  | **(2** | | **)** |  | **(576** | | **)** |  | (1,053 | | ) |  | 1 | |  |  | 262 | |  |
| Ending balance | **$** | **4,683** |  |  | **$** | **205** |  |  | **$** | **(2,452** | **)** |  | $ | 3,606 |  |  | $ | 137 |  |  | $ | (1,375 | ) |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
|  | **Nine Months Ended September 30,** | | | | | | | | | | | | | | | | | | | | | | |
|  | **2019** | | | | | | | | | | |  | 2018 | | | | | | | | | | |
|  | **Direct** | | |  | **Assumed** | | |  | **Ceded** | | |  | Direct | | |  | Assumed | | |  | Ceded | | |
|  | **(in millions)** | | | | | | | | | | | | | | | | | | | | | | |
| Beginning balance | **$** | **3,743** |  |  | **$** | **184** |  |  | **$** | **(1,732** | **)** |  | $ | 4,752 |  |  | $ | 195 |  |  | $ | (1,894 | ) |
| Paid guarantee benefits | **(182** | | **)** |  | **25** | |  |  | **55** | |  |  | (108 | | ) |  | (58 | | ) |  | 31 | |  |
| Other changes in reserve | **1,122** | |  |  | **(4** | | **)** |  | **(775** | | **)** |  | (1,038 | | ) |  | — | |  |  | 488 | |  |
| Ending balance | **$** | **4,683** |  |  | **$** | **205** |  |  | **$** | **(2,452** | **)** |  | $ | 3,606 |  |  | $ | 137 |  |  | $ | (1,375 | ) |

***Liabilities for Embedded and Freestanding Insurance Related Derivatives***

The liability for the GMxB derivative features liability, the liability for SCS, SIO, MSO and IUL indexed features and the asset and liability for the GMIB reinsurance contracts are considered embedded or freestanding insurance derivatives and are reported at fair value. For the fair value of the assets and liabilities associated with these embedded or freestanding insurance derivatives, see Note 7.

***Account Values and Net Amount at Risk***

Account Values and Net Amount at Risk (“NAR”) for direct and assumed variable annuity contracts in-force with GMDB and GMIB features as of September 30, 2019 are presented in the following tables by guarantee type. For contracts with the GMDB feature, the NAR in the event of death is the amount by which the GMDB feature exceeds the related Account Values. For contracts with the GMIB feature, the NAR in the event of annuitization is the amount by which the present value of the GMIB benefits exceed the related Account Values, taking into account the relationship between current annuity purchase rates and the GMIB guaranteed annuity purchase rates. Since variable annuity contracts with GMDB features may also offer GMIB guarantees in the same contract, the GMDB and GMIB amounts listed are not mutually exclusive.

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**AXA EQUITABLE HOLDINGS, INC.**

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**Direct Variable Annuity Contracts with GMDB and GMIB Features**

**at September 30, 2019**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Guarantee Type** | | | | | | | | | | | | | | | | | | |
|  | **Return of**  **Premium** | | |  | **Ratchet** | | |  | **Roll-Up** | | |  | **Combo** | | |  | **Total** | | |
|  | **(in millions, except age and interest rate)** | | | | | | | | | | | | | | | | | | |
| **Variable annuity contracts with GMDB features** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Account Values invested in: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| General Account | **$** | **14,483** |  |  | **$** | **94** |  |  | **$** | **58** |  |  | **$** | **181** |  |  | **$** | **14,816** |  |
| Separate Accounts | **46,286** | |  |  | **8,937** | |  |  | **3,071** | |  |  | **32,067** | |  |  | **90,361** | |  |
| Total Account Values | **$** | **60,769** |  |  | **$** | **9,031** |  |  | **$** | **3,129** |  |  | **$** | **32,248** |  |  | **$** | **105,177** |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Net amount at risk, gross | **$** | **123** |  |  | **$** | **80** |  |  | **$** | **1,980** |  |  | **$** | **18,846** |  |  | **$** | **21,029** |  |
| Net amount at risk, net of amounts reinsured | **$** | **123** |  |  | **$** | **76** |  |  | **$** | **1,388** |  |  | **$** | **18,846** |  |  | **$** | **20,433** |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Average attained age of policyholders (in years) | **51.2** | |  |  | **67.4** | |  |  | **74.1** | |  |  | **69.2** | |  |  | **55.1** | |  |
| Percentage of policyholders over age 70 | **10.5** | | **%** |  | **44.9** | | **%** |  | **67.5** | | **%** |  | **49.9** | | **%** |  | **19.3** | | **%** |
| Range of contractually specified interest rates | **N/A** | |  |  | **N/A** | |  |  | **3% - 6%** | |  |  | **3% - 6.5%** | |  |  | **3% - 6.5%** | |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| **Variable annuity contracts with GMIB features** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Account Values invested in: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| General Account | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **20** |  |  | **$** | **233** |  |  | **$** | **253** |  |
| Separate Accounts | **—** | |  |  | **—** | |  |  | **22,484** | |  |  | **34,718** | |  |  | **57,202** | |  |
| Total Account Values | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **22,504** |  |  | **$** | **34,951** |  |  | **$** | **57,455** |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Net amount at risk, gross | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **981** |  |  | **$** | **10,696** |  |  | **$** | **11,677** |  |
| Net amount at risk, net of amounts reinsured | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **309** |  |  | **$** | **9,678** |  |  | **$** | **9,987** |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Average attained age of policyholders (in years) | **N/A** | | |  | **N/A** | | |  | **68.7** | |  |  | **69.3** | |  |  | **69.2** | |  |
| Weighted-average years remaining until annuitization | **N/A** | | |  | **N/A** | | |  | **1.7** | |  |  | **0.4** | |  |  | **0.5** | |  |
| Range of contractually specified interest rates | **N/A** | | |  | **N/A** | | |  | **3% - 6%** | |  |  | **3% - 6.5%** | |  |  | **3% - 6.5%** | |  |

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**AXA EQUITABLE HOLDINGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**Assumed Variable Annuity Contracts with GMDB and GMIB Features**

**at September 30, 2019**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Guarantee Type** | | | | | | | | | | | | | | | | | | |
|  | **Return of**  **Premium** | | |  | **Ratchet** | | |  | **Roll-Up** | | |  | **Combo** | | |  | **Total** | | |
|  | **(in millions, except age and interest rates)** | | | | | | | | | | | | | | | | | | |
| **Variable annuity contracts with GMDB features** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Reinsured account values | **$** | **906** |  |  | **$** | **5,156** |  |  | **$** | **265** |  |  | **$** | **1,128** |  |  | **$** | **7,455** |  |
| Net amount at risk assumed | **$** | **5** |  |  | **$** | **256** |  |  | **$** | **18** |  |  | **$** | **175** |  |  | **$** | **454** |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Average attained age of policyholders (in years) | **68** | |  |  | **73** | |  |  | **77** | |  |  | **75** | |  |  | **73** | |  |
| Percentage of policyholders over age 70 | **44.5** | | **%** |  | **63.9** | | **%** |  | **79.4** | | **%** |  | **74.7** | | **%** |  | **63.7** | | **%** |
| Range of contractually specified interest rates (1) | **N/A** | | |  | **N/A** | | |  | **3%-10%** | |  |  | **5%-10%** | |  |  | **3%-10%** | |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| **Variable annuity contracts with GMIB features** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Reinsured account values | **$** | **884** |  |  | **$** | **43** |  |  | **$** | **238** |  |  | **$** | **1,161** |  |  | **$** | **2,326** |  |
| Net amount at risk assumed | **$** | **1** |  |  | **$** | **—** |  |  | **$** | **34** |  |  | **$** | **318** |  |  | **$** | **353** |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Average attained age of policyholders (in years) | **72** | |  |  | **74** | |  |  | **72** | |  |  | **69** | |  |  | **71** | |  |
| Percentage of policyholders over age 70 | **64.0** | | **%** |  | **62.6** | | **%** |  | **60.9** | | **%** |  | **52.2** | | **%** |  | **57.7** | | **%** |
| Range of contractually specified interest rates | **N/A** | | |  | **N/A** | | |  | **3.3%-6.5%** | |  |  | **6%-6%** | |  |  | **3.3%-6.5%** | |  |

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|  |  |
| --- | --- |
|  |  |
| (1) | In general, for policies with the highest contractual interest rate shown (10%), the rate applied only for the first 10 years after issue, which has now elapsed. |

For more information about the reinsurance programs of the Company’s GMDB and GMIB exposure, see “Reinsurance Agreements” in Note 10 of the Notes to the Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2018.

Separate Accounts Investments by Investment Category Underlying Variable Annuity Contracts with GMDB and GMIB Features

The total account values of variable annuity contracts with GMDB and GMIB features include amounts allocated to the guaranteed interest option, which is part of the General Account and variable investment options that invest through Separate Accounts in variable insurance trusts. The following table presents the aggregate fair value of assets, by major investment category, held by Separate Accounts that support variable annuity contracts with GMDB and GMIB features. The investment performance of the assets impacts the related account values and, consequently, the NAR associated with the GMDB and GMIB benefits and guarantees. Because the Company’s variable annuity contracts offer both GMDB and GMIB features, GMDB and GMIB amounts are not mutually exclusive.

**Investment in Variable Insurance Trust Mutual Funds**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **September 30, 2019** | | | | | | |  | December 31, 2018 | | | | | | |
| **Mutual Fund Type** | **GMDB** | | |  | **GMIB** | | |  | GMDB | | |  | GMIB | | |
|  | **(in millions)** | | | | | | | | | | | | | | |
| Equity | **$** | **39,866** |  |  | **$** | **17,056** |  |  | $ | 35,541 |  |  | $ | 15,759 |  |
| Fixed income | **5,277** | |  |  | **2,748** | |  |  | 5,173 | |  |  | 2,812 | |  |
| Balanced | **44,347** | |  |  | **37,132** | |  |  | 41,588 | |  |  | 33,974 | |  |
| Other | **871** | |  |  | **266** | |  |  | 852 | |  |  | 290 | |  |
| Total | **$** | **90,361** |  |  | **$** | **57,202** |  |  | $ | 83,154 |  |  | $ | 52,835 |  |

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**AXA EQUITABLE HOLDINGS, INC.**

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Hedging Programs for GMDB, GMIB, GIB and Other Features

The Company has a program intended to hedge certain risks associated first with the GMDB feature and with the GMIB feature of the Accumulator series of variable annuity products. The program has also been extended to cover other guaranteed benefits as they have been made available. This program utilizes derivative contracts, such as exchange-traded equity, currency and interest rate futures contracts, total return and/or equity swaps, interest rate swap and floor contracts, swaptions, variance swaps as well as equity options, that collectively are managed in an effort to reduce the economic impact of unfavorable changes in guaranteed benefits’ exposures attributable to movements in the capital markets. At the present time, this program hedges certain economic risks on products sold from 2001 forward, to the extent such risks are not externally reinsured.

These programs do not qualify for hedge accounting treatment. Therefore, gains (losses) on the derivatives contracts used in these programs, including current period changes in fair value, are recognized in Net derivative gains (losses) in the period in which they occur, and may contribute to income (loss) volatility.

Variable and Interest-Sensitive Life Insurance Policies - NLG

The NLG feature contained in variable and interest-sensitive life insurance policies keeps them in force in situations where the policy value is not sufficient to cover monthly charges then due. The NLG remains in effect so long as the policy meets a contractually specified premium funding test and certain other requirements.

The change in the fair value of the NLG feature reflected in the General Account in Future policy benefits and other policyholders’ liabilities in the consolidated balance sheets, is summarized in the table below.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Direct Liability (1)** | | | | | | | | | | | | | | |
|  | **Three Months Ended September 30,** | | | | | | |  | **Nine Months Ended September 30,** | | | | | | |
|  | **2019** | | |  | 2018 | | |  | **2019** | | |  | 2018 | | |
|  | **(in millions)** | | | | | | | | | | | | | | |
| Beginning balance | **$** | **843** |  |  | $ | 729 |  |  | **$** | **812** |  |  | $ | 709 |  |
| Paid guaranteed benefits | **(7** | | **)** |  | (4 | | ) |  | **(17** | | **)** |  | (13 | | ) |
| Other changes in reserves | **53** | |  |  | 51 | |  |  | **94** | |  |  | 80 | |  |
| Ending balance | **$** | **889** |  |  | $ | 776 |  |  | **$** | **889** |  |  | $ | 776 |  |

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|  |  |
| --- | --- |
|  |  |
| (1) | There were no amounts of reinsurance ceded in any period presented. |

**7)    FAIR VALUE DISCLOSURES**

The accounting guidance establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value, and identifies three levels of inputs that may be used to measure fair value:

|  |  |
| --- | --- |
|  |  |
| Level 1 | Unadjusted quoted prices for identical instruments in active markets. Level 1 fair values generally are supported by market transactions that occur with sufficient frequency and volume to provide pricing information on an ongoing basis. |

|  |  |
| --- | --- |
|  |  |
| Level 2 | Observable inputs other than Level 1 prices, such as quoted prices for similar instruments, quoted prices in markets that are not active, and inputs to model-derived valuations that are directly observable or can be corroborated by observable market data. |

|  |  |
| --- | --- |
|  |  |
| Level 3 | Unobservable inputs supported by little or no market activity and often requiring significant management judgment or estimation, such as an entity’s own assumptions about the cash flows or other significant components of value that market participants would use in pricing the asset or liability. |

The Company uses unadjusted quoted market prices to measure fair value for those instruments that are actively traded in financial markets. In cases where quoted market prices are not available, fair values are measured using present value or other valuation techniques. The fair value determinations are made at a specific point in time, based on available market information and judgments about the financial instrument, including estimates of the timing and amount of expected future cash flows and the credit standing of counterparties. Such adjustments do not reflect any

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premium or discount that could result from offering for sale at one time the Company’s entire holdings of a particular financial instrument, nor do they consider the tax impact of the realization of unrealized gains or losses. In many cases, the fair value cannot be substantiated by direct comparison to independent markets, nor can the disclosed value be realized in immediate settlement of the instrument.

Management is responsible for the determination of the value of investments carried at fair value and the supporting methodologies and assumptions. Under the terms of various service agreements, the Company often utilizes independent valuation service providers to gather, analyze, and interpret market information and derive fair values based upon relevant methodologies and assumptions for individual securities. These independent valuation service providers typically obtain data about market transactions and other key valuation model inputs from multiple sources and, through the use of widely accepted valuation models, provide a single fair value measurement for individual securities for which a fair value has been requested. As further described below with respect to specific asset classes, these inputs include, but are not limited to, market prices for recent trades and transactions in comparable securities, benchmark yields, interest rate yield curves, credit spreads, quoted prices for similar securities, and other market-observable information, as applicable. Specific attributes of the security being valued also are considered, including its term, interest rate, credit rating, industry sector, and when applicable, collateral quality and other security- or issuer-specific information. When insufficient market observable information is available upon which to measure fair value, the Company either will request brokers knowledgeable about these securities to provide a non-binding quote or will employ internal valuation models. Fair values received from independent valuation service providers and brokers and those internally modeled or otherwise estimated are assessed for reasonableness.

Assets and liabilities measured at fair value on a recurring basis are summarized below. At September 30, 2019 and December 31, 2018, no assets were required to be measured at fair value on a non-recurring basis. Fair value measurements are required on a non-recurring basis for certain assets, including goodwill and mortgage loans on real estate, only when an impairment or other event occurs. When such fair value measurements are recorded, they must be classified and disclosed within the fair value hierarchy.

**Fair Value Measurements at September 30, 2019**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Level 1** | | |  | **Level 2** | | |  | **Level 3** | | |  | **Total** | | |
|  | **(in millions)** | | | | | | | | | | | | | | |
| **Assets:** |  | | |  |  | | |  |  | | |  |  | | |
| Investments: |  | | |  |  | | |  |  | | |  |  | | |
| Fixed maturities, available-for-sale: |  | | |  |  | | |  |  | | |  |  | | |
| Corporate (1) | **$** | **—** |  |  | **$** | **46,483** |  |  | **$** | **1,220** |  |  | **$** | **47,703** |  |
| U.S. Treasury, government and agency | **—** | |  |  | **16,121** | |  |  | **—** | |  |  | **16,121** | |  |
| States and political subdivisions | **—** | |  |  | **666** | |  |  | **39** | |  |  | **705** | |  |
| Foreign governments | **—** | |  |  | **525** | |  |  | **—** | |  |  | **525** | |  |
| Residential mortgage-backed (2) | **—** | |  |  | **213** | |  |  | **—** | |  |  | **213** | |  |
| Asset-backed (3) | **—** | |  |  | **82** | |  |  | **532** | |  |  | **614** | |  |
| Redeemable preferred stock | **143** | |  |  | **276** | |  |  | **—** | |  |  | **419** | |  |
| Total fixed maturities, available-for-sale | **143** | |  |  | **64,366** | |  |  | **1,791** | |  |  | **66,300** | |  |
| Other equity investments | **13** | |  |  | **—** | |  |  | **71** | |  |  | **84** | |  |
| Trading securities | **475** | |  |  | **8,429** | |  |  | **35** | |  |  | **8,939** | |  |
| Other invested assets: |  | | |  |  | | |  |  | | |  |  | | |
| Short-term investments | **—** | |  |  | **459** | |  |  | **—** | |  |  | **459** | |  |
| Assets of consolidated VIEs/VOEs | **122** | |  |  | **420** | |  |  | **22** | |  |  | **564** | |  |
| Swaps | **—** | |  |  | **840** | |  |  | **—** | |  |  | **840** | |  |
| Credit default swaps | **—** | |  |  | **15** | |  |  | **—** | |  |  | **15** | |  |
| Futures | **1** | |  |  | **—** | |  |  | **—** | |  |  | **1** | |  |
| Options | **—** | |  |  | **2,448** | |  |  | **—** | |  |  | **2,448** | |  |
| Swaptions | **—** | |  |  | **196** | |  |  | **—** | |  |  | **196** | |  |
| Total other invested assets | **123** | |  |  | **4,378** | |  |  | **22** | |  |  | **4,523** | |  |

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Level 1** | | |  | **Level 2** | | |  | **Level 3** | | |  | **Total** | | |
|  | **(in millions)** | | | | | | | | | | | | | | |
| Cash equivalents | **3,740** | |  |  | **—** | |  |  | **—** | |  |  | **3,740** | |  |
| Segregated securities | **—** | |  |  | **958** | |  |  | **—** | |  |  | **958** | |  |
| GMIB reinsurance contract asset | **—** | |  |  | **—** | |  |  | **2,452** | |  |  | **2,452** | |  |
| Separate Accounts assets | **117,506** | |  |  | **2,942** | |  |  | **358** | |  |  | **120,806** | |  |
| Total Assets | **$** | **122,000** |  |  | **$** | **81,073** |  |  | **$** | **4,729** |  |  | **$** | **207,802** |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| **Liabilities:** |  | | |  |  | | |  |  | | |  |  | | |
| GMxB derivative features’ liability | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **9,568** |  |  | **$** | **9,568** |  |
| SCS, SIO, MSO and IUL indexed features’ liability | **—** | |  |  | **2,272** | |  |  | **—** | |  |  | **2,272** | |  |
| Liabilities of consolidated VIEs/VOEs | **1** | |  |  | **10** | |  |  | **—** | |  |  | **11** | |  |
| Contingent payment arrangements | **—** | |  |  | **—** | |  |  | **26** | |  |  | **26** | |  |
| Total Liabilities | **$** | **1** |  |  | **$** | **2,282** |  |  | **$** | **9,594** |  |  | **$** | **11,877** |  |

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| --- | --- |
|  |  |
| (1) | Corporate fixed maturities includes both public and private issues. |

|  |  |
| --- | --- |
|  |  |
| (2) | Includes publicly traded agency pass-through securities and collateralized obligations. |

|  |  |
| --- | --- |
|  |  |
| (3) | Includes credit-tranched securities collateralized by sub-prime mortgages and other asset types and credit tenant loans. |

**Fair Value Measurements at December 31, 2018**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Level 1 | | |  | Level 2 | | |  | Level 3 | | |  | Total | | |
|  | (in millions) | | | | | | | | | | | | | | |
| Assets: |  | | |  |  | | |  |  | | |  |  | | |
| Investments: |  | | |  |  | | |  |  | | |  |  | | |
| Fixed maturities, available-for-sale: |  | | |  |  | | |  |  | | |  |  | | |
| Corporate (1) | $ | — |  |  | $ | 28,992 |  |  | $ | 1,186 |  |  | $ | 30,178 |  |
| U.S. Treasury, government and agency | — | |  |  | 13,829 | |  |  | — | |  |  | 13,829 | |  |
| States and political subdivisions | — | |  |  | 422 | |  |  | 39 | |  |  | 461 | |  |
| Foreign governments | — | |  |  | 530 | |  |  | — | |  |  | 530 | |  |
| Residential mortgage-backed (2) | — | |  |  | 234 | |  |  | — | |  |  | 234 | |  |
| Asset-backed (3) | — | |  |  | 82 | |  |  | 519 | |  |  | 601 | |  |
| Redeemable preferred stock | 167 | |  |  | 279 | |  |  | — | |  |  | 446 | |  |
| Total fixed maturities, available-for-sale | 167 | |  |  | 44,368 | |  |  | 1,744 | |  |  | 46,279 | |  |
| Other equity investments | 11 | |  |  | — | |  |  | 74 | |  |  | 85 | |  |
| Trading securities | 446 | |  |  | 15,507 | |  |  | 64 | |  |  | 16,017 | |  |
| Other invested assets: |  | | |  |  | | |  |  | | |  |  | | |
| Short-term investments | — | |  |  | 515 | |  |  | — | |  |  | 515 | |  |
| Assets of consolidated VIEs/VOEs | 92 | |  |  | 259 | |  |  | 27 | |  |  | 378 | |  |
| Swaps | — | |  |  | 426 | |  |  | — | |  |  | 426 | |  |
| Credit default swaps | — | |  |  | 17 | |  |  | — | |  |  | 17 | |  |
| Futures | (1 | | ) |  | — | |  |  | — | |  |  | (1 | | ) |
| Options | — | |  |  | 968 | |  |  | — | |  |  | 968 | |  |
| Total other invested assets | 91 | |  |  | 2,185 | |  |  | 27 | |  |  | 2,303 | |  |
| Cash equivalents | 3,482 | |  |  | — | |  |  | — | |  |  | 3,482 | |  |
| Segregated securities | — | |  |  | 1,170 | |  |  | — | |  |  | 1,170 | |  |
| GMIB reinsurance contracts asset | — | |  |  | — | |  |  | 1,732 | |  |  | 1,732 | |  |
| Separate Accounts assets | 106,994 | |  |  | 2,747 | |  |  | 374 | |  |  | 110,115 | |  |
| Total Assets | $ | 111,191 |  |  | $ | 65,977 |  |  | $ | 4,015 |  |  | $ | 181,183 |  |
|  |  | | |  |  | | |  |  | | |  |  | | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Level 1 | | |  | Level 2 | | |  | Level 3 | | |  | Total | | |
|  | (in millions) | | | | | | | | | | | | | | |
| Liabilities: |  | | |  |  | | |  |  | | |  |  | | |
| GMxB derivative features’ liability | $ | — |  |  | $ | — |  |  | $ | 5,614 |  |  | $ | 5,614 |  |
| SCS, SIO, MSO and IUL indexed features’ liability | — | |  |  | 715 | |  |  | — | |  |  | 715 | |  |
| Liabilities of consolidated VIEs/VOEs | — | |  |  | 7 | |  |  | — | |  |  | 7 | |  |
| Contingent payment arrangements | — | |  |  | — | |  |  | 7 | |  |  | 7 | |  |
| Total Liabilities | $ | — |  |  | $ | 722 |  |  | $ | 5,621 |  |  | $ | 6,343 |  |

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|  |  |
| --- | --- |
|  |  |
| (1) | Corporate fixed maturities includes both public and private issues. |

|  |  |
| --- | --- |
|  |  |
| (2) | Includes publicly traded agency pass-through securities and collateralized obligations. |

|  |  |
| --- | --- |
|  |  |
| (3) | Includes credit-tranched securities collateralized by sub-prime mortgages and other asset types and credit tenant loans. |

The fair values of the Company’s public fixed maturities are generally based on prices obtained from independent valuation service providers and for which the Company maintains a vendor hierarchy by asset type based on historical pricing experience and vendor expertise. Although each security generally is priced by multiple independent valuation service providers, the Company ultimately uses the price received from the independent valuation service provider highest in the vendor hierarchy based on the respective asset type, with limited exception. To validate reasonableness, prices also are internally reviewed by those with relevant expertise through comparison with directly observed recent market trades. Consistent with the fair value hierarchy, public fixed maturities validated in this manner generally are reflected within Level 2, as they are primarily based on observable pricing for similar assets and/or other market observable inputs.

The fair values of the Company’s private fixed maturities are determined from prices obtained from independent valuation service providers. Prices not obtained from an independent valuation service provider are determined by using a discounted cash flow model or a market comparable company valuation technique. In certain cases, these models use observable inputs with a discount rate based upon the average of spread surveys collected from private market intermediaries who are active in both primary and secondary transactions, taking into account, among other factors, the credit quality and industry sector of the issuer and the reduced liquidity associated with private placements. Generally, these securities have been reflected within Level 2. For certain private fixed maturities, the discounted cash flow model or a market comparable company valuation technique may also incorporate unobservable inputs, which reflect the Company’s own assumptions about the inputs market participants would use in pricing the asset. To the extent management determines that such unobservable inputs are significant to the fair value measurement of a security, a Level 3 classification generally is made.

The net fair value of the Company’s freestanding derivative positions as disclosed in Note 4 are generally based on prices obtained either from independent valuation service providers or derived by applying market inputs from recognized vendors into industry standard pricing models. The majority of these derivative contracts are traded in the OTC derivative market and are classified in Level 2. The fair values of derivative assets and liabilities traded in the OTC market are determined using quantitative models that require use of the contractual terms of the derivative instruments and multiple market inputs, including interest rates, prices, and indices to generate continuous yield or pricing curves, including overnight index swap (“OIS”) curves, and volatility factors, which then are applied to value the positions. The predominance of market inputs is actively quoted and can be validated through external sources or reliably interpolated if less observable.

Investments classified as Level 1 primarily include redeemable preferred stock, trading securities, cash equivalents and Separate Accounts assets. Fair value measurements classified as Level 1 include exchange-traded prices of fixed maturities, equity securities and derivative contracts, and net asset values for transacting subscriptions and redemptions of mutual fund shares held by Separate Accounts. Cash equivalents classified as Level 1 include money market accounts, overnight commercial paper and highly liquid debt instruments purchased with an original maturity of three months or less and are carried at cost as a proxy for fair value measurement due to their short-term nature.

Investments classified as Level 2 are measured at fair value on a recurring basis and primarily include U.S. government and agency securities and certain corporate debt securities, such as public and private fixed maturities. As market quotes generally are not readily available or accessible for these securities, their fair value measures are determined utilizing relevant information generated by market transactions involving comparable securities and often

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are based on model pricing techniques that effectively discount prospective cash flows to present value using appropriate sector-adjusted credit spreads commensurate with the security’s duration, also taking into consideration issuer-specific credit quality and liquidity. Segregated securities classified as Level 2 are U.S. Treasury bills segregated by AB in a special reserve bank custody account for the exclusive benefit of brokerage customers, as required by Rule 15c3-3 of the Exchange Act and for which fair values are based on quoted yields in secondary markets.

Observable inputs generally used to measure the fair value of securities classified as Level 2 include benchmark yields, reported secondary trades, issuer spreads, benchmark securities and other reference data. Additional observable inputs are used when available, and as may be appropriate, for certain security types, such as prepayment, default, and collateral information for the purpose of measuring the fair value of mortgage- and asset-backed securities. The Company’s AAA-rated mortgage- and asset-backed securities are classified as Level 2 for which the observability of market inputs to their pricing models is supported by sufficient, albeit more recently contracted, market activity in these sectors.

Certain Company products, such as the SCS and EQUI-VEST variable annuity products, IUL and the MSO fund available in some life contracts, offer investment options which permit the contract owner to participate in the performance of an index, ETF or commodity price. These investment options, which depending on the product and on the index selected can currently have one, three, five or six year terms, provide for participation in the performance of specified indices, ETF or commodity price movement up to a segment-specific declared maximum rate. Under certain conditions that vary by product, e.g., holding these segments for the full term, these segments also shield policyholders from some or all negative investment performance associated with these indices, ETF or commodity prices. These investment options have defined formulaic liability amounts, and the current values of the option component of these segment reserves are accounted for as Level 2 embedded derivatives. The fair values of these embedded derivatives are based on data obtained from independent valuation service providers.

The Company’s investments classified as Level 3 primarily include corporate debt securities, such as private fixed maturities and asset-backed securities. Determinations to classify fair value measures within Level 3 of the valuation hierarchy generally are based upon the significance of the unobservable factors to the overall fair value measurement. Included in the Level 3 classification are fixed maturities with indicative pricing obtained from brokers that otherwise could not be corroborated to market observable data.

The Company also issues certain benefits on its variable annuity products that are accounted for as derivatives and are also considered Level 3. The GMIBNLG feature allows the policyholder to receive guaranteed minimum lifetime annuity payments based on predetermined annuity purchase rates applied to the contract’s benefit base if and when the contract account value is depleted and the NLG feature is activated. The GMWB feature allows the policyholder to withdraw at minimum, over the life of the contract, an amount based on the contract’s benefit base. The GWBL feature allows the policyholder to withdraw, each year for the life of the contract, a specified annual percentage of an amount based on the contract’s benefit base. The GMAB feature increases the contract account value at the end of a specified period to a GMAB base. The GIB feature provides a lifetime annuity based on predetermined annuity purchase rates if and when the contract account value is depleted. This lifetime annuity is based on predetermined annuity purchase rates applied to a GIB base.

Level 3 also includes the GMIB reinsurance contract assets, which are accounted for as derivative contracts. The GMIB reinsurance contract asset and liabilities’ fair value reflects the present value of reinsurance premiums and recoveries and risk margins over a range of market consistent economic scenarios while GMxB derivative features liability reflects the present value of expected future payments (benefits) less fees, adjusted for risk margins and nonperformance risk, attributable to GMxB derivative features’ liability over a range of market-consistent economic scenarios.

The valuations of the GMIB reinsurance contract asset and GMxB derivative features liability incorporate significant non-observable assumptions related to policyholder behavior, risk margins and projections of equity Separate Accounts funds. The credit risks of the counterparty and of the Company are considered in determining the fair values of its GMIB reinsurance contract asset and GMxB derivative features liability positions, respectively, after taking into account the effects of collateral arrangements. Incremental adjustment to the swap curve for non-performance risk is made to the fair values of the GMIB reinsurance contract asset and liabilities and GMIBNLG feature to reflect the claims-paying ratings of counterparties and the Company. Equity and fixed income volatilities were modeled to reflect current market volatilities. Due to the unique, long duration of the GMIBNLG feature,

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adjustments were made to the equity volatilities to remove the illiquidity bias associated with the longer tenors and risk margins were applied to the non-capital markets inputs to the GMIBNLG valuations.

After giving consideration to collateral arrangements, the Company reduced the fair value of its GMIB reinsurance contract asset by $135 million and $112 million at September 30, 2019 and December 31, 2018, respectively, to recognize incremental counterparty non-performance risk and reduced the fair value of its GMIB reinsurance contract liabilities by $32 million and $41 million at September 30, 2019 and December 31, 2018, respectively, to recognize its own incremental non-performance risk.

Lapse rates are adjusted at the contract level based on a comparison of the actuarially calculated guaranteed values and the current policyholder account value, which include other factors such as considering surrender charges. Generally, lapse rates are assumed to be lower in periods when a surrender charge applies. A dynamic lapse function reduces the base lapse rate when the guaranteed amount is greater than the account value as in the money contracts are less likely to lapse. For valuing the embedded derivative, lapse rates vary throughout the period over which cash flows are projected.

The Company’s Level 3 liabilities include contingent payment arrangements associated with acquisitions in 2016 and 2019 by AB. At each reporting date, AB estimates the fair values of the contingent consideration expected to be paid based upon revenue and discount rate projections, using unobservable market data inputs, which are included in Level 3 of the valuation hierarchy. The Company’s consolidated VIEs/VOEs hold investments that are classified as Level 3, primarily corporate bonds that are vendor priced with no ratings available, bank loans, non-agency collateralized mortgage obligations and asset-backed securities.

During the nine months ended September 30, 2019, AFS fixed maturities with fair values of $104 million were transferred out of Level 3 and into Level 2 principally due to the availability of trading activity and/or market observable inputs to measure and validate their fair values. In addition, AFS fixed maturities with fair value of $14 million were transferred from Level 2 into the Level 3 classification. These transfers in the aggregate represent approximately 0.7% of total equity at September 30, 2019.

During the nine months ended September 30, 2018, AFS fixed maturities with fair values of $28 million were transferred out of Level 3 and into Level 2 principally due to the availability of trading activity and/or market observable inputs to measure and validate their fair values. In addition, AFS fixed maturities with fair value of $66 million were transferred from Level 2 into the Level 3 classification. These transfers in the aggregate represent approximately 0.7% of total equity at September 30, 2018.

The tables below present reconciliations for all Level 3 assets and liabilities for the three and nine months ended September 30, 2019 and 2018.

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**Level 3 Instruments - Fair Value Measurements**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Corporate** | | |  | **State and Political Subdivisions** | | |  | **Asset-backed** | | |  | **Redeemable Preferred Stock** | | |
|  | **(in millions)** | | | | | | | | | | | | | | |
| Balance, July 1, 2019 | **$** | **1,302** |  |  | **$** | **40** |  |  | **$** | **534** |  |  | **$** | **—** |  |
| Total gains (losses), realized and unrealized, included in: |  | | |  |  | | |  |  | | |  |  | | |
| Net income (loss) as: |  | | |  |  | | |  |  | | |  |  | | |
| Net investment income (loss) | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |
| Investment gains (losses), net | **—** | |  |  | **1** | |  |  | **—** | |  |  | **—** | |  |
| Subtotal | **—** | |  |  | **1** | |  |  | **—** | |  |  | **—** | |  |
| Other comprehensive income (loss) | **(6** | | **)** |  | **—** | |  |  | **—** | |  |  | **—** | |  |
| Purchases | **(3** | | **)** |  | **—** | |  |  | **71** | |  |  | **—** | |  |
| Sales | **(42** | | **)** |  | **(2** | | **)** |  | **(73** | | **)** |  | **—** | |  |
| Settlements | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |
| Transfers into Level 3 (1) | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |
| Transfers out of Level 3 (1) | **(31** | | **)** |  | **—** | |  |  | **—** | |  |  | **—** | |  |
| Balance, September 30, 2019 | **$** | **1,220** |  |  | **$** | **39** |  |  | **$** | **532** |  |  | **$** | **—** |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| Balance, July 1, 2018 | $ | 1,160 |  |  | $ | 38 |  |  | $ | 538 |  |  | $ | — |  |
| Total gains (losses), realized and unrealized, included in: |  | | |  |  | | |  |  | | |  |  | | |
| Net income (loss) as: |  | | |  |  | | |  |  | | |  |  | | |
| Net investment income (loss) | 3 | |  |  | — | |  |  | — | |  |  | — | |  |
| Investment gains (losses), net | (4 | | ) |  | — | |  |  | — | |  |  | — | |  |
| Subtotal | (1 | | ) |  | — | |  |  | — | |  |  | — | |  |
| Other comprehensive income (loss) | (1 | | ) |  | — | |  |  | (1 | | ) |  | — | |  |
| Purchases | 37 | |  |  | — | |  |  | — | |  |  | — | |  |
| Sales | (53 | | ) |  | — | |  |  | — | |  |  | — | |  |
| Transfers into Level 3 (1) | — | |  |  | 1 | |  |  | — | |  |  | — | |  |
| Transfers out of Level 3 (1) | — | |  |  | — | |  |  | — | |  |  | — | |  |
| Balance, September 30, 2018 | $ | 1,142 |  |  | $ | 39 |  |  | $ | 537 |  |  | $ | — |  |

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|  |  |
| (1) | Transfers into/out of the Level 3 classification are reflected at beginning of period fair values. |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Corporate** | | |  | **State and Political Subdivisions** | | |  | **Asset-backed** | | |  | **Redeemable Preferred Stock** | | |
|  | **(in millions)** | | | | | | | | | | | | | | |
| Balance, January 1, 2019 | **$** | **1,186** |  |  | **$** | **39** |  |  | **$** | **519** |  |  | **$** | **—** |  |
| Total gains (losses), realized and unrealized, included in: |  | | |  |  | | |  |  | | |  |  | | |
| Net income (loss) as: |  | | |  |  | | |  |  | | |  |  | | |
| Net investment income (loss) | **3** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |
| Investment gains (losses), net | **—** | |  |  | **1** | |  |  | **—** | |  |  | **—** | |  |
| Subtotal | **3** | |  |  | **1** | |  |  | **—** | |  |  | **—** | |  |
| Other comprehensive income (loss) | **4** | |  |  | **2** | |  |  | **5** | |  |  | **—** | |  |
| Purchases | **219** | |  |  | **—** | |  |  | **81** | |  |  | **—** | |  |
| Sales | **(102** | | **)** |  | **(3** | | **)** |  | **(73** | | **)** |  | **—** | |  |
| Transfers into Level 3 (1) | **14** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |
| Transfers out of Level 3 (1) | **(104** | | **)** |  | **—** | |  |  | **—** | |  |  | **—** | |  |
| Balance, September 30, 2019 | **$** | **1,220** |  |  | **$** | **39** |  |  | **$** | **532** |  |  | **$** | **—** |  |

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**AXA EQUITABLE HOLDINGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Corporate** | | |  | **State and Political Subdivisions** | | |  | **Asset-backed** | | |  | **Redeemable Preferred Stock** | | |
|  | **(in millions)** | | | | | | | | | | | | | | |
| Balance, January 1, 2018 | $ | 1,150 |  |  | $ | 40 |  |  | $ | 541 |  |  | $ | 1 |  |
| Total gains (losses), realized and unrealized, included in: |  | | |  |  | | |  |  | | |  |  | | |
| Net income (loss) as: |  | | |  |  | | |  |  | | |  |  | | |
| Net investment income (loss) | 7 | |  |  | — | |  |  | — | |  |  | — | |  |
| Investment gains (losses), net | (3 | | ) |  | — | |  |  | — | |  |  | — | |  |
| Subtotal | 4 | |  |  | — | |  |  | — | |  |  | — | |  |
| Other comprehensive income (loss) | (15 | | ) |  | (1 | | ) |  | (2 | | ) |  | — | |  |
| Purchases | 237 | |  |  | — | |  |  | — | |  |  | — | |  |
| Sales | (271 | | ) |  | (1 | | ) |  | (2 | | ) |  | (1 | | ) |
| Transfers into Level 3 (1) | 65 | |  |  | 1 | |  |  | — | |  |  | — | |  |
| Transfers out of Level 3 (1) | (28 | | ) |  | — | |  |  | — | |  |  | — | |  |
| Balance, September 30, 2018 | $ | 1,142 |  |  | $ | 39 |  |  | $ | 537 |  |  | $ | — |  |

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| --- | --- |
|  |  |
| (1) | Transfers into/out of the Level 3 classification are reflected at beginning of period fair values. |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Other**  **Equity**  **Investments** | | |  | **GMIB**  **Reinsurance**  **Contract Asset** | | |  | **Separate**  **Accounts**  **Assets** | | |  | **GMxB Derivative Features Liability** | | |  | **Contingent**  **Payment**  **Arrangement** | | |
|  | **(in millions)** | | | | | | | | | | | | | | | | | | |
| Balance, July 1, 2019 | **$** | **134** |  |  | **$** | **1,896** |  |  | **$** | **389** |  |  | **$** | **(6,941** | **)** |  | **$** | **(25** | **)** |
| Total gains (losses), realized and unrealized, included in: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Net income (loss) as: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Investment gains (losses), net | **—** | |  |  | **—** | |  |  | **(13** | | **)** |  | **—** | |  |  | **—** | |  |
| Net derivative gains (losses), excluding non-performance risk | **—** | |  |  | **588** | |  |  | **—** | |  |  | **(2,692** | | **)** |  | **—** | |  |
| Non-performance risk (1) | **—** | |  |  | **(24** | | **)** |  | **—** | |  |  | **154** | |  |  | **—** | |  |
| Subtotal | **—** | |  |  | **564** | |  |  | **(13** | | **)** |  | **(2,538** | | **)** |  | **—** | |  |
| Purchases (2) | **2** | |  |  | **12** | |  |  | **(5** | | **)** |  | **(102** | | **)** |  | **—** | |  |
| Sales (3) | **(4** | | **)** |  | **(20** | | **)** |  | **(1** | | **)** |  | **13** | |  |  | **—** | |  |
| Settlements (4) | **—** | |  |  | **—** | |  |  | **(1** | | **)** |  | **—** | |  |  | **—** | |  |
| Activity related to consolidated VIEs/VOEs | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **(1** | | **)** |
| Transfers out of Level 3 (5) | **(4** | | **)** |  | **—** | |  |  | **(11** | | **)** |  | **—** | |  |  | **—** | |  |
| Balance, September 30, 2019 | **$** | **128** |  |  | **$** | **2,452** |  |  | **$** | **358** |  |  | **$** | **(9,568** | **)** |  | **$** | **(26** | **)** |

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**AXA EQUITABLE HOLDINGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Other**  **Equity**  **Investments** | | |  | **GMIB**  **Reinsurance**  **Contract Asset** | | |  | **Separate**  **Accounts**  **Assets** | | |  | **GMxB Derivative Features Liability** | | |  | **Contingent**  **Payment**  **Arrangement** | | |
|  | **(in millions)** | | | | | | | | | | | | | | | | | | |
| Balance, July 1, 2018 | $ | 111 |  |  | $ | 1,636 |  |  | $ | 361 |  |  | (3,692 | | ) |  | $ | (13 | ) |
| Total gains (losses), realized and unrealized, included in: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Net income (loss) as: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Investment gains (losses), net | — | |  |  | — | |  |  | 6 | |  |  | — | |  |  | — | |  |
| Net derivative gains (losses), excluding non-performance risk | — | |  |  | (269 | | ) |  | — | |  |  | (188 | | ) |  | — | |  |
| Non-performance risk (1) | — | |  |  | 7 | |  |  | — | |  |  | (323 | | ) |  | — | |  |
| Subtotal | — | |  |  | (262 | | ) |  | 6 | |  |  | (511 | | ) |  | — | |  |
| Other comprehensive income (loss) | (6 | | ) |  | — | |  |  | — | |  |  | — | |  |  | — | |  |
| Purchases (2) | 14 | |  |  | 12 | |  |  | 1 | |  |  | (99 | | ) |  | — | |  |
| Sales (3) | (1 | | ) |  | (11 | | ) |  | — | |  |  | 8 | |  |  | — | |  |
| Settlements (4) | — | |  |  | — | |  |  | (1 | | ) |  | — | |  |  | 1 | |  |
| Activity related to consolidated VIEs/VOEs | (1 | | ) |  | — | |  |  | — | |  |  | — | |  |  | — | |  |
| Transfers into Level 3 (5) | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |
| Transfers out of Level 3 (5) | — | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |
| Balance, September 30, 2018 | $ | 117 |  |  | $ | 1,375 |  |  | $ | 367 |  |  | $ | (4,294 | ) |  | $ | (12 | ) |

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|  |  |
| --- | --- |
|  |  |
| (1) | The Company’s non-performance risk is recorded through Net derivative gains (losses). |

|  |  |
| --- | --- |
|  |  |
| (2) | For the GMIB reinsurance contract asset and GMxB derivative features liability, represents attributed fee. |

|  |  |
| --- | --- |
|  |  |
| (3) | For the GMIB reinsurance contract asset, represents recoveries from reinsurers and for the GMxB derivative features liability, represents benefits paid. |

|  |  |
| --- | --- |
|  |  |
| (4) | For contingent payment arrangements, represents payments under the arrangement. |

|  |  |
| --- | --- |
|  |  |
| (5) | Transfers into/out of the Level 3 classification are reflected at beginning-of-period fair values. |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Other Equity Investments** | | |  | **GMIB  Reinsurance Contract Asset** | | |  | **Separate Accounts Assets** | | |  | **GMxB Derivative Features Liability** | | |  | **Contingent Payment Arrangement** | | |
|  | **(in millions)** | | | | | | | | | | | | | | | | | | |
| Balance, January 1, 2019 | **$** | **165** |  |  | **$** | **1,732** |  |  | **$** | **374** |  |  | **$** | **(5,614** | **)** |  | **$** | **(7** | **)** |
| Total gains (losses), realized and unrealized, included in: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Net income (loss) as: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Investment gains (losses), net | **—** | |  |  | **—** | |  |  | **(1** | | **)** |  | **—** | |  |  | **—** | |  |
| Net derivative gains (losses), excluding non-performance risk | **—** | |  |  | **724** | |  |  | **—** | |  |  | **(3,348** | | **)** |  | **—** | |  |
| Non-performance risk (1) | **—** | |  |  | **17** | |  |  | **—** | |  |  | **(316** | | **)** |  | **—** | |  |
| Subtotal | **—** | |  |  | **741** | |  |  | **(1** | | **)** |  | **(3,664** | | **)** |  | **—** | |  |
| Other comprehensive income (loss) | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |
| Purchases (2) | **10** | |  |  | **34** | |  |  | **2** | |  |  | **(317** | | **)** |  | **(17** | | **)** |
| Sales (3) | **(11** | | **)** |  | **(55** | | **)** |  | **(1** | | **)** |  | **27** | |  |  | **—** | |  |
| Settlements (4) | **—** | |  |  | **—** | |  |  | **(4** | | **)** |  | **—** | |  |  | **—** | |  |
| Activity related to consolidated VIEs/VOEs | **(3** | | **)** |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **(2** | | **)** |
| Transfers into Level 3 (5) | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |
| Transfers out of Level 3 (5) | **(33** | | **)** |  | **—** | |  |  | **(12** | | **)** |  | **—** | |  |  | **—** | |  |
| Balance, September 30, 2019 | **$** | **128** |  |  | **$** | **2,452** |  |  | **$** | **358** |  |  | **$** | **(9,568** | **)** |  | **$** | **(26** | **)** |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |

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**AXA EQUITABLE HOLDINGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Other Equity Investments** | | |  | **GMIB  Reinsurance Contract Asset** | | |  | **Separate Accounts Assets** | | |  | **GMxB Derivative Features Liability** | | |  | **Contingent Payment Arrangement** | | |
|  | **(in millions)** | | | | | | | | | | | | | | | | | | |
| Balance, January 1, 2018 | $ | 99 |  |  | $ | 1,894 |  |  | $ | 349 |  |  | (4,451 | | ) |  | $ | (15 | ) |
| Total gains (losses), realized and unrealized, included in: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Net income (loss) as: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Investment gains (losses), net | (1 | | ) |  | — | |  |  | 19 | |  |  | — | |  |  | — | |  |
| Net derivative gains (losses), excluding non-performance risk | — | |  |  | (524 | | ) |  | — | |  |  | 657 | |  |  | — | |  |
| Non-performance risk (1) | — | |  |  | 2 | |  |  | — | |  |  | (205 | | ) |  | — | |  |
| Subtotal | (1 | | ) |  | (522 | | ) |  | 19 | |  |  | 452 | |  |  | — | |  |
| Other comprehensive income (loss) | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |
| Purchases (2) | 24 | |  |  | 34 | |  |  | 4 | |  |  | (313 | | ) |  | — | |  |
| Sales (3) | (3 | | ) |  | (31 | | ) |  | (1 | | ) |  | 18 | |  |  | — | |  |
| Settlements (4) | — | |  |  | — | |  |  | (4 | | ) |  | — | |  |  | 3 | |  |
| Activity related to consolidated VIEs/VOEs | (3 | | ) |  | — | |  |  | — | |  |  | — | |  |  | — | |  |
| Transfers into Level 3 (5) | 6 | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |
| Transfers out of Level 3 (5) | (5 | | ) |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |
| Balance, September 30, 2018 | $ | 117 |  |  | $ | 1,375 |  |  | $ | 367 |  |  | $ | (4,294 | ) |  | $ | (12 | ) |

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|  |  |
| --- | --- |
|  |  |
| (1) | The Company’s non-performance risk is recorded through Net derivative gains (losses). |

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| --- | --- |
|  |  |
| (2) | For the GMIB reinsurance contract asset and GMxB derivative features liability, represents attributed fee. |

|  |  |
| --- | --- |
|  |  |
| (3) | For the GMIB reinsurance contract asset, represents recoveries from reinsurers and for the GMxB derivative features liability, represents benefits paid. |

|  |  |
| --- | --- |
|  |  |
| (4) | For contingent payment arrangements, represents payments under the arrangement. |

|  |  |
| --- | --- |
|  |  |
| (5) | Transfers into/out of the Level 3 classification are reflected at beginning-of-period fair values. |

The table below details changes in unrealized gains (losses) for the nine months ended September 30, 2019 and 2018 by category for Level 3 assets and liabilities still held at September 30, 2019 and 2018.

**Change in Unrealized Gains (Losses) for Level 3 Instruments**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Net Income (Loss)** | | | | | | |  |  | | |
|  | **Investment Gains (Losses), Net** | | |  | **Net Derivative Gains (Losses)** | | |  | **OCI** | | |
|  | **(in millions)** | | | | | | | | | | |
| **Held at September 30, 2019:** |  | | |  |  | | |  |  | | |
| Change in unrealized gains (losses): |  | | |  |  | | |  |  | | |
| Fixed maturities, available-for-sale: |  | | |  |  | | |  |  | | |
| Corporate | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **3** |  |
| State and political subdivisions | **—** | |  |  | **—** | |  |  | **3** | |  |
| Asset-backed | **—** | |  |  | **—** | |  |  | **4** | |  |
| Subtotal | **—** | |  |  | **—** | |  |  | **10** | |  |
| GMIB reinsurance contracts | **—** | |  |  | **741** | |  |  | **—** | |  |
| Separate Accounts assets (1) | **(1** | | **)** |  | **—** | |  |  | **—** | |  |
| GMxB derivative features liability | **—** | |  |  | **(3,664** | | **)** |  | **—** | |  |
| Total | **$** | **(1** | **)** |  | **$** | **(2,923** | **)** |  | **$** | **10** |  |
|  |  | | |  |  | | |  |  | | |

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**AXA EQUITABLE HOLDINGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Net Income (Loss)** | | | | | | |  |  | | |
|  | **Investment Gains (Losses), Net** | | |  | **Net Derivative Gains (Losses)** | | |  | **OCI** | | |
|  | **(in millions)** | | | | | | | | | | |
| Held at September 30, 2018: |  | | |  |  | | |  |  | | |
| Change in unrealized gains (losses): |  | | |  |  | | |  |  | | |
| Fixed maturities, available-for-sale: |  | | |  |  | | |  |  | | |
| Corporate | $ | — |  |  | $ | — |  |  | $ | (15 | ) |
| State and political subdivisions | — | |  |  | — | |  |  | (1 | | ) |
| Subtotal | — | |  |  | — | |  |  | (16 | | ) |
| GMIB reinsurance contracts | — | |  |  | (522 | | ) |  | — | |  |
| Separate Accounts assets (1) | 19 | |  |  | — | |  |  | — | |  |
| GMxB derivative features liability | — | |  |  | 452 | |  |  | — | |  |
| Total | $ | 19 |  |  | $ | (70 | ) |  | $ | (16 | ) |

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|  |  |
| --- | --- |
|  |  |
| (1) | There is an investment expense that offsets this investment gain (loss). |

The following tables disclose quantitative information about Level 3 fair value measurements by category for assets and liabilities at September 30, 2019 and December 31, 2018.

**Quantitative Information about Level 3 Fair Value Measurements at September 30, 2019**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
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|  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Fair Value** | | |  | **Valuation Technique** |  | **Significant Unobservable Input** |  | **Range** |  | **Weighted Average** |
|  | **(in millions)** | | | | | | | | |  |  |
| **Assets:** |  | | |  |  |  |  |  |  |  |  |
| Investments: |  | | |  |  |  |  |  |  |  |  |
| Fixed maturities, available-for-sale: |  | | |  |  |  |  |  |  |  |  |
| Corporate | **$** | **66** |  |  | Matrix pricing model |  | Spread over benchmark |  | **15 - 580 bps** |  | **180 bps** |
|  | **996** | |  |  | Market  comparable  companies |  | EBITDA multiples  Discount rate  Cash flow multiples |  | **3.9x - 63.3x 6.5% - 16.5% 4.5x - 54.6x** |  | **14.9x 10.1% 11.0x** |
| Other equity investments | **35** | |  |  | Discounted cash flow |  | Earnings multiple  Discount factor  Discount years |  | **9.4x 10.0% 12** |  |  |
| Separate Accounts assets | **350** | |  |  | Third party appraisal |  | Capitalization rate  Exit capitalization rate  Discount rate |  | **4.4% 5.5% 6.4%** |  |  |
|  | **1** | |  |  | Discounted cash flow |  | Spread over U.S. Treasury curve  Discount factor |  | **253 bps 4.3%** |  |  |
| GMIB reinsurance contract asset | **2,452** | |  |  | Discounted cash flow |  | Lapse rates  Withdrawal rates  Utilization rates  Non-performance risk  Volatility rates - Equity  Mortality rates (1):  Ages 0 - 40  Ages 41 - 60  Ages 60 - 115 |  | **0.8% - 10% 0.0% - 8.0% 0.0% - 49.0% 56 - 138 bps 10.0% - 31.0%  0.01% - 0.18% 0.07% - 0.54% 0.42% - 42.0%** |  |  |

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**AXA EQUITABLE HOLDINGS, INC.**

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
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|  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Fair Value** | | |  | **Valuation Technique** |  | **Significant Unobservable Input** |  | **Range** |  | **Weighted Average** |
|  | **(in millions)** | | | | | | | | |  |  |
| **Liabilities:** |  | | |  |  |  |  |  |  |  |  |
| GMIBNLG | **9,206** | |  |  | Discounted cash flow |  | Non-performance risk  Lapse rates  Withdrawal rates  Annuitization  Mortality rates (1):  Ages 0 - 40  Ages 41 - 60  Ages 60 - 115 |  | **159 bps 0.8% - 19.9% 0.3% - 11.0% 0.0% - 100%  0.01% - 0.19% 0.06% - 0.53% 0.41% - 41.2%** |  |  |
| Assumed GMIB Reinsurance Contracts | **205** | |  |  | Discounted cash flow |  | Lapse rates  Withdrawal rates (Age 0 - 85)  Withdrawal rates (Age 86+)  Utilization rates  Non-performance risk  Volatility rates - Equity |  | **1.1% - 11.1% 0.6% - 22.2% 1.1% - 100.0% 0.0% - 30.0% 0.78% - 1.92% 10.0% - 31.0%** |  |  |
| GWBL/GMWB | **125** | |  |  | Discounted cash flow |  | Lapse rates  Withdrawal rates  Utilization rates  Volatility rates - Equity |  | **0.8% - 10.0% 0.0% - 7.0% 100% after starting 10.0% - 31.0%** |  |  |
| GIB | **25** | |  |  | Discounted cash flow |  | Lapse rates  Withdrawal rates  Utilization rates  Volatility rates - Equity |  | **1.2% - 19.9% 0.0% - 8.0% 0.0% - 100.0% 10.0% - 31.0%** |  |  |
| GMAB | **8** | |  |  | Discounted cash flow |  | Lapse rates  Volatility rates - Equity |  | **1.0% - 10.0% 10.0% - 31.0%** |  |  |

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|  |  |
| (1) | Mortality rates vary by age and demographic characteristic such as gender. Mortality rate assumptions are based on a combination of company and industry experience. A mortality improvement assumption is also applied. For any given contract, mortality rates vary throughout the period over which cash flows are projected for purposes of valuating the embedded derivatives. |

**Quantitative Information about Level 3 Fair Value Measurements at December 31, 2018**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Fair Value** | | |  | **Valuation Technique** |  | **Significant Unobservable Input** |  | **Range** |  | **Weighted Average** |
|  | **(in millions)** | | | | | | | | |  |  |
| Assets: |  | | |  |  |  |  |  |  |  |  |
| Investments: |  | | |  |  |  |  |  |  |  |  |
| Fixed maturities, available-for-sale: |  | | |  |  |  |  |  |  |  |  |
| Corporate | $ | 99 |  |  | Matrix pricing model |  | Spread over benchmark |  | 15 - 580 bps |  | 109 bps |
|  | 881 | |  |  | Market comparable companies |  | EBITDA multiples Discount rate Cash flow multiples |  | 4.1x - 37.8x 6.4% - 16.5% 1.8x - 18.0x |  | 12.1x 10.7% 11.4x |
| Other equity investments | 35 | |  |  | Discounted cash flow |  | Earnings multiple Discount factor Discount years |  | 9.4x 10.0% 12 |  |  |
| Separate Accounts assets | 352 | |  |  | Third party appraisal |  | Capitalization rate Exit capitalization rate Discount rate |  | 4.4% 5.6% 6.5% |  |  |
|  | 1 | |  |  | Discounted cash flow |  | Spread over U.S. Treasury curve Discount factor |  | 248bps 5.1% |  |  |
| GMIB reinsurance contract asset | 1,732 | |  |  | Discounted cash flow |  | Lapse rates Withdrawal rates Utilization rates Non-performance risk Volatility rates - Equity Mortality rates (1): Ages 0 - 40 Ages 41 - 60 Ages 60 - 115 |  | 1% - 6.27% 0% - 8% 0% - 16% 74 - 159 bps 10% - 34%  0.01% - 0.18% 0.07% - 0.54% 0.42% - 42.0% |  |  |

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|  | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Fair Value** | | |  | **Valuation Technique** |  | **Significant Unobservable Input** |  | **Range** |  | **Weighted Average** |
|  | **(in millions)** | | | | | | | | |  |  |
| Liabilities: |  | | |  |  |  |  |  |  |  |  |
| GMIBNLG | 5,341 | |  |  | Discounted cash flow |  | Non-performance risk Lapse rates Withdrawal rates Annuitization Mortality rates (1): Ages 0 - 40 Ages 41 - 60 Ages 60 - 115 |  | 189 bps 0.8% - 26.2% 0.0% - 12.1% 0.0% - 100.0%  0.01% - 0.19% 0.06% - 0.53% 0.41% - 41.2% |  |  |
| Assumed GMIB Reinsurance Contracts | 183 | |  |  | Discounted cash flow |  | Lapse rates Withdrawal rates (Age 0 - 85) Withdrawal rates (Age 86+) Utilization rates Non-performance risk  Volatility rates - Equity |  | 1.1% - 11.2% 0.7% - 22.2% 1.3% - 100.0% 0.0% - 30.0% 1.1% - 2.4% 10.0% - 34.0% |  |  |
| GWBL/GMWB | 130 | |  |  | Discounted cash flow |  | Lapse rates Withdrawal rates Utilization rates  Volatility rates - Equity |  | 0.5% - 5.7% 0.0% - 7.0% 100% after starting 10.0% - 34.0% |  |  |
| GIB | (48 | | ) |  | Discounted cash flow |  | Lapse rates Withdrawal rates Utilization rates Volatility rates - Equity |  | 0.5% - 5.7% 0.0% - 8.0% 0.0% - 16.0% 10.0% - 34.0% |  |  |
| GMAB | 7 | |  |  | Discounted cash flow |  | Lapse rates Volatility rates - Equity |  | 0.5% - 11.0% 10.0% - 34.0% |  |  |

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|  |  |
| --- | --- |
|  |  |
| (1) | Mortality rates vary by age and demographic characteristic such as gender. Mortality rate assumptions are based on a combination of company and industry experience. A mortality improvement assumption is also applied. For any given contract, mortality rates vary throughout the period over which cash flows are projected for purposes of valuating the embedded derivatives. |

Excluded from the tables above at September 30, 2019 and December 31, 2018, respectively, are approximately $829 million and $915 million of Level 3 fair value measurements of investments for which the underlying quantitative inputs are not developed by the Company and are not readily available. These investments primarily consist of certain privately placed debt securities with limited trading activity, including residential mortgage- and asset-backed instruments, and their fair values generally reflect unadjusted prices obtained from independent valuation service providers and indicative, non-binding quotes obtained from third-party broker-dealers recognized as market participants. Significant increases or decreases in the fair value amounts received from these pricing sources may result in the Company’s reporting significantly higher or lower fair value measurements for these Level 3 investments.

The fair value of private placement securities is determined by application of a matrix pricing model or a market comparable company value technique. The significant unobservable input to the matrix pricing model valuation technique is the spread over the industry-specific benchmark yield curve. Generally, an increase or decrease in spreads would lead to directionally inverse movement in the fair value measurements of these securities. The significant unobservable input to the market comparable company valuation technique is the discount rate. Generally, a significant increase (decrease) in the discount rate would result in significantly lower (higher) fair value measurements of these securities.

Residential mortgage-backed securities classified as Level 3 primarily consist of non-agency paper with low trading activity. Included in the tables above at September 30, 2019 and December 31, 2018, there were no Level 3 securities that were determined by application of a matrix pricing model and for which the spread over the U.S. Treasury curve is the most significant unobservable input to the pricing result. Generally, a change in spreads would lead to directionally inverse movement in the fair value measurements of these securities.

Asset-backed securities classified as Level 3 primarily consist of non-agency mortgage loan trust certificates, including subprime and Alt-A paper, credit tenant loans, and equipment financings. Included in the tables above at September 30, 2019 and December 31, 2018, there were no securities that were determined by the application of matrix-pricing for which the spread over the U.S. Treasury curve is the most significant unobservable input to the

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pricing result. Significant increases (decreases) in spreads would have resulted in significantly lower (higher) fair value measurements.

Included in other equity investments classified as Level 3 are reporting entities’ venture capital securities in the technology, media and telecommunications industries. The fair value measurements of these securities include significant unobservable inputs including an enterprise value to revenue multiples and a discount rate to account for liquidity and various risk factors. Significant increases (decreases) in the enterprise value to revenue multiple inputs in isolation would have resulted in a significantly higher (lower) fair value measurement. Significant increases (decreases) in the discount rate would have resulted in a significantly lower (higher) fair value measurement.

Separate Accounts assets classified as Level 3 in the table at September 30, 2019 and December 31, 2018, primarily consist of a private real estate fund and mortgage loans. A third-party appraisal valuation technique is used to measure the fair value of the private real estate investment fund, including consideration of observable replacement cost and sales comparisons for the underlying commercial properties, as well as the results from applying a discounted cash flow approach. Significant increase (decrease) in isolation in the capitalization rate and exit capitalization rate assumptions used in the discounted cash flow approach to the appraisal value would have resulted in a higher (lower) measure of fair value. With respect to the fair value measurement of mortgage loans a discounted cash flow approach is applied, a significant increase (decrease) in the assumed spread over U.S. Treasury securities would have produced a lower (higher) fair value measurement. Changes in the discount rate or factor used in the valuation techniques to determine the fair values of these private equity investments and mortgage loans generally are not correlated to changes in the other significant unobservable inputs. Significant increase (decrease) in isolation in the discount rate or factor would have resulted in significantly lower (higher) fair value measurements. These fair value measurements are determined using substantially the same valuation techniques as earlier described above for the Company’s General Account investments in these securities.

Significant unobservable inputs with respect to the fair value measurement of the Level 3 GMIB reinsurance contract asset and the Level 3 liabilities identified in the table above are developed using the Company data.

The significant unobservable inputs used in the fair value measurement of the Company’s GMIB reinsurance contract asset are lapse rates, withdrawal rates, and GMIB utilization rates. Significant increases in GMIB utilization rates or decreases in lapse or withdrawal rates in isolation would tend to increase the GMIB reinsurance contract asset.

Fair value measurement of the GMIB reinsurance contract asset and liabilities includes dynamic lapse and GMIB utilization assumptions whereby projected contractual lapses and GMIB utilization reflect the projected net amount of risks of the contract. As the net amount of risk of a contract increases, the assumed lapse rate decreases and the GMIB utilization increases. Increases in volatility would increase the asset and liabilities.

The significant unobservable inputs used in the fair value measurement of the Company’s GMIBNLG liability are lapse rates, withdrawal rates, GMIB utilization rates, adjustment for Non-performance risk and NLG forfeiture rates.  NLG forfeiture rates are caused by excess withdrawals above the annual GMIB accrual rate that cause the NLG to expire. Significant decreases in lapse rates, NLG forfeiture rates, adjustment for non-performance risk and GMIB utilization rates would tend to increase the GMIBNLG liability, while decreases in withdrawal rates and volatility rates would tend to decrease the GMIBNLG liability.

The significant unobservable inputs used in the fair value measurement of the Company’s GMWB and GWBL liability are lapse rates and withdrawal rates. Significant increases in withdrawal rates or decreases in lapse rates in isolation would tend to increase these liabilities. Increases in volatility would increase these liabilities.

At September 30, 2019 and December 31, 2018, there were acquisition-related contingent liabilities of $26 million and $7 million, relating to AB’s 2019 and 2016 acquisitions. The 2019 acquisition was valued at September 30, 2019 using expected revenue growth rates ranging from 0.7% to 2.5% per year and a discount rate of 10.4%, reflecting a 3.5% risk-free rate, based on AB’s cost of debt, and a 6.9% market price of risk adjustment rate. The 2016 acquisition was valued using a revenue growth rate of 26.0% and a discount rate ranging from 3.2% to 3.7%.

Certain financial instruments are exempt from the requirements for fair value disclosure, such as insurance liabilities other than financial guarantees and investment contracts, limited partnerships accounted for under the equity method and pension and other postretirement obligations.

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The carrying values and fair values at September 30, 2019 and December 31, 2018 for financial instruments not otherwise disclosed in Note 3 and Note 4 are presented in the table below.

**Carrying Values and Fair Values for Financial Instruments Not Otherwise Disclosed**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Carrying Value** | | |  | **Fair Value** | | | | | | | | | | | | | | |
|  |  | **Level 1** | | |  | **Level 2** | | |  | **Level 3** | | |  | **Total** | | |
|  | **(in millions)** | | | | | | | | | | | | | | | | | | |
| **September 30, 2019:** | | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Mortgage loans on real estate | **$** | **12,022** |  |  | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **12,291** |  |  | **$** | **12,291** |  |
| FHLBNY Funding Agreements | **$** | **6,510** |  |  | **$** | **—** |  |  | **$** | **6,562** |  |  | **$** | **—** |  |  | **$** | **6,562** |  |
| Policy loans | **$** | **3,750** |  |  | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **4,770** |  |  | **$** | **4,770** |  |
| Policyholders’ liabilities: Investment contracts | **$** | **2,079** |  |  | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **2,281** |  |  | **$** | **2,281** |  |
| Short-term and long-term debt | **$** | **4,794** |  |  | **$** | **—** |  |  | **$** | **5,131** |  |  | **$** | **—** |  |  | **$** | **5,131** |  |
| Separate Accounts liabilities | **$** | **8,424** |  |  | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **8,424** |  |  | **$** | **8,424** |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| December 31, 2018: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Mortgage loans on real estate | $ | 11,835 |  |  | $ | — |  |  | $ | — |  |  | $ | 11,494 |  |  | $ | 11,494 |  |
| FHLBNY Funding Agreements | $ | 4,002 |  |  | $ | — |  |  | $ | 3,956 |  |  | $ | — |  |  | $ | 3,956 |  |
| Policy loans | $ | 3,779 |  |  | $ | — |  |  | $ | — |  |  | $ | 4,183 |  |  | $ | 4,183 |  |
| Policyholders’ liabilities: Investment contracts | $ | 2,127 |  |  | $ | — |  |  | $ | — |  |  | $ | 2,174 |  |  | $ | 2,174 |  |
| Short-term and long-term debt | $ | 4,955 |  |  | $ | — |  |  | $ | 4,749 |  |  | $ | — |  |  | $ | 4,749 |  |
| Separate Accounts liabilities | $ | 7,406 |  |  | $ | — |  |  | $ | — |  |  | $ | 7,406 |  |  | $ | 7,406 |  |

As the Company’s COLI policies are recorded at their cash surrender value, they are not required to be included in the table above.

Fair values for commercial and agricultural mortgage loans on real estate are measured by discounting future contractual cash flows to be received on the mortgage loan using interest rates at which loans with similar characteristics and credit quality would be made. The discount rate is derived based on the appropriate U.S. Treasury rate with a like term to the remaining term of the loan to which a spread reflective of the risk premium associated with the specific loan is added. Fair values for mortgage loans anticipated to be foreclosed and problem mortgage loans are limited to the fair value of the underlying collateral, if lower.

Fair values for the Company’s long-term debt related to real estate joint ventures are determined by a third-party appraisal and assessed for reasonableness. The Company’s short-term debt primarily includes commercial paper with short-term maturities and carrying value approximates fair value. The fair values for the Company’s other long-term debt are determined by Bloomberg’s evaluated pricing service, which uses direct observations or observed comparables.

The fair value of policy loans is calculated by discounting expected cash flows based upon the U.S. treasury yield curve and historical loan repayment patterns.

The fair values of the Company's funding agreements are determined by discounted cash flow analysis based on the indicative funding agreement rates published by the FHLB.

The fair values for the Company’s association plans contracts, supplementary contracts not involving life contingencies (“SCNILC”), deferred annuities and certain annuities, which are included in Policyholders’ account balances and liabilities for investment contracts with fund investments in Separate Accounts are estimated using projected cash flows discounted at rates reflecting current market rates. Significant unobservable inputs reflected in the cash flows include lapse rates and withdrawal rates. Incremental adjustments may be made to the fair value to reflect non-performance risk. Certain other products such as Access Accounts and Escrow Shield Plus product reserves are held at book value.

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**8)    LEASES**

The Company does not record leases with an initial term of 12 months or less in its consolidated balance sheets, but instead recognizes lease expense for these leases on a straight-line basis over the lease term. For leases with a term greater than one year, the Company records in its consolidated balance sheets at the time of lease commencement or modification a right of use (“RoU”) operating lease asset and a lease liability, initially measured at the present value of the lease payments. Lease costs are recognized in the consolidated statements of income over the lease term on a straight-line basis. RoU operating lease assets represent the Company’s right to use an underlying asset for the lease term and RoU operating lease liabilities represent the Company’s obligation to make lease payments arising from the lease.

The Company's operating leases primarily consist of real estate leases for office space. The Company also has operating leases for various types of office furniture and equipment. For certain equipment leases, the Company applies a portfolio approach to effectively account for the RoU operating lease assets and liabilities. For certain lease agreements entered into after the adoption of ASC 842 or for lease agreements for which the lease term or classification was reassessed after the occurrence of a change in the lease terms or a modification of the lease that did not result in a separate contract, the Company elected to combine the lease and related non-lease components for its operating leases; however, the non-lease components associated with the Company’s operating leases are primarily variable in nature and as such are not included in the determination of the RoU operating lease asset and lease liability, but are recognized in the period in which the obligation for those payments is incurred.

The Company’s operating leases may include options to extend or terminate the lease, which are not included in the determination of the RoU operating asset or lease liability unless they are reasonably certain to be exercised. The Company's operating leases have remaining lease terms of 1 year to 12 years, some of which include options to extend the leases. The Company typically does not include its renewal options in its lease terms for calculating its RoU operating lease asset and lease liability as the renewal options allow the Company to maintain operational flexibility and the Company is not reasonably certain it will exercise these renewal options until close to the initial end date of the lease. The Company’s lease agreements do not contain any material residual value guarantees or material restrictive covenants.

As the Company's operating leases do not provide an implicit rate, the Company’s incremental borrowing rate, based on the information available at the lease commencement date, is used in determining the present value of lease payments.

The Company primarily subleases floor space within its New Jersey and New York lease properties to various third parties. The lease term for these subleases typically corresponds to the original lease term.

**Balance Sheet Classification of Operating Lease Assets and Liabilities**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | | | | |
|  |  |  |  |  |  |
|  | **Balance Sheet Line Item** |  | **September 30, 2019** | | |
|  |  |  | **(in millions)** | | |
| **Assets:** |  |  |  | | |
| Operating lease assets | Other Assets |  | **$** | **713** |  |
| **Liabilities:** |  |  |  | | |
| Operating lease liabilities | Other Liabilities |  | **$** | **917** |  |

The table below summarizes the components of lease costs for the three and nine months ended September 30, 2019.

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**Lease Costs**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30, 2019** | | |  | **Nine Months Ended September 30, 2019** | | |
|  | **(in millions)** | | | | | | |
| Operating lease cost (1) | **$** | **47** |  |  | **$** | **140** |  |
| Variable operating lease cost | **14** | |  |  | **38** | |  |
| Sublease income | **(18** | | **)** |  | **(55** | | **)** |
| Short-term lease expense | **—** | |  |  | **2** | |  |
| Net lease cost | **$** | **43** |  |  | **$** | **125** |  |

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|  |  |
| --- | --- |
|  |  |
| (1) | The Operating lease cost for the three months ended March 31, 2019 previously reported as $81 million, has been revised to $47 million to properly exclude impairments recognized prior to the adoption of ASC 842. |

Maturities of lease liabilities as of September 30, 2019 are as follows:

**Maturities of Lease Liabilities**

|  |  |  |  |
| --- | --- | --- | --- |
|  | | | |
|  |  |  |  |
|  | **September 30, 2019** | | |
|  | **(in millions)** | | |
| **Operating Leases:** |  | | |
| 2019 | **$** | **53** |  |
| 2020 | **209** | |  |
| 2021 | **195** | |  |
| 2022 | **177** | |  |
| 2023 | **161** | |  |
| Thereafter | **211** | |  |
| Total lease payments | **1,006** | |  |
| Less: Interest | **(89** | | **)** |
| Present value of lease liabilities | **$** | **917** |  |

During October 2018, AB signed a lease, which commences in mid-2020, relating to 205,000 square feet of space at AB’s new Nashville headquarters. The estimated total base rent obligation (excluding taxes, operating expenses and utilities) over the 15-year initial lease term is $126 million.

During April 2019, AB signed a lease, which commences in 2024, relating to approximately 190,000 square feet of space in New York City. The estimated total base rent obligation (excluding taxes, operating expenses and utilities) over the 20-year lease term is approximately $448 million.

During 2018, AXA Equitable Life entered into one additional operating real estate lease with an estimated total base rent of $11 million. This operating lease commenced in August 2019 with a lease term of 10 years.

The below table presents the Company’s weighted-average remaining operating lease term and weighted-average discount rate.

**Weighted Averages - Remaining Operating Lease Term and Discount Rate**

|  |  |  |
| --- | --- | --- |
|  | | |
|  |  |  |
|  | **September 30, 2019** | |
| Weighted-average remaining operating lease term | **6 years** |  |
| Weighted-average discount rate for operating leases | **3.32** | **%** |

Supplemental cash flow information related to leases was as follows:

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**AXA EQUITABLE HOLDINGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Lease Liabilities Information**

|  |  |  |  |
| --- | --- | --- | --- |
|  | | | |
|  |  |  |  |
|  | **Nine Months Ended September 30, 2019** | | |
|  | **(in millions)** | | |
| **Cash paid for amounts included in the measurement of lease liabilities:** |  | | |
| Operating cash flows from operating leases | **$** | **166** |  |
| **Non-cash transactions:** |  | | |
| Leased assets obtained in exchange for new operating lease liabilities | **$** | **41** |  |

The following table presents the Company’s future minimum lease obligation under ASC 840 as of December 31, 2018:

|  |  |  |  |
| --- | --- | --- | --- |
|  | | | |
|  |  |  |  |
|  | **December 31, 2018** | | |
| **Calendar Year** | **(in millions)** | | |
| 2019 | $ | 212 |  |
| 2020 | $ | 186 |  |
| 2021 | $ | 181 |  |
| 2022 | $ | 166 |  |
| 2023 | $ | 155 |  |
| Thereafter | $ | 293 |  |

**9)    EMPLOYEE BENEFIT PLANS**

Holdings sponsors the MONY Life Retirement Income Security Plan for Employees and AXA Equitable Life sponsors the AXA Equitable Retirement Plan (the “AXA Equitable Life QP”), both of which are frozen qualified defined benefit plans covering eligible employees and financial professionals. Holdings is primarily liable for both plans. AXA Equitable Life is secondarily liable for obligations under the AXA Equitable Life QP.

AB maintains a qualified, noncontributory, defined benefit retirement plan covering current and former employees who were employed by AB in the United States prior to October 2, 2000. Benefits are based on years of credited service, average final base salary and primary Social Security benefits.

Components of certain benefit costs, presented in Compensation and benefits in the consolidated statements of income (loss), for the Company were as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | |  | **Nine Months Ended September 30,** | | | | | | |
|  | **2019** | | |  | 2018 | | |  | **2019** | | |  | 2018 | | |
|  | **(in millions)** | | | | | | | | | | | | | | |
| **Net Periodic Pension Expense (Qualified Plans):** |  | | |  |  | | |  |  | | |  |  | | |
| Service cost | **$** | **2** |  |  | $ | 2 |  |  | **$** | **6** |  |  | $ | 6 |  |
| Interest cost | **22** | |  |  | 23 | |  |  | **66** | |  |  | 66 | |  |
| Expected return on assets | **(37** | | **)** |  | (40 | | ) |  | **(114** | | **)** |  | (123 | | ) |
| Actuarial (gain) loss | **1** | |  |  | — | |  |  | **1** | |  |  | 1 | |  |
| Net amortization | **23** | |  |  | 20 | |  |  | **63** | |  |  | 66 | |  |
| Partial settlement | **—** | |  |  | 4 | |  |  | — | |  |  | 105 | |  |
| Total | **$** | **11** |  |  | $ | 9 |  |  | **$** | **22** |  |  | $ | 121 |  |
|  |  | | |  |  | | |  |  | | |  |  | | |

**10)    INCOME TAXES**

Income tax expense for the three and nine months ended September 30, 2019 and 2018 was computed using an estimated annual effective tax rate (“ETR”), with discrete items recognized in the period in which they occur. The estimated ETR is revised, as necessary, at the end of successive interim reporting periods. During the second quarter of

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2019, the Company released a state income tax liability due to recently drafted regulations. The benefit recorded in the Company’s financial statements was $63 million.

**11)    RELATED PARTY TRANSACTIONS**

The Company’s significant transactions during the nine months ended September 30, 2019 with related parties are summarized below.

Termination of Trademark License Agreement

On March 28, 2019, AXA terminated the Trademark License Agreement, dated May 4, 2018, between Holdings and AXA (the “Trademark License Agreement”). Accordingly, we expect to rebrand and cease use, pursuant to the Trademark License Agreement, of the “AXA” brand, name and logo within 18 months of March 28, 2019 (subject to such extensions as permitted under the Trademark License Agreement).

AXA Secondary Offering of Holdings Common Stock and Holdings Share Buyback

On March 25, 2019, AXA completed a follow-on secondary offering of 46 million shares of common stock of Holdings and the sale to Holdings of 30 million shares of common stock of Holdings.

Commitment to Invest in Fund Sponsored by AXA Real Estate Investment Managers US LLC (“AXA REIM”)

AXA Equitable Life has an outstanding commitment as of September 30, 2019 to invest $15 million in a real estate private equity fund sponsored by AXA REIM.

**12)    EQUITY**

Dividends to Shareholders

Dividends declared per share of common stock were as follows for the periods indicated:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | |  | **Nine Months Ended September 30,** | | | | | | |
|  | **2019** | | |  | 2018 | | |  | **2019** | | |  | 2018 | | |
| Dividends declared per share of common stock | **$** | **0.15** |  |  | $ | 0.13 |  |  | **$** | **0.43** |  |  | $ | 0.13 |  |

Share Repurchase

In January 2019, Holdings entered into an Accelerated Share Repurchase agreement (the “ASR”) with a third-party financial institution to repurchase an aggregate of $150 million of Holdings’ common stock. Pursuant to the ASR, Holdings made a prepayment of $150 million and received initial delivery of seven million shares. The ASR terminated during the first quarter of 2019, at which time an additional one million shares were delivered, at an average purchase price of $18.51 per share based on the volume-weighted average price of Holding’s common stock traded during the pricing period, less an agreed discount. Shares repurchased under the ASR were retired upon receipt resulting in a reduction of Holding’s total issued shares as of September 30, 2019.

On February 27, 2019, Holdings’ Board of Directors authorized a $800 million share repurchase program. Under this authorization, Holdings, may, from time to time through December 31, 2019, purchase shares of its common stock through various means. Holdings may choose to suspend or discontinue the repurchase program at any time. The repurchase program does not obligate Holdings to purchase any particular number of shares.

On March 25, 2019, AXA completed a secondary offering of 46 million shares of common stock of Holdings and the sale to Holdings of 30 million shares of common stock of Holdings. During August 2019, Holdings repurchased an additional two million shares of common stock of Holdings from the open market. Following the completion of the share buybacks by Holdings, and other subsequent repurchases as of September 30, 2019, Holdings had approximately $163 million remaining under its share repurchase program authorization.

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Accumulated Other Comprehensive Income (Loss)

AOCI represents cumulative gains (losses) on items that are not reflected in Net income (loss). The balances as of September 30, 2019 and 2018 follow:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **September 30,** | | | | | | |
|  | **2019** | | |  | 2018 | | |
|  | **(in millions)** | | | | | | |
| Unrealized gains (losses) on investments (1) | **$** | **2,380** |  |  | $ | (848 | ) |
| Defined benefit pension plans | **(883** | | **)** |  | (752 | | ) |
| Foreign currency translation adjustments (1) | **(74** | | **)** |  | (32 | | ) |
| Total accumulated other comprehensive income (loss) | **1,423** | |  |  | (1,632 | | ) |
| Less: Accumulated other comprehensive income (loss) attributable to noncontrolling interest | **(45** | | **)** |  | (37 | | ) |
| Accumulated other comprehensive income (loss) attributable to Holdings | **$** | **1,468** |  |  | $ | (1,595 | ) |

\_\_\_\_\_\_\_\_\_\_\_\_\_\_

|  |  |
| --- | --- |
|  |  |
| (1) | A reclassification of $7 million has been made to the September 30, 2018 previously reported balances to conform to the current period’s presentation. |

The components of OCI, net of taxes for the three and nine months ended September 30, 2019 and 2018 follow:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | |  | **Nine Months Ended September 30,** | | | | | | |
|  | **2019** | | |  | 2018 | | |  | **2019** | | |  | 2018 | | |
|  | **(in millions)** | | | | | | | | | | | | | | |
| Change in net unrealized gains (losses) on investments: |  | | |  |  | | |  |  | | |  |  | | |
| Net unrealized gains (losses) arising during the period | **1,279** | |  |  | (446 | | ) |  | **$** | **4,002** |  |  | $ | (2,064 | ) |
| (Gains) losses reclassified to Net income (loss) during the period (1) | **(158** | | **)** |  | 29 | |  |  | **(153** | | **)** |  | (43 | | ) |
| Net unrealized gains (losses) on investments | **1,121** | |  |  | (417 | | ) |  | **3,849** | |  |  | (2,107 | | ) |
| Adjustments for policyholders’ liabilities, DAC, insurance liability loss recognition and other (2) | **(540** | | **)** |  | 56 | |  |  | **(1,065** | | **)** |  | 435 | |  |
| Change in unrealized gains (losses), net of adjustments (net of deferred income tax expense (benefit) of $155, $(96), $735 and $(444)) | **581** | |  |  | (361 | | ) |  | **2,784** | |  |  | (1,672 | | ) |
| Change in defined benefit plans: |  | | |  |  | | |  |  | | |  |  | | |
| Reclassification to Net income (loss) of amortization of net prior service credit included in net periodic cost | **18** | |  |  | 68 | |  |  | **85** | |  |  | 202 | |  |
| Change in defined benefit plans (net of deferred income tax expense (benefit) of $8, $18, $25 and $54) | **18** | |  |  | 68 | |  |  | **85** | |  |  | 202 | |  |
| Foreign currency translation adjustments: |  | | |  |  | | |  |  | | |  |  | | |
| Foreign currency translation gains (losses) arising during the period (2) | **(12** | | **)** |  | 9 | |  |  | **(12** | | **)** |  | (2 | | ) |
| Foreign currency translation adjustment | **(12** | | **)** |  | 9 | |  |  | **(12** | | **)** |  | (2 | | ) |
| Total other comprehensive income (loss), net of income taxes | **587** | |  |  | (284 | | ) |  | **2,857** | |  |  | (1,472 | | ) |
| Less: Other comprehensive income (loss) attributable to noncontrolling interest | **(5** | | **)** |  | — | |  |  | **(7** | | **)** |  | 15 | |  |
| Other comprehensive income (loss) attributable to Holdings | **$** | **592** |  |  | $ | (284 | ) |  | **$** | **2,864** |  |  | $ | (1,487 | ) |

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|  |  |
| --- | --- |
|  |  |
| (1) | See “Reclassification adjustments” in Note 3. Reclassification amounts presented net of income tax expense (benefit) of $(42) million, $8 million, $(41) million and $(11) million for the three and nine months ended September 30, 2019 and 2018, respectively. |

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|  |  |
| --- | --- |
|  |  |
| (2) | A reclassification of $1 million and $2 million has been made to the previously reported amounts for the three and nine months ended September 30, 2018 to conform to the current period’s presentation. |

Investment gains and losses reclassified from AOCI to Net income (loss) primarily consist of realized gains (losses) on sales and OTTI of AFS securities and are included in Total investment gains (losses), net on the consolidated statements of income (loss). Amounts reclassified from AOCI to Net income (loss) as related to defined benefit plans primarily consist of amortizations of net (gains) losses and net prior service cost (credit) recognized as a component of net periodic cost and reported in Compensation and benefit expenses in the consolidated statements of income (loss). Amounts presented in the table above are net of tax.

**13)    REDEEMABLE NONCONTROLLING INTEREST**

The changes in the components of redeemable noncontrolling interests were:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | |  | **Nine Months Ended September 30,** | | | | | | |
|  | **2019** | | |  | 2018 | | |  | **2019** | | |  | 2018 | | |
|  | **(in millions)** | | | | | | | | | | | | | | |
| **Balance, beginning of period** | **$** | **257** |  |  | $ | 146 |  |  | **$** | **187** |  |  | $ | 626 |  |
| Net earnings (loss) attributable to redeemable noncontrolling interests | **7** | |  |  | (12 | | ) |  | **26** | |  |  | 22 | |  |
| Purchase/change of redeemable noncontrolling interests | **74** | |  |  | 9 | |  |  | **125** | |  |  | (505 | | ) |
| **Balance, end of period** | **$** | **338** |  |  | $ | 143 |  |  | **$** | **338** |  |  | $ | 143 |  |

**14)    COMMITMENTS AND CONTINGENT LIABILITIES**

Litigation

Litigation, regulatory and other loss contingencies arise in the ordinary course of the Company’s activities as a diversified financial services firm. The Company is a defendant in a number of litigation matters arising from the conduct of its business. In some of these matters, claimants seek to recover very large or indeterminate amounts, including compensatory, punitive, treble and exemplary damages. Modern pleading practice in the U.S. permits considerable variation in the assertion of monetary damages and other relief. Claimants are not always required to specify the monetary damages they seek, or they may be required only to state an amount sufficient to meet a court’s jurisdictional requirements. Moreover, some jurisdictions allow claimants to allege monetary damages that far exceed any reasonably possible verdict. The variability in pleading requirements and past experience demonstrates that the monetary and other relief that may be requested in a lawsuit or claim often bears little relevance to the merits or potential value of a claim. Litigation against the Company includes a variety of claims including, among other things, insurers’ sales practices, alleged agent misconduct, alleged failure to properly supervise agents, contract administration, product design, features and accompanying disclosure, cost of insurance increases, the use of captive reinsurers, payments of death benefits and the reporting and escheatment of unclaimed property, alleged breach of fiduciary duties, alleged mismanagement of client funds and other matters.

As with other financial services companies, the Company periodically receives informal and formal requests for information from various state and federal governmental agencies and self-regulatory organizations in connection with inquiries and investigations of the products and practices of the Company or the financial services industry. It is the practice of the Company to cooperate fully in these matters.

The outcome of a litigation or regulatory matter is difficult to predict, and the amount or range of potential losses associated with these or other loss contingencies requires significant management judgment. It is not possible to predict the ultimate outcome or to provide reasonably possible losses or ranges of losses for all pending regulatory matters, litigation and other loss contingencies. While it is possible that an adverse outcome in certain cases could have a material adverse effect upon the Company’s financial position, based on information currently known, management believes that neither the outcome of pending litigation and regulatory matters, nor potential liabilities associated with other loss contingencies, are likely to have such an effect. However, given the large and indeterminate amounts sought in certain litigation and the inherent unpredictability of all such matters, it is possible that an adverse outcome in

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certain of the Company’s litigation or regulatory matters, or liabilities arising from other loss contingencies, could, from time to time, have a material adverse effect upon the Company’s results of operations or cash flows in a particular quarterly or annual period.

For some matters where a loss is reasonably possible, the Company is able to estimate a possible range of loss. For such matters in which a loss is probable, an accrual has been made. For matters where the Company, however, believes a loss is reasonably possible, but not probable, no accrual is required. For matters for which an accrual has been made, but there remains a reasonably possible range of loss in excess of the amounts accrued or for matters where no accrual is required, the Company develops an estimate of the unaccrued amounts of the reasonably possible range of losses. As of September 30, 2019, the Company estimates the aggregate range of reasonably possible losses, in excess of any amounts accrued for these matters as of such date, to be up to approximately $100 million.

For other matters, the Company is currently not able to estimate the reasonably possible loss or range of loss. The Company is often unable to estimate the possible loss or range of loss until developments in such matters have provided sufficient information to support an assessment of the range of possible loss, such as quantification of a damage demand from plaintiffs, discovery from plaintiffs and other parties, investigation of factual allegations, rulings by a court on motions or appeals, analysis by experts and the progress of settlement discussions. On a quarterly and annual basis, the Company reviews relevant information with respect to litigation and regulatory contingencies and updates the Company’s accruals, disclosures and reasonably possible losses or ranges of loss based on such reviews.

In August 2015, a lawsuit was filed in Connecticut Superior Court, Judicial Division of New Haven entitled Richard T. O’Donnell, on behalf of himself and all others similarly situated v. AXA Equitable Life Insurance Company. This lawsuit is a putative class action on behalf of all persons who purchased variable annuities from AXA Equitable Life, which were subsequently subjected to the volatility management strategy and who suffered injury as a result thereof. Plaintiff asserts a claim for breach of contract alleging that AXA Equitable Life implemented the volatility management strategy in violation of applicable law. In November 2015, the Connecticut Federal District Court transferred this action to the United States District Court for the Southern District of New York. In March 2017, the Southern District of New York granted AXA Equitable Life’s motion to dismiss the complaint. In April 2017, the plaintiff filed a notice of appeal. In April 2018, the United States Court of Appeals for the Second Circuit reversed the trial court’s decision with instructions to remand the case to Connecticut state court. In September 2018, the Second Circuit issued its mandate, following AXA Equitable Life’s notification to the court that it would not file a petition for writ of certiorari. The case was transferred in December 2018 and is pending in Connecticut Superior Court, Judicial District of Stamford. We are vigorously defending this matter.

In February 2016, a lawsuit was filed in the United States District Court for the Southern District of New York entitled Brach Family Foundation, Inc. v. AXA Equitable Life Insurance Company. This lawsuit is a putative class action brought on behalf of all owners of universal life (“UL”) policies subject to AXA Equitable Life’s COI rate increase. In early 2016, AXA Equitable Life raised COI rates for certain UL policies issued between 2004 and 2007, which had both issue ages 70 and above and a current face value amount of $1 million and above. A second putative class action was filed in Arizona in 2017 and consolidated with the Brach matter. The current consolidated amended class action complaint alleges the following claims: breach of contract; misrepresentations by AXA Equitable Life in violation of Section 4226 of the New York Insurance Law; violations of New York General Business Law Section 349; and violations of the California Unfair Competition Law, and the California Elder Abuse Statute. Plaintiffs seek: (a) compensatory damages, costs, and, pre- and post-judgment interest; (b) with respect to their claim concerning Section 4226, a penalty in the amount of premiums paid by the plaintiffs and the putative class; and (c) injunctive relief and attorneys’ fees in connection with their statutory claims. Five other federal actions challenging the COI rate increase are also pending against AXA Equitable Life and have been coordinated with the Brach action for the purposes of pre-trial activities. They contain allegations similar to those in the Brach action as well as additional allegations for violations of various states’ consumer protection statutes and common law fraud. Three actions are also pending against AXA Equitable Life in New York state court. AXA Equitable Life is vigorously defending each of these matters.

Obligation under Funding Agreements

As a member of the FHLBNY, AXA Equitable Life has access to collateralized borrowings. It also may issue funding agreements to the FHLBNY. Both the collateralized borrowings and funding agreements would require AXA Equitable Life to pledge qualified mortgage-backed assets and/or government securities as collateral. AXA Equitable Life issues short-term funding agreements to the FHLBNY and uses the funds for asset, liability and cash management purposes.

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AXA Equitable Life issues long-term funding agreements to the FHLBNY and uses the funds for spread lending purposes. For other instruments used for asset liability management purposes see Note 4. Funding agreements are reported in Policyholders’ account balances in the consolidated balance sheets.

**Change in FHLBNY Funding Agreements during the Nine Months Ended September 30, 2019**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Outstanding Balance at December 31, 2018** | | |  | **Issued During the Period** | | |  | **Repaid During the Period** | | |  | **Long-term Agreements Maturing Within One Year** | | |  | **Outstanding Balance at September 30, 2019** | | |
|  | **(in millions)** | | | | | | | | | | | | | | | | | | |
| Short-term funding agreements: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Due in one year or less | $ | 1,640 |  |  | **$** | **17,080** |  |  | **$** | **14,570** |  |  | **$** | **58** |  |  | **$** | **4,208** |  |
| Long-term funding agreements: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Due in years two through five | 1,569 | |  |  | **—** | |  |  | **—** | |  |  | **(58** | | **)** |  | **1,511** | |  |
| Due in more than five years | 781 | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **781** | |  |
| Total long-term funding agreements | 2,350 | |  |  | **—** | |  |  | **—** | |  |  | **(58** | | **)** |  | **2,292** | |  |
| Total funding agreements (1) | $ | 3,990 |  |  | **$** | **17,080** |  |  | **$** | **14,570** |  |  | **$** | **—** |  |  | **$** | **6,500** |  |

\_\_\_\_\_\_\_\_\_\_\_\_\_\_

|  |  |
| --- | --- |
|  |  |
| (1) | The $10 million and $12 million difference between the funding agreements carrying values shown in Note 7 in the Carrying Values and Fair Values for Financial Instruments Not Otherwise Disclosed table at September 30, 2019 and December 31, 2018, respectively, reflects the remaining amortization of a hedge implemented and closed, which locked in the funding agreements’ borrowing rates. |

Credit Facilities

Holdings has a $2.5 billion five-year senior unsecured revolving credit facility with a syndicate of banks. The revolving credit facility has a sub-limit of $1.5 billion for letters of credit issued to support the Company’s life insurance business reinsured by EQ AZ Life Re and to support the third-party GMxB variable annuity business retroceded to CS Life RE. As of September 30, 2019, $125 million and $600 million of undrawn letters of credit have been issued out of the $1.5 billion sub-limit for ACS Life and AXA Equitable Life, respectively, as beneficiaries.

In addition to the letters of credit issued under the $2.5 billion revolving credit facility, as of September 30, 2019, $1.9 billion of undrawn letters of credit have been issued related to reinsurance assumed by EQ AZ Life Re from AXA Equitable Life, USFL and MLOA.

Contingent Funding Arrangements

In April 2019, pursuant to separate Purchase Agreements among Holdings, Credit Suisse Securities (USA) LLC, as representative of the several initial purchasers, and the Trusts (as defined below), Pine Street Trust I, a Delaware statutory trust (the “2029 Trust”), completed the issuance and sale of 600,000 of its Pre-Capitalized Trust Securities redeemable February 15, 2029 (the “2029 P-Caps”) for an aggregate purchase price of $600 million and Pine Street Trust II, a Delaware statutory trust (the “2049 Trust” and, together with the 2029 Trust, the “Trusts”), completed the issuance and sale of 400,000 of its Pre-Capitalized Trust Securities redeemable February 15, 2049 (the “2049 P-Caps” and, together with the 2029 P-Caps, the “P-Caps”) for an aggregate purchase price of $400 million, in each case to qualified institutional buyers in reliance on Rule 144A that are also “qualified purchasers” for purposes of Section 3(c)(7) of the Investment Company Act of 1940, as amended. The P-Caps are an off-balance sheet contingent funding arrangement that, upon Holdings’ election, gives Holdings the right over a ten-year period (in the case of the 2029 Trust) or over a thirty-year period (in the case of the 2049 Trust) to issue senior notes to the Trusts. The Trusts each invested the proceeds from the sale of their P-Caps in separate portfolios of principal and/or interest strips of U.S. Treasury securities. In return, Holdings will pay a semi-annual facility fee to the 2029 Trust and 2049 Trust calculated at a rate of 2.125% and 2.715% per annum, respectively, which will be applied to the unexercised portion of the contingent funding arrangement and Holdings will reimburse the Trusts for certain expenses. The facility fees are recorded in Other operating costs and expenses in the Consolidated Statements of Income (Loss).

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Other Commitments

The Company had $946 million (including $316 million with affiliates) and $179 million of commitments under equity financing arrangements to certain limited partnership and existing mortgage loan agreements, respectively, at September 30, 2019.

**15)    BUSINESS SEGMENT INFORMATION**

The Company has four reportable segments: Individual Retirement, Group Retirement, Investment Management and Research and Protection Solutions.

These segments reflect the manner by which the Company’s chief operating decision maker views and manages the business. A brief description of these segments follows:

|  |  |
| --- | --- |
|  |  |
| • | The Individual Retirement segment offers a diverse suite of variable annuity products which are primarily sold to affluent and high net worth individuals saving for retirement or seeking retirement income. |

|  |  |
| --- | --- |
|  |  |
| • | The Group Retirement segment offers tax-deferred investment and retirement services or products to plans sponsored by educational entities, municipalities and not-for-profit entities as well as small and medium-sized businesses. |

|  |  |
| --- | --- |
|  |  |
| • | The Investment Management and Research segment provides diversified investment management, research and related solutions globally to a broad range of clients through three main client channels - Institutional, Retail and Private Wealth Management and distributes its institutional research products and solutions through Bernstein Research Services. |

|  |  |
| --- | --- |
|  |  |
| • | The Protection Solutions segment includes our life insurance and group employee benefits businesses. Our life insurance business offers a variety of variable universal life, universal life and term life products to help affluent and high net worth individuals, as well as small and medium-sized business owners, with their wealth protection, wealth transfer and corporate needs. Our group employee benefits business offers a suite of dental, vision, life, and short- and long-term disability and other insurance products to small and medium-size businesses across the United States. |

Measurement

Operating earnings (loss) is the financial measure which primarily focuses on the Company’s segments’ results of operations as well as the underlying profitability of the Company’s core business. By excluding items that can be distortive and unpredictable such as investment gains (losses) and investment income (loss) from derivative instruments, the Company believes Operating earnings (loss) by segment enhances the understanding of the Company’s underlying drivers of profitability and trends in the Company’s segments.

In the first quarter of 2019, the Company updated its Operating earnings measure to exclude market value adjustments impacting the DAC amortization for its SCS variable annuity product in order to be consistent with the treatment of the market value adjustments on the SCS liability and with industry practice. The presentation of Operating earnings in prior periods was not revised to reflect this modification, however, the Company estimated that had the treatment in the Company’s Operating earnings measure of the Amortization of DAC for SCS been modified in the first quarter of 2018, the pre-tax impact on Operating earnings of excluding the SCS-related DAC amortization from Operating earnings would have been a decrease of $52 million, $17 million and $4 million during the first, second and third quarters of 2018, respectively, and an increase of $17 million during the fourth quarter of 2018.

Operating earnings is calculated by adjusting each segment’s Net income (loss) attributable to Holdings for the following items:

|  |  |
| --- | --- |
|  |  |
| • | Items related to variable annuity product features, which include certain changes in the fair value of the derivatives and other securities we use to hedge these features, the effect of benefit ratio unlock adjustments and changes in the fair value of the embedded derivatives reflected within variable annuity products’ net derivative results and the impact of these items on DAC amortization on our SCS product; |

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|  |  |
| --- | --- |
|  |  |
| • | Investment (gains) losses, which includes other-than-temporary impairments of securities, sales or disposals of securities/investments, realized capital gains/losses and valuation allowances; |

|  |  |
| --- | --- |
|  |  |
| • | Net actuarial (gains) losses, which includes actuarial gains and losses as a result of differences between actual and expected experience on pension plan assets or projected benefit obligation during a given period related to pension, other postretirement benefit obligations, and the one-time impact of the settlement of the defined benefit obligation; |

|  |  |
| --- | --- |
|  |  |
| • | Other adjustments, which includes restructuring costs related to severance, lease write-offs related to non-recurring restructuring activities, and separation costs; and |

|  |  |
| --- | --- |
|  |  |
| • | Income tax expense (benefit) related to the above items and non-recurring tax items, which includes the effect of uncertain tax positions for a given audit period and the impact of the Tax Reform Act. |

Revenues derived from any customer did not exceed 10% of revenues for the three and nine months ended September 30, 2019 and 2018.

The table below presents Operating earnings (loss) by segment and Corporate and Other and a reconciliation to Net income (loss) attributable to Holdings for the three and nine months ended September 30, 2019 and 2018, respectively:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | |  | **Nine Months Ended September 30,** | | | | | | |
|  | **2019** | | |  | 2018 | | |  | **2019** | | |  | 2018 | | |
|  | **(in millions)** | | | | | | | | | | | | | | |
| Net income (loss) attributable to Holdings | **$** | **(384** | **)** |  | $ | (496 | ) |  | **$** | **(796** | **)** |  | $ | (118 | ) |
| Adjustments related to: |  | | |  |  | | |  |  | | |  |  | | |
| Variable annuity product features (1) | **1,444** | |  |  | 1,403 | |  |  | **3,184** | |  |  | 1,829 | |  |
| Investment (gains) losses | **(199** | | **)** |  | 36 | |  |  | **(176** | | **)** |  | (44 | | ) |
| Net actuarial (gains) losses related to pension and other postretirement benefit obligations | **24** | |  |  | 24 | |  |  | **72** | |  |  | 182 | |  |
| Other adjustments (2) | **78** | |  |  | 51 | |  |  | **207** | |  |  | 229 | |  |
| Income tax expense (benefit) related to above adjustments (3) | **(282** | | **)** |  | (409 | | ) |  | **(690** | | **)** |  | (461 | | ) |
| Non-recurring tax items | **(4** | | **)** |  | 84 | |  |  | **(56** | | **)** |  | 45 | |  |
| Non-GAAP Operating Earnings (4) | **$** | **677** |  |  | $ | 693 |  |  | **$** | **1,745** |  |  | $ | 1,662 |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| Operating earnings (loss) by segment: |  | | |  |  | | |  |  | | |  |  | | |
| Individual Retirement (5) | **$** | **457** |  |  | $ | 434 |  |  | **$** | **1,186** |  |  | $ | 1,207 |  |
| Group Retirement | **$** | **104** |  |  | $ | 134 |  |  | **$** | **280** |  |  | $ | 287 |  |
| Investment Management and Research | **$** | **93** |  |  | $ | 96 |  |  | **$** | **250** |  |  | $ | 274 |  |
| Protection Solutions | **$** | **113** |  |  | $ | 137 |  |  | **$** | **268** |  |  | $ | 160 |  |
| Corporate and Other (6) | **$** | **(90** | **)** |  | $ | (108 | ) |  | **$** | **(239** | **)** |  | $ | (266 | ) |

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|  |  |
| --- | --- |
|  |  |
| (1) | Had we modified the treatment of the amortization of DAC for SCS starting in the first quarter of 2018, the adjustment related to Variable annuity product features for the three and nine months ended September 30, 2018 would have been $1.4 billion and $1.8 billion. |

|  |  |
| --- | --- |
|  |  |
| (2) | Other adjustments include separation costs of $39 million, $66 million, $121 million and $160 million for the three and nine months ended September 30, 2019 and 2018, respectively. |

|  |  |
| --- | --- |
|  |  |
| (3) | Had we modified the treatment of the amortization of DAC for SCS starting in the first quarter of 2018, the adjustment related to Income tax expense (benefit) related to above adjustments for the three and nine months ended September 30, 2018 would have been $(408) million and $(445) million. |

|  |  |
| --- | --- |
|  |  |
| (4) | Had we modified the treatment of the amortization of DAC for SCS starting in the first quarter of 2018, Non-GAAP Operating Earnings for the three and nine months ended September 30, 2018 would have been $690 million and $1.6 billion. |

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|  |  |
| --- | --- |
|  |  |
| (5) | Had we modified the treatment of the amortization of DAC for SCS starting in the first quarter of 2018, Operating earnings for the three and nine months ended September 30, 2018 for the Individual Retirement segment would have been $431 million and $1.2 billion. |

|  |  |
| --- | --- |
|  |  |
| (6) | Includes interest expense and financing fees of $59 million, $65 million, $170 million and $171 million for the three and nine months ended September 30, 2019 and 2018, respectively. |

Segment revenues is a measure of the Company’s revenue by segment as adjusted to exclude certain items. The following table reconciles segment revenues to Total revenues by excluding the following items:

|  |  |
| --- | --- |
|  |  |
| • | Items related to variable annuity product features, which include certain changes in the fair value of the derivatives and other securities we use to hedge these features and changes in the fair value of the embedded derivatives reflected within the net derivative results of variable annuity product features; |

|  |  |
| --- | --- |
|  |  |
| • | Investment gains (losses), net, which include other-than-temporary impairments of securities, sales or disposals of securities/investments, realized capital gains/losses, and valuation allowances; and |

|  |  |
| --- | --- |
|  |  |
| • | Other adjustments, which includes investment income (loss) from certain derivative instruments, excluding derivative instruments used to hedge risks associated with interest margins on interest-sensitive life and annuity contracts and freestanding and embedded derivatives associated with products with GMxB features. |

The table below presents segment revenues for the three and nine months ended September 30, 2019 and 2018:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | |  | **Nine Months Ended September 30,** | | | | | | |
|  | **2019** | | |  | 2018 | | |  | **2019** | | |  | 2018 | | |
|  | **(in millions)** | | | | | | | | | | | | | | |
| Segment revenues: |  | | |  |  | | |  |  | | |  |  | | |
| Individual Retirement (1) | **$** | **1,186** |  |  | $ | 1,070 |  |  | **$** | **3,266** |  |  | $ | 2,873 |  |
| Group Retirement (1) | **272** | |  |  | 262 | |  |  | **790** | |  |  | 745 | |  |
| Investment Management and Research (2) | **872** | |  |  | 851 | |  |  | **2,500** | |  |  | 2,602 | |  |
| Protection Solutions (1) | **803** | |  |  | 775 | |  |  | **2,477** | |  |  | 2,379 | |  |
| Corporate and Other (1) | **303** | |  |  | 281 | |  |  | **915** | |  |  | 861 | |  |
| Adjustments related to: |  | | |  |  | | |  |  | | |  |  | | |
| Variable annuity product features | **(612** | | **)** |  | (2,125 | | ) |  | **(2,251** | | **)** |  | (2,539 | | ) |
| Investment gains (losses), net | **199** | |  |  | (36 | | ) |  | **176** | |  |  | 44 | |  |
| Other adjustments to segment revenues | **5** | |  |  | 5 | |  |  | **29** | |  |  | (42 | | ) |
| Total revenues | **$** | **3,028** |  |  | $ | 1,083 |  |  | **$** | **7,902** |  |  | $ | 6,923 |  |

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|  |  |
| --- | --- |
|  |  |
| (1) | Includes investment expenses charged by AB of $18 million, $13 million, $57 million and $49 million for the three and nine months ended September 30, 2019 and 2018 for services provided to the Company. |

|  |  |
| --- | --- |
|  |  |
| (2) | Inter-segment investment management and other fees of $26 million, $25 million, $77 million and $75 million for the three and nine months ended September 30, 2019 and 2018 are included in total revenues of the Investment Management and Research segment. |

The table below presents Total assets by segment as of September 30, 2019 and December 31, 2018:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **September 30, 2019** | | |  | December 31, 2018 | | |
|  | **(in millions)** | | | | | | |
| Total assets by segment: |  | | |  |  | | |
| Individual Retirement | **$** | **120,955** |  |  | $ | 105,532 |  |
| Group Retirement | **42,037** | |  |  | 38,874 | |  |
| Investment Management and Research | **10,043** | |  |  | 10,294 | |  |
| Protection Solutions | **45,557** | |  |  | 44,633 | |  |
| Corporate and Other | **26,054** | |  |  | 21,464 | |  |
| Total assets | **$** | **244,646** |  |  | $ | 220,797 |  |

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**AXA EQUITABLE HOLDINGS, INC.**

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**16)    EARNINGS PER SHARE**

The following table presents the weighted-average shares outstanding, basic earnings per common share and diluted earnings per common share:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | |  | **Nine Months Ended September 30,** | | | | | | |
|  | **2019** | | |  | 2018 | | |  | **2019** | | |  | 2018 | | |
|  | **(in millions)** | | | | | | | | | | | | | | |
| Weighted-average common shares outstanding: |  | | |  |  | | |  |  | | |  |  | | |
| Weighted-average common shares outstanding - basic | **490.4** | |  |  | 560.2 | |  |  | **499.8** | |  |  | 560.5 | |  |
| Effect of dilutive securities: |  | | |  |  | | |  |  | | |  |  | | |
| Employee share awards (1) | **—** | |  |  | — | |  |  | **—** | |  |  | — | |  |
| Weighted-average common shares outstanding - diluted (2) | **490.4** | |  |  | 560.2 | |  |  | **499.8** | |  |  | 560.5 | |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| Net income (loss): |  | | |  |  | | |  |  | | |  |  | | |
| Net income (loss) | **$** | **(316** | **)** |  | $ | (443 | ) |  | **$** | **(595** | **)** |  | $ | 155 |  |
| Less: Net income (loss) attributable to the noncontrolling interest | **68** | |  |  | 53 | |  |  | **201** | |  |  | 273 | |  |
| Net income (loss) attributable to Holdings common shareholders | **$** | **(384** | **)** |  | $ | (496 | ) |  | **$** | **(796** | **)** |  | $ | (118 | ) |
|  |  | | |  |  | | |  |  | | |  |  | | |
| Earnings per common share: |  | | |  |  | | |  |  | | |  |  | | |
| Basic | **$** | **(0.78** | **)** |  | $ | (0.89 | ) |  | **$** | **(1.59** | **)** |  | $ | (0.21 | ) |
| Diluted | **$** | **(0.78** | **)** |  | $ | (0.89 | ) |  | **$** | **(1.59** | **)** |  | $ | (0.21 | ) |

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|  |  |
| --- | --- |
|  |  |
| (1) | Calculated using the treasury stock method. |

|  |  |
| --- | --- |
|  |  |
| (2) | Shares in the diluted EPS calculation represent basic shares for the three and nine months ended September 30, 2019 and 2018 due to the net losses in these periods. The shares excluded from the calculation were 1.0 million and 0.5 million shares for the three months ended September 30, 2019 and 2018, respectively, and 0.8 million and 0.4 million shares for the nine months ended September 30, 2019 and 2018, respectively. |

Shares of outstanding stock awards not included in the computation of diluted earnings per share because their effect was anti-dilutive totaled 4.6 million and 3.4 million for the three months ended September 30, 2019 and 2018, respectively, and 6.2 million and 3.4 million for the nine months ended September 30, 2019 and 2018, respectively.

**17)**    **REVISION OF PRIOR PERIOD FINANCIAL STATEMENTS**

Reclassification of DAC Capitalization

During the fourth quarter of 2018, the Company changed the presentation of the capitalization of DAC in the consolidated statements of income for all prior periods presented herein by netting the capitalized amounts within the applicable expense line items, such as Compensation and benefits, Commissions and distribution-related payments and Other operating costs and expenses. Previously, the Company had netted the capitalized amounts within the Amortization of DAC. There was no impact on Net income (loss) or Comprehensive income (loss) from this reclassification. See Note 2 for further details of this reclassification.

Revisions of Prior Period Financial Statements

During the fourth quarter of 2018, the Company identified certain cash flows that were incorrectly classified in the Company’s consolidated statements of cash flows. The Company has determined that these misclassifications were not material to its financial statements of any period.

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The impact of items included in the following revision tables on the consolidated statement of cash flows for the nine months ended September 30, 2018 were corrected in the comparative consolidated statements of cash flows included herein for the nine months ended September 30, 2019 and 2018

Revision of Consolidated Financial Statements for the Nine Months Ended September 30, 2018

The following tables present line items of the consolidated statement of cash flows for the nine months ended September 30, 2018 that have been affected by the revisions. This information has been corrected from the information previously presented in the Company’s September 30, 2018 Form 10-Q. For these items, the tables detail the amounts as previously reported and the impact upon those line items due to the reclassifications to conform to the current presentation, revisions and the amounts as currently revised. Prior period amounts have been reclassified to conform to current period presentation, where applicable, and are summarized in the accompanying tables. Tables for the other consolidated financial statements as of or for the three and nine months ended September 30, 2018 are not presented as these revisions were already reflected in the Company’s September 30, 2018 Form 10-Q.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Nine Months Ended September 30, 2018** | | | | | | | | | | | | | | | | | | |
|  | **As Pre-viously  Reported** | | |  | **Presentation Reclassifi-cations** | | |  | **As Adjusted** | | |  | **Impact of Revisions** | | |  | **As Revised** | | |
|  | **(in millions)** | | | | | | | | | | | | | | | | | | |
| **Consolidated Statement of Cash Flows:** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| **Cash flows from operating activities:** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Adjustments to reconcile Net income (loss) to Net cash provided by (used in) operating activities: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Amortization of deferred sales commission | $ | 17 |  |  | $ | (17 | ) |  | $ | — |  |  | $ | — |  |  | $ | — |  |
| Amortization and depreciation | (57 | | ) |  | 210 | |  |  | 153 | |  |  | — | |  |  | 153 | |  |
| Amortization of deferred cost of reinsurance asset | 18 | |  |  | (18 | | ) |  | — | |  |  | — | |  |  | — | |  |
| Distributions from joint ventures and limited partnerships | 63 | |  |  | (63 | | ) |  | — | |  |  | — | |  |  | — | |  |
| Equity (income) loss from limited partnerships | — | |  |  | (82 | | ) |  | (82 | | ) |  | — | |  |  | (82 | | ) |
| Changes in: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Reinsurance recoverable | 92 | |  |  | — | |  |  | 92 | |  |  | (2 | | ) |  | 90 | |  |
| Capitalization of DAC | (338 | | ) |  | (174 | | ) |  | (512 | | ) |  | — | |  |  | (512 | | ) |
| Future policy benefits | (620 | | ) |  | — | |  |  | (620 | | ) |  | (44 | | ) |  | (664 | | ) |
| Current and deferred income taxes | 249 | |  |  | — | |  |  | 249 | |  |  | (56 | | ) |  | 193 | |  |
| Other, net | (139 | | ) |  | 144 | |  |  | 5 | |  |  | — | |  |  | 5 | |  |
| Net cash provided by (used in) operating activities | $ | (33 | ) |  | $ | — |  |  | $ | (33 | ) |  | $ | (102 | ) |  | $ | (135 | ) |
| **Cash flows from investing activities:** |  | | |  |  | |  |  |  | | |  |  | |  |  |  | | |
| Proceeds from the sale/maturity/prepayment of: |  | | |  |  | |  |  |  | | |  |  | |  |  |  | | |
| Real estate joint ventures | $ | — |  |  | $ | 139 |  |  | $ | 139 |  |  | $ | — |  |  | $ | 139 |  |
| Other | 335 | |  |  | (139 | | ) |  | 196 | |  |  | — | |  |  | 196 | |  |
| Cash settlements related to derivative instruments | (609 | | ) |  | — | |  |  | (609 | | ) |  | (668 | | ) |  | (1,277 | | ) |
| Other, net | 319 | |  |  | — | |  |  | 319 | |  |  | (5 | | ) |  | 314 | |  |
| Net cash provided by (used in) investing activities | $ | (1,056 | ) |  | $ | — |  |  | $ | (1,056 | ) |  | $ | (673 | ) |  | $ | (1,729 | ) |
| **Cash flows from financing activities:** |  | | |  |  | |  |  |  | | |  |  | |  |  |  | | |
| Policyholders’ account balances: |  | | |  |  | |  |  |  | | |  |  | |  |  |  | | |
| Deposits | $ | 8,372 |  |  | $ | — |  |  | $ | 8,372 |  |  | $ | (1,719 | ) |  | $ | 6,653 |  |
| Withdrawals | (4,170 | | ) |  | — | |  |  | (4,170 | | ) |  | 846 | |  |  | (3,324 | | ) |
| Transfers (to) from Separate Accounts | (335 | | ) |  | — | |  |  | (335 | | ) |  | 1,648 | |  |  | 1,313 | |  |
| Net cash provided by (used in) financing activities | $ | 1,061 |  |  | $ | — |  |  | $ | 1,061 |  |  | $ | 775 |  |  | $ | 1,836 |  |

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**18)    SUBSEQUENT EVENTS**

Cash Dividend Declared

On November 6, 2019, Holdings’ Board of Directors declared a cash dividend on Holdings’ common stock of $0.15 per share, payable on November 25, 2019, to shareholders of record as of November 18, 2019. The payment of any future dividends will be at the discretion of Holdings’ Board of Directors and will depend on our financial condition, results of operations, cash requirements, future prospects, regulatory restrictions on the payment of dividends by Holdings’ insurance subsidiaries and other factors deemed relevant by the Board.

Share Repurchase Program

On November 6, 2019, Holdings’ Board of Directors authorized a new share repurchase program. Under this authorization, Holdings may, from time to time through December 31, 2020, purchase up to $400 million of its common stock through various means. Holdings may choose to suspend or discontinue the repurchase program at any time. The repurchase program does not obligate Holdings to purchase any particular number of shares. Holdings has approximately $163 million outstanding under its previously authorized share repurchase program.

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

*The following discussion and analysis of our financial condition and results of operations should be read in its entirety and in conjunction with the consolidated financial statements and related notes contained in* [*Part I, Item 1*](#s7EDBA4C3AA965CED8CB4C215149E05BC)*of this Quarterly Report on Form 10-Q, as well as “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section contained in our*[*Annual Report on Form 10-K*](http://www.sec.gov/Archives/edgar/data/1333986/000133398619000010/eqhs-1and10xk.htm)*for the year ended December 31, 2018 (“2018 Form 10-K”).*

*In addition to historical data, this discussion contains forward-looking statements about our business, operations and financial performance based on current expectations that involve risks, uncertainties and assumptions. Actual results may differ materially from those discussed in the forward-looking statements as a result of various factors. See the Note Regarding Forward-Looking Statements and Information. Investors are directed to consider the risks and uncertainties discussed in* [*Part II, Item 1A*](#s3FF4C6A445095B61BC6A74F608974E97)*of this Quarterly Report on Form 10-Q, as well as in other documents we have filed with the Securities and Exchange Commission (“SEC”).*

**Executive Summary**

***Overview***

We are one of America’s leading financial services companies, providing: (i) advice and solutions for helping Americans set and meet their retirement goals and protect and transfer their wealth across generations; and (ii) a wide range of investment management insights, expertise and innovations to drive better investment decisions and outcomes for clients worldwide.

We manage our business through four segments: Individual Retirement, Group Retirement, Investment Management and Research, and Protection Solutions. We report certain activities and items that are not included in these segments in Corporate and Other. See Note 15 of the Notes to the Consolidated Financial Statements for further information on our segments.

We benefit from our complementary mix of businesses. This business mix provides diversity in our earnings sources, which helps offset fluctuations in market conditions and variability in business results, while offering growth opportunities.

***Revenues***

Our revenues come from three principal sources:

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| • | fee income derived from our retirement and protection products and our investment management and research services; |

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| • | premiums from our traditional life insurance and annuity products; and |

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| • | investment income from our General Account investment portfolio. |

Our fee income varies directly in relation to the amount of the underlying AV or benefit base of our retirement and protection products and the amount of AUM of our Investment Management and Research business. AV and AUM, each as defined in “—Key Operating Measures,” are influenced by changes in economic conditions, primarily equity market returns, as well as net flows. Our premium income is driven by the growth in new policies written and the persistency of our in-force policies, both of which are influenced by a combination of factors, including our efforts to attract and retain customers and market conditions that influence demand for our products. Our investment income is driven by the yield on our General Account investment portfolio and is impacted by the prevailing level of interest rates as we reinvest cash associated with maturing investments and net flows to the portfolio.

***Benefits and Other Deductions***

Our primary expenses are:

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| • | policyholders’ benefits and interest credited to policyholders’ account balances; |

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| • | sales commissions and compensation paid to intermediaries and advisors that distribute our products and services; and |

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| • | compensation and benefits provided to our employees and other operating expenses. |

Policyholders’ benefits are driven primarily by mortality, customer withdrawals, and benefits which change in response to changes in capital market conditions. In addition, some of our policyholders’ benefits are directly tied to the AV and benefit base of our variable annuity products. Interest credited to policyholders varies in relation to the amount of the underlying AV or benefit base. Sales commissions and compensation paid to intermediaries and advisors vary in relation to premium and fee

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income generated from these sources, whereas compensation and benefits to our employees are more constant and impacted by market wages and decline with increases in efficiency. Our ability to manage these expenses across various economic cycles and products is critical to the profitability of our company.

***Net Income Volatility***

We have offered and continue to offer variable annuity products with variable annuity guaranteed benefits (“GMxB”) features. The future claims exposure on these features is sensitive to movements in the equity markets and interest rates. Accordingly, we have implemented hedging and reinsurance programs designed to mitigate the economic exposure to us from these features due to equity market and interest rate movements. Changes in the values of the derivatives associated with these programs due to equity market and interest rate movements are recognized in the periods in which they occur while corresponding changes in offsetting liabilities are recognized over time. This results in net income volatility as further described below. See “—Significant Factors Impacting Our Results—Impact of Hedging and GMIB Reinsurance on Results.”

In addition to our dynamic hedging strategy, we have static hedge positions designed to mitigate the adverse impact of changing market conditions on our statutory capital. We believe this program will continue to preserve the economic value of our variable annuity contracts and better protect our target variable annuity asset level. However, these static hedge positions increase the size of our derivative positions and may result in higher net income volatility on a period-over-period basis.

Due to the impacts on our net income of equity market and interest rate movements and other items that are not part of the underlying profitability drivers of our business, we evaluate and manage our business performance using Non-GAAP Operating Earnings, a non-GAAP financial measure that is intended to remove these impacts from our results. See “—Key Operating Measures—Non-GAAP Operating Earnings.”

**Significant Factors Impacting Our Results**

The following significant factors have impacted, and may in the future impact, our financial condition, results of operations or cash flows.

***Impact of Hedging and GMIB Reinsurance on Results***

We have offered and continue to offer variable annuity products with GMxB features. The future claims exposure on these features is sensitive to movements in the equity markets and interest rates. Accordingly, we have implemented hedging and reinsurance programs designed to mitigate the economic exposure to us from these features due to equity market and interest rate movements. These programs include:

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| • | Variable annuity hedging programs. We use a dynamic hedging program (within this program, generally, we reevaluate our economic exposure at least daily and rebalance our hedge positions accordingly) to mitigate certain risks associated with the GMxB features that are embedded in our liabilities for our variable annuity products. This program utilizes various derivative instruments that are managed in an effort to reduce the economic impact of unfavorable changes in GMxB features’ exposures attributable to movements in the equity markets and interest rates. Although this program is designed to provide a measure of economic protection against the impact of adverse market conditions, it does not qualify for hedge accounting treatment. Accordingly, changes in value of the derivatives will be recognized in the period in which they occur with offsetting changes in reserves partially recognized in the current period, resulting in net income volatility. In addition to our dynamic hedging program, we have a hedging program using static hedge positions (derivative positions intended to be held to maturity with less frequent re-balancing) to protect our statutory capital against stress scenarios. This program in addition to our dynamic hedge program has increased the size of our derivative positions, resulting in an increase in net income volatility. The impacts are most pronounced for variable annuity products in our Individual Retirement segment. |

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| • | GMIB reinsurance contracts. Historically, GMIB reinsurance contracts were used to cede to non-affiliated reinsurers a portion of our exposure to variable annuity products that offer a GMIB feature. We account for the GMIB reinsurance contracts as derivatives and report them at fair value. Gross GMIB reserves are calculated on the basis of assumptions related to projected benefits and related contract charges over the lives of the contracts. Accordingly, our gross reserves will not immediately reflect the offsetting impact on future claims exposure resulting from the same capital market or interest rate fluctuations that cause gains or losses on the fair value of the GMIB reinsurance contracts. Because changes in the fair value of the GMIB reinsurance contracts are recorded in the period in which they occur and a majority of the changes in gross reserves for GMIB are recognized over time, net income will be more volatile. |

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***Effect of Assumption Updates on Operating Results***

During the third quarter 2019, we conducted our annual review of the assumptions underlying the valuation of DAC, deferred sales inducement assets, unearned revenue liabilities, liabilities for future policyholder benefits and embedded derivatives for our Individual Retirement, Group Retirement, and Protection Solution segments (assumption reviews are not relevant for the Investment Management and Research segment). Assumptions are based on a combination of Company experience, industry experience, management actions and expert judgment and reflect our best estimate as of the date of the applicable financial statements. As a result of this review, some assumptions were updated, resulting in increases and decreases in the carrying values of these product liabilities and assets.

Most of the variable annuity products, variable universal life insurance and universal life insurance products we offer maintain policyholder deposits that are reported as liabilities and classified within either Separate Accounts liabilities or policyholder account balances. Our products and riders also impact liabilities for future policyholder benefits and unearned revenues and assets for DAC and deferred sales inducements (“DSI”). The valuation of these assets and liabilities (other than deposits) are based on differing accounting methods depending on the product, each of which requires numerous assumptions and considerable judgment. The accounting guidance applied in the valuation of these assets and liabilities includes, but is not limited to, the following: (i) traditional life insurance products for which assumptions are locked in at inception; (ii) universal life insurance and variable life insurance secondary guarantees for which benefit liabilities are determined by estimating the expected value of death benefits payable when the account balance is projected to be zero and recognizing those benefits ratably over the accumulation period based on total expected assessments; (iii) certain product guarantees for which benefit liabilities are accrued over the life of the contract in proportion to actual and future expected policy assessments; and (iv) certain product guarantees reported as embedded derivatives at fair value.

***Assumption Updates and Model Changes***

We conduct our annual review of our assumptions and models during the third quarter of each year.

*Impact of Assumption Updates and Model Changes on Income from Continuing Operations before income taxes and Net income (loss)*

The table below presents the impact of our actuarial assumption updates during the third quarter of 2019 and 2018 to our Income (loss) from continuing operations, before income taxes and Net income (loss). There was no material impact from model changes during the third quarter of 2019 and 2018 to our Income (loss) from continuing operations, before income taxes or Net income (loss).

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|  | **Nine Months Ended September 30, (1)** | | | | | | |
|  | **2019** | | |  | 2018 | | |
|  | **(in millions)** | | | | | | |
| Impact of assumption updates on Net income (loss): |  | | |  |  | | |
| Variable annuity product features related assumption updates | **$** | **(1,467** | **)** |  | $ | (366 | ) |
| All other assumption updates | **76** | |  |  | 206 | |  |
| Impact of assumption updates on Income (loss) from continuing operations, before income tax | **(1,391** | | **)** |  | (160 | | ) |
| Income tax (expense) benefit on assumption updates | **292** | |  |  | 29 | |  |
| Net income (loss) impact of assumption updates | **$** | **(1,099** | **)** |  | $ | (131 | ) |

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| (1) | As we only update our assumptions and make model changes annually, the amounts for the three months and the nine months ended September 30 of each year presented are the same. |

**2019 Assumption Updates**

The impact of assumption updates in the third quarter of 2019 was a decrease of $1.4 billion to Income (loss) from continuing operations, before income taxes and a decrease to Net income (loss) of $1.1 billion. This includes a $1.5 billion unfavorable impact on the reserves for our Variable annuity product features as a result of unfavorable updates to our: (i) interest rate assumptions; and (ii) policyholder behavior, primarily lapse and withdrawal assumptions, further magnified by low interest rates.

The net impact of these assumption updates on Income (loss) from continuing operations, before income taxes of $1.4 billion consisted of an increase in Policy charges and fee income of $3 million, an increase in Policyholders’ benefits of

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$875 million, an increase in Net derivative losses of $578 million, a decrease in Interest credited to policyholders’ account balances of $13 million and a decrease in the Amortization of DAC of $46 million.

**2018 Assumption Updates**

The impact of assumption updates in the third quarter of 2018 was a decrease of $160 million to Income (loss) from continuing operations, before income taxes and a decrease to Net income (loss) of $131 million. This includes a $366 million unfavorable impact on the reserves for our Variable annuity product features as a result of unfavorable updates to policyholder behavior, primarily annuitization assumptions, partially offset by favorable updates to economic assumptions.

The net impact of these assumption updates on Income (loss) from continuing operations, before income taxes of $160 million consisted of a decrease in Policy charges and fee income of $24 million, a decrease in Policyholders’ benefits of $673 million, an increase in Net derivative losses of $1.1 billion and a decrease in the Amortization of DAC of $286 million.

*Impact of Assumption Updates and Model Changes on Pre-tax Non-GAAP Operating Earnings*

The table below presents the impact of our actuarial assumption updates during the third quarter of 2019 and 2018 on segment revenues, benefits and other deductions, and Corporate and Other. There was no material impact from model changes during the third quarter of 2019 and 2018 on segment revenues, benefits and other deductions, and Corporate and Other.

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|  | **Nine Months Ended September 30, (1)** | | | | | | |
|  | **2019** | | |  | **2018** | | |
|  | **(in millions)** | | | | | | |
| Impact of assumption updates by segment: |  | | |  |  | | |
| Individual Retirement | **$** | **104** |  |  | **$** | **59** |  |
| Group Retirement | **3** | |  |  | **43** | |  |
| Protection Solutions | **(4** | | **)** |  | **107** | |  |
| Impact of assumption updates on Corporate and Other | **(27** | | **)** |  | **(3** | | **)** |
| Total impact on pre-tax Non-GAAP Operating Earnings | **$** | **76** |  |  | **$** | **206** |  |

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| (1) | As we only update our assumptions and make model changes annually, the amounts for the three months and the nine months ended September 30 of each year presented are the same. |

**2019 Assumption Updates**

The impact of our 2019 annual review on Non-GAAP Operating Earnings was favorable by $60 million, or $76 million before taking into consideration the tax impacts.

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| • | For the Individual Retirement segment, the impacts primarily reflect favorable updates to Amortization of DAC from lower lapse assumptions. |

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| • | For the Group Retirement segment, the impacts primarily reflect a favorable update to maintenance expenses. |

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| • | For the Protection Solutions segment, the results primarily reflect unfavorable updates to mortality and economic assumptions, partially offset by a favorable update to maintenance expenses. |

Non-GAAP Operating Earnings excludes items related to Variable annuity product features, such as changes in the fair value of the embedded derivatives associated with the GMIBNLG liability and the effect of benefit ratio unlock adjustments. The net impact of assumption changes on Non-GAAP Operating Earnings in the third quarter of 2019 increased Policy charges and fee income by $3 million, decreased Policyholder’ benefits by $15 million, decreased Interest credited to policyholders’ account balances by $13 million and decreased Amortization of DAC by $46 million.

**2018 Assumption Updates**

The impact of our 2018 annual review on Non-GAAP Operating Earnings was favorable by $169 million, or $206 million before taking into consideration the tax impacts.

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| • | For the Individual Retirement segment, the impacts primarily reflect favorable updates to Amortization of DAC from primarily lower annuitization assumptions and other policyholder behavior updates. |

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| • | For the Group Retirement segment, the impacts primarily reflect a favorable update reflecting lower withdrawal rates. |

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| • | For the Protection Solutions segment, the results primarily reflect favorable updates to surrender rates, expenses and general account investment yields, partially offset by an increase in mortality assumptions. As a result of these changes, the variable and interest sensitive products in the Protection Solutions segment are no longer in loss recognition. |

Non-GAAP Operating Earnings excludes items related to Variable annuity product features, such as changes in the fair value of the embedded derivatives associated with the GMIBNLG liability and the effect of benefit ratio unlock adjustments. The net impact of assumption changes on Non-GAAP Operating Earnings in the third quarter of 2018 decreased Policy charges and fee income by $24 million, increased Policyholder’ benefits by $56 million and decreased Amortization of DAC by $286 million.

**Macroeconomic and Industry Trends**

Our business and consolidated results of operations are significantly affected by economic conditions and consumer confidence, conditions in the global capital markets and the interest rate environment.

***Financial and Economic Environment***

A wide variety of factors continue to impact global financial and economic conditions. These factors include, among others, concerns over economic growth in the United States, continued low interest rates including following the sharp decline in the second quarter of 2019, falling unemployment rates, the U.S. Federal Reserve’s potential plans to lower short-term interest rates, fluctuations in the strength of the U.S. dollar, the uncertainty created by what actions the current administration may pursue, concerns over global trade wars, changes in tax policy, global economic factors including programs by the European Central Bank and the United Kingdom’s vote to exit from the European Union and other geopolitical issues. Additionally, many of the products and solutions we sell are tax-advantaged or tax-deferred. If U.S. tax laws were to change, such that our products and solutions are no longer tax-advantaged or tax-deferred, demand for our products could materially decrease.

Stressed conditions, volatility and disruptions in the capital markets, particular markets, or financial asset classes can have an adverse effect on us, in part because we have a large investment portfolio and our insurance liabilities and derivatives are sensitive to changing market factors. An increase in market volatility could affect our business, including through effects on the yields we earn on invested assets, changes in required reserves and capital and fluctuations in the value of our AUM, AV or AUA. These effects could be exacerbated by uncertainty about future fiscal policy, changes in tax policy, the scope of potential deregulation and levels of global trade.

In the short- to medium-term, the potential for increased volatility, coupled with prevailing interest rates remaining below historical averages, could pressure sales and reduce demand for our products as consumers consider purchasing alternative products to meet their objectives. In addition, this environment could make it difficult to consistently develop products that are attractive to customers. Financial performance can be adversely affected by market volatility and equity market declines as fees driven by AV and AUM fluctuate, hedging costs increase and revenues decline due to reduced sales and increased outflows.

We monitor the behavior of our customers and other factors, including mortality rates, morbidity rates, annuitization rates and lapse and surrender rates, which change in response to changes in capital market conditions, to ensure that our products and solutions remain attractive and profitable. For additional information on our sensitivity to interest rates and capital market prices, See “Quantitative and Qualitative Disclosures About Market Risk.”

***Interest Rate Environment***

We believe the interest rate environment will continue to impact our business and financial performance in the future for several reasons, including the following:

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| • | Certain of our variable annuity and life insurance products pay guaranteed minimum interest crediting rates. We are required to pay these guaranteed minimum rates even if earnings on our investment portfolio decline, with the resulting investment margin compression negatively impacting earnings. In addition, we expect more policyholders to hold policies with comparatively high guaranteed rates longer (lower lapse rates) in a low interest rate environment. Conversely, a rise in average yield on our investment portfolio should positively impact earnings. Similarly, we expect policyholders would be less likely to hold policies with existing guaranteed rates (higher lapse rates) as interest rates rise. |

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| • | A prolonged low interest rate environment also may subject us to increased hedging costs or an increase in the amount of statutory reserves that our insurance subsidiaries are required to hold for GMxB features, lowering their statutory |

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surplus, which would adversely affect their ability to pay dividends to us. In addition, it may also increase the perceived value of GMxB features to our policyholders, which in turn may lead to a higher rate of annuitization and higher persistency of those products over time. Finally, low interest rates may continue to cause an acceleration of DAC amortization or reserve increase due to loss recognition for interest sensitive products, primarily for our Protection Solutions segment.

For a discussion on derivatives we used to hedge interest rates, see Note 4 of the Notes to the Consolidated Financial Statements.

***Regulatory Developments***

Our life insurance subsidiaries are regulated primarily at the state level, with some policies and products also subject to federal regulation. On an ongoing basis, regulators refine capital requirements and introduce new reserving standards. See “Business—Regulation” and “Risk Factors—Legal and Regulatory Risks” in the 2018 Form 10-K. Regulations recently adopted or currently under review can potentially impact our statutory reserve and capital requirements.

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| • | *National Association of Insurance Commissioners (“NAIC”)*. In 2015, the NAIC Financial Condition (E) Committee established a working group to study and address, as appropriate, regulatory issues resulting from variable annuity captive reinsurance transactions, including reforms that would improve the current statutory reserve and RBC framework for insurance companies that sell variable annuity products. In August 2018, the NAIC adopted the new framework developed and proposed by this working group. Following its referral to various NAIC committees to develop the full implementation details, the new framework becomes operational in January 2020, unless adopted earlier. Among other changes, the new framework includes new prescriptions for reflecting hedge effectiveness, investment returns, interest rates, mortality and policyholder behavior in calculating statutory reserves and RBC. Once effective, it is expected to materially change the level of variable annuity reserves and RBC requirements as well as their sensitivity to capital markets including interest rate, equity markets, volatility and credit spreads. Overall, we believe the NAIC reform has moved variable annuity capital standards towards an economic framework and is consistent with how we manage our business. The Company intends to adopt the NAIC reserve and capital framework for the year ended December 31, 2019. However, the New York State Department of Financial Services (“NYDFS”) recently proposed a rule for adoption that differs from the standards of the NAIC framework. The proposed rule requires reserves to be the greater of the NAIC standard or a revised version of the current NYDFS requirement for policies issued prior to January 1, 2020, and for policies issued after that date, it establishes a new standard that is more conservative than the NAIC standard. Other state insurance regulators may also propose and adopt standards different from the NAIC framework. |

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| • | *Fiduciary Rules/“Best Interest” Standards of Conduct.* In the wake of the March 2018 federal appeals court decision to vacate the DOL Rule, the NAIC as well as state regulators are currently considering whether to apply an impartial conduct standard similar to the DOL Rule to recommendations made in connection with certain annuities and, in one case, to life insurance policies. For example, the NAIC is actively working on a proposal to raise the advice standard for annuity sales and in July 2018, the NYDFS issued a final version of Regulation 187 that adopts a “best interest” standard for recommendations regarding the sale of life insurance and annuity products in New York. Regulation 187 took effect on August 1, 2019 with respect to annuity sales and will take effect on February 1, 2020 for life insurance sales and is applicable to sales of life insurance and annuity products in New York. In November 2018, the primary agent groups in New York launched a legal challenge against the NYDFS over the adoption of Regulation 187. In July 2019, the New York State Supreme Court dismissed the plaintiff’s legal challenge, and upheld the NYDFS’s authority to extend the rule to life insurance products. A notice of appeal was filed in September 2019. We have developed our compliance framework for Regulation 187 with respect to annuity sales and are assessing the impact it may have on our life insurance business. In addition, state regulators and legislatures in Nevada, New Jersey and Maryland have proposed measures that would make broker-dealers, sales agents, and investment advisers and their representatives to be subject to a fiduciary duty when providing products and services to customers, including pension plans and IRAs. Beyond the New York regulation, the likelihood of enactment of any such state-based regulation is uncertain at this time, but if implemented, these regulations could have adverse effects on our business and consolidated results of operations. |

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| • | In June 2019, the SEC released a set of rules that, among other things, enhance the existing standard of conduct for broker-dealers to require them to act in the best interest of their clients “Regulation Best Interest”; clarify the nature of the fiduciary obligations owed by registered investment advisers to their clients; impose new disclosure requirements aimed at ensuring investors understand the nature of their relationship with their investment professionals; and restrict certain broker-dealers and their financial professionals from using the terms “adviser” or “advisor”. The effective date |

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for compliance with these rules is June 30, 2020. Investment advisers to retail clients will also be required to file new Form CRS, providing disclosures about its standard of conduct and conflicts of interest, with the SEC and deliver copies of the Form CRS to its retail clients. The intent of these rules is to impose on broker-dealers an enhanced duty of care to their customers similar to that which applies to investment advisers under existing law. Two lawsuits, one by several states and the District of Columbia and the other by private firms, were filed in September 2019 and currently are pending, seeking to vacate Regulation Best Interest. We are monitoring these developments and evaluating the potential effect they may have on our business.

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| • | *Derivatives Regulation*. The amount of collateral we are required to pledge and the expenses we incur under our derivatives transactions are expected to increase as a result of the requirement to pledge initial margin for non-centrally cleared derivative transactions (“OTC” derivatives) entered into after the phase-in period, which will likely be applicable to us in September 2020 as a result of adoption by the Office of the Comptroller of the Currency (“OCC”), the Federal Reserve Board, the FDIC, the Farm Credit Administration, and the Federal Housing Finance Agency and the CFTC of final margin requirements for OTC derivatives. Also, in June and September 2019, the SEC adopted a set of rules that establish capital, margin and segregation requirements for security-based swaps and set recordkeeping and reporting requirements for security-based swap dealers, major security-based swap participants and broker-dealers. The rules are part of the larger regulatory framework that the SEC is establishing over non-bank security-based swap dealers (“SBSD’s”), non-bank major security-based swap dealers (“MSBSP’s”), and certain broker-dealers that are not SBSD’s that imposes registration, disqualification, recordkeeping and reporting requirements, and cross-border regulation. The compliance date for the new rules is 18 months after the adoption by the SEC of final rules on cross-border application of security-based swap requirements, which have been proposed and are pending. We are monitoring these developments and evaluating the potential effect these rules might have on our business. |

***Impact of the Tax Reform Act***

On December 22, 2017, President Trump signed into law the Tax Reform Act, a broad overhaul of the U.S. Internal Revenue Code that changed long-standing provisions governing the taxation of U.S. corporations, including life insurance companies.

The Tax Reform Act reduced the federal corporate income tax rate to 21% and repealed the corporate Alternative Minimum Tax (“AMT”) while keeping existing AMT credits. It also contained measures affecting our insurance companies, including changes to the DRD, insurance reserves and tax DAC, and measures affecting our international operations. As a result of the Tax Reform Act, our Net Income and Non-GAAP Operating Earnings has improved and the tax liability on the earnings of our foreign subsidiaries has decreased.

In August 2018, the NAIC adopted changes to the RBC calculation, including the C-3 Phase II Total Asset Requirement for variable annuities, to reflect the 21% corporate income tax rate in RBC, which resulted in a reduction to our Combined RBC Ratio.

Overall, the Tax Reform Act had a net positive economic impact on us and we continue to monitor regulations related to this reform.

**Separation Costs**

In connection with the IPO and transitioning to operating as a stand-alone public company, we have incurred and expect to continue to incur one-time and recurring expenses. These expenses primarily relate to information technology, compliance, internal audit, finance, risk management, procurement, client service, human resources and other support services. The process of replicating and replacing functions, systems and infrastructure provided by AXA or certain of its affiliates in order to operate on a stand-alone basis is currently underway. Furthermore, as a result of AXA ceasing to own at least a majority of our outstanding common stock, we incurred, and continue to incur, additional expenses. These expenses, any recurring expenses, including under the Transitional Services Agreement, and any additional one-time expenses, including as a result of rebranding, we may incur may be material. See “Risk Factors” in the 2018 Form 10-K for additional information.

We estimate that the aggregate amount of the total separation expenses described above will be between approximately $650 million and $700 million. Through September 30, 2019, a total of $431 million has been incurred, of which $39 million and $66 million was incurred in the three months ended September 30, 2019 and 2018, respectively, and $121 million and $160 million was incurred in the nine months ended September 30, 2019 and 2018, respectively.

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**Productivity Strategies**

*Retirement and Protection Businesses*

We continue to build upon our productivity improvements through which we have delivered more than $350 million in efficiency improvements from 2012 through 2017. Our productivity strategy includes several initiatives, including relocating some of our real estate footprint away from the New York metropolitan area, replacing or updating less efficient legacy technology infrastructure and expanding existing outsourcing arrangements, which we believe will reduce costs and improve productivity.

We anticipate that the savings from these initiatives will offset any incremental ongoing expenses that we incur as a standalone company, and we expect these initiatives to improve our operating leverage, increasing our Non-GAAP Operating Earnings by approximately $75 million pre-tax per annum by 2020.

*Investment Management and Research Business*

AB has announced that it will establish its corporate headquarters in, and relocate approximately 1,050 jobs located in the New York metro area to, Nashville, Tennessee. For more detail on the costs and expense savings AB expects to incur as a result of this relocation, see AB’s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2019.

**Key Operating Measures**

In addition to our results presented in accordance with U.S. GAAP, we report Non-GAAP Operating Earnings, Non-GAAP Operating ROE, Non-GAAP Operating ROC by segment for our Individual Retirement, Group Retirement and Protection Solutions segments, and Non-GAAP Operating Earnings per share, each of which is a measure that is not determined in accordance with U.S. GAAP. Management believes that the use of these non-GAAP financial measures, together with relevant U.S. GAAP measures, provides a better understanding of our results of operations and the underlying profitability drivers and trends of our business. These non-GAAP financial measures are intended to remove from our results of operations the impact of market changes (where there is mismatch in the valuation of assets and liabilities) as well as certain other expenses which are not part of our underlying profitability drivers or likely to re-occur in the foreseeable future, as such items fluctuate from period-to-period in a manner inconsistent with these drivers. These measures should be considered supplementary to our results that are presented in accordance with U.S. GAAP and should not be viewed as a substitute for the U.S. GAAP measures. Other companies may use similarly titled non-GAAP financial measures that are calculated differently from the way we calculate such measures. Consequently, our non-GAAP financial measures may not be comparable to similar measures used by other companies.

We also discuss certain operating measures, including AUM, AUA, AV, Protection Solutions Reserves and certain other operating measures, which management believes provide useful information about our businesses and the operational factors underlying our financial performance.

***Non-GAAP Operating Earnings***

Non-GAAP Operating Earnings is an after-tax non-GAAP financial measure used to evaluate our financial performance on a consolidated basis that is determined by making certain adjustments to our consolidated after-tax net income attributable to Holdings. The most significant of such adjustments relates to our derivative positions, which protect economic value and statutory capital, and are more sensitive to changes in market conditions than the variable annuity product liabilities as valued under U.S. GAAP. This is a large source of volatility in net income.

In the first quarter of 2019, we modified our Non-GAAP Operating Earnings measure’s treatment of the impact of timing differences on the amortization of DAC resulting from market value adjustments for our SCS variable annuity product. As a result of this modification, the amortization of DAC for our SCS product included in Non-GAAP Operating Earnings was changed to be determined based on our SCS product's gross profits included in Non-GAAP Operating Earnings, consistent with both our exclusion from Non-GAAP Operating Earnings of other items that are distortive to the underlying drivers of our financial performance on a consolidated basis and with industry practice. Our presentation of Non-GAAP Operating Earnings in prior periods was not revised to reflect this modification, however, had we modified the treatment of the amortization of DAC for SCS starting in the first quarter of 2018, SCS-related DAC amortization excluded from Non-GAAP Operating Earnings would have been $52 million, $17 million and $4 million lower during the first, second and third quarters of 2018, respectively, and $17 million higher during the fourth quarter of 2018.

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Non-GAAP Operating Earnings equals our consolidated after-tax net income attributable to Holdings adjusted to eliminate the impact of the following items:

|  |  |
| --- | --- |
|  |  |
| • | Items related to variable annuity product features, which include certain changes in the fair value of the derivatives and other securities we use to hedge these features, the effect of benefit ratio unlock adjustments and changes in the fair value of the embedded derivatives reflected within variable annuity products’ net derivative results and the impact of these items on DAC amortization on our SCS product; |

|  |  |
| --- | --- |
|  |  |
| • | Investment (gains) losses, which includes other-than-temporary impairments of securities, sales or disposals of securities/investments, realized capital gains/losses and valuation allowances; |

|  |  |
| --- | --- |
|  |  |
| • | Net actuarial (gains) losses, which includes actuarial gains and losses as a result of differences between actual and expected experience on pension plan assets or projected benefit obligation during a given period related to pension, other postretirement benefit obligations, and the one-time impact of the settlement of the defined benefit obligation; |

|  |  |
| --- | --- |
|  |  |
| • | Other adjustments, which includes restructuring costs related to severance, lease write-offs related to non-recurring restructuring activities, and separation costs; and |

|  |  |
| --- | --- |
|  |  |
| • | Income tax expense (benefit) related to the above items and non-recurring tax items, which includes the effect of uncertain tax positions for a given audit period and the impact of the Tax Reform Act. |

Because Non-GAAP Operating Earnings excludes the foregoing items that can be distortive or unpredictable, management believes that this measure enhances the understanding of the Company’s underlying drivers of profitability and trends in our business, thereby allowing management to make decisions that will positively impact our business.

We use the prevailing corporate federal income tax rate of 21%, while taking into account any non-recurring differences for events recognized differently in our financial statements and federal income tax returns as well as partnership income taxed at lower rates when reconciling Net income (loss) attributable to Holdings to Non-GAAP Operating Earnings.

The table below presents a reconciliation of Net income (loss) attributable to Holdings to Non-GAAP Operating Earnings for the three and nine months ended September 30, 2019 and 2018:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | |  | **Nine Months Ended September 30,** | | | | | | |
|  | **2019** | | |  | 2018 | | |  | **2019** | | |  | 2018 | | |
|  | **(in millions)** | | | | | | | | | | | | | | |
| Net income (loss) attributable to Holdings | **$** | **(384** | **)** |  | $ | (496 | ) |  | **$** | **(796** | **)** |  | $ | (118 | ) |
| Adjustments related to: |  | | |  |  | | |  |  | | |  |  | | |
| Variable annuity product features (1) | **1,444** | |  |  | 1,403 | |  |  | **3,184** | |  |  | 1,829 | |  |
| Investment (gains) losses | **(199** | | **)** |  | 36 | |  |  | **(176** | | **)** |  | (44 | | ) |
| Net actuarial (gains) losses related to pension and other postretirement benefit obligations | **24** | |  |  | 24 | |  |  | **72** | |  |  | 182 | |  |
| Other adjustments (2) | **78** | |  |  | 51 | |  |  | **207** | |  |  | 229 | |  |
| Income tax expense (benefit) related to above adjustments (3) | **(282** | | **)** |  | (409 | | ) |  | **(690** | | **)** |  | (461 | | ) |
| Non-recurring tax items | **(4** | | **)** |  | 84 | |  |  | **(56** | | **)** |  | 45 | |  |
| Non-GAAP Operating Earnings (4) | **$** | **677** |  |  | $ | 693 |  |  | **$** | **1,745** |  |  | $ | 1,662 |  |

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| --- | --- |
|  |  |
| (1) | Had we modified the treatment of the amortization of DAC for SCS starting in the first quarter of 2018, the adjustment related to Variable annuity product features for the three and nine months ended September 30, 2018 would have been $1.4 billion and $1.8 billion. |

|  |  |
| --- | --- |
|  |  |
| (2) | Other adjustments include separation costs of $39 million, $66 million, $121 million and $160 million for the three and nine months ended September 30, 2019 and 2018, respectively. |

|  |  |
| --- | --- |
|  |  |
| (3) | Had we modified the treatment of the amortization of DAC for SCS starting in the first quarter of 2018, the adjustment related to Income tax expense (benefit) related to above adjustments for the three and nine months ended September 30, 2018 would have been $(408) million and $(445) million. |

|  |  |
| --- | --- |
|  |  |
| (4) | Had we modified the treatment of the amortization of DAC for SCS starting in the first quarter of 2018, Non-GAAP Operating Earnings for the three and nine months ended September 30, 2018 would have been $690 million and $1.6 billion. |

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***Non-GAAP Operating ROE and Non-GAAP Operating ROC by Segment***

We report Non-GAAP Operating ROE and Non-GAAP Operating ROC by segment for our Individual Retirement, Group Retirement and Protection Solutions segments, each of which is a Non-GAAP financial measure used to evaluate our recurrent profitability on a consolidated basis and by segment, respectively.

We calculate Non-GAAP Operating ROE by dividing Non-GAAP Operating Earnings for the previous twelve calendar months by consolidated average equity attributable to Holdings, excluding Accumulated Other Comprehensive Income (“AOCI”). We calculate Non-GAAP Operating ROC by segment by dividing Operating earnings (loss) on a segment basis for the previous twelve calendar months by average capital on a segment basis, excluding AOCI, as described below. AOCI fluctuates period-to-period in a manner inconsistent with our underlying profitability drivers as the majority of such fluctuation is related to the market volatility of the unrealized gains and losses associated with our available-for-sale (“AFS”) securities. Therefore, we believe excluding AOCI is more effective for analyzing the trends of our operations. We do not calculate Non-GAAP Operating ROC by segment for our Investment Management and Research segment because we do not manage that segment from a return of capital perspective. Instead, we use metrics more directly applicable to an asset management business, such as AUM, to evaluate and manage that segment.

For Non-GAAP Operating ROC by segment, capital components pertaining directly to specific segments such as DAC along with targeted capital are directly attributed to these segments. Targeted capital for each segment is established using assumptions supporting statutory capital adequacy levels (including CTE98). To enhance the ability to analyze these measures across periods, interim periods are annualized. Non-GAAP Operating ROE and Non-GAAP Operating ROC by segment should not be used as substitutes for ROE.

The following table presents Return on Average equity attributable to Holdings, excluding AOCI and Non-GAAP Operating ROE for the trailing twelve months ended September 30, 2019.

|  |  |  |  |
| --- | --- | --- | --- |
|  | | | |
|  |  |  |  |
|  | **Trailing Twelve Months Ended September 30, 2019** | | |
|  | **(in millions)** | | |
| Net income attributable to Holdings | **$** | **1,142** |  |
| Average equity attributable to Holdings, excluding AOCI | **$** | **14,088** |  |
| Return on average equity attributable to Holdings, excluding AOCI | **8.1** | | **%** |
|  |  | | |
| Non-GAAP Operating Earnings (1) | **$** | **2,249** |  |
| Average equity attributable to Holdings, excluding AOCI | **$** | **14,088** |  |
| Non-GAAP Operating ROE (2) | **16.0** | | **%** |

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|  |  |
| --- | --- |
|  |  |
| (1) | Had we modified the treatment of the amortization of DAC for SCS starting in the first quarter of 2018, Non-GAAP Operating Earnings for the trailing twelve months ended September 30, 2019 would have been $2.3 billion. |

|  |  |
| --- | --- |
|  |  |
| (2) | Had we modified the treatment of the amortization of DAC for SCS starting in the first quarter of 2018, Non-GAAP Operating ROE for the trailing twelve months ended September 30, 2019 would have been 16.1%. |

The following table presents Non-GAAP Operating ROC by segment for our Individual Retirement, Group Retirement and Protection Solutions segments for the trailing twelve months ended September 30, 2019.

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Trailing Twelve Months Ended September 30, 2019** | | | | | | | | | | |
|  | **Individual Retirement** | | |  | **Group Retirement** | | |  | **Protection Solutions** | | |
|  | **(in millions)** | | | | | | | | | | |
| Operating earnings (1) | **$** | **1,534** |  |  | **$** | **382** |  |  | **$** | **305** |  |
| Average capital (2) | **$** | **7,180** |  |  | **$** | **1,310** |  |  | **$** | **2,933** |  |
| Non-GAAP Operating ROC (3) | **21.4** | | **%** |  | **29.2** | | **%** |  | **10.4** | | **%** |

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|  |  |
| --- | --- |
|  |  |
| (1) | Had we modified the treatment of the amortization of DAC for SCS starting in the first quarter of 2018, Operating earnings for the trailing twelve months ended September 30, 2019 for the Individual Retirement segment would have been $1.5 billion. |

|  |  |
| --- | --- |
|  |  |
| (2) | For average capital amounts by segment, capital components pertaining directly to specific segments such as DAC along with targeted capital are directly attributed to these segments. Targeted capital for each segment is established using assumptions supporting statutory capital adequacy levels (including CTE98). |

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|  |  |
| --- | --- |
|  |  |
| (3) | Had we modified the treatment of the amortization of DAC for SCS starting in the first quarter of 2018, Non-GAAP Operating ROC for the trailing twelve months ended September 30, 2019 for the Individual Retirement segment would have been 21.5%. |

***Non-GAAP Operating Earnings Per Share***

Non-GAAP Operating Earnings Per Share (“Non-GAAP EPS”) is calculated by dividing Non-GAAP Operating Earnings by diluted common shares outstanding. The following table sets forth Non-GAAP Operating EPS for the three and nine months ended September 30, 2019 and 2018.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | |  | **Nine Months Ended September 30,** | | | | | | |
|  | **2019** | | |  | 2018 | | |  | **2019** | | |  | 2018 | | |
|  | **(per share amounts)** | | | | | | | | | | | | | | |
| Net income (loss) attributable to Holdings (1) | **$** | **(0.78** | **)** |  | $ | (0.89 | ) |  | **$** | **(1.59** | **)** |  | $ | (0.21 | ) |
| Adjustments related to: |  | | |  |  | | |  |  | | |  |  | | |
| Variable annuity product features (2) | **2.94** | |  |  | 2.50 | |  |  | **6.36** | |  |  | 3.26 | |  |
| Investment (gains) losses | **(0.40** | | **)** |  | 0.06 | |  |  | **(0.35** | | **)** |  | (0.08 | | ) |
| Net actuarial (gains) losses related to pension and other postretirement benefit obligations | **0.05** | |  |  | 0.04 | |  |  | **0.14** | |  |  | 0.32 | |  |
| Other adjustments (3) | **0.15** | |  |  | 0.10 | |  |  | **0.42** | |  |  | 0.41 | |  |
| Income tax expense (benefit) related to above adjustments (4) | **(0.57** | | **)** |  | (0.73 | | ) |  | **(1.38** | | **)** |  | (0.82 | | ) |
| Non-recurring tax items | **(0.01** | | **)** |  | 0.15 | |  |  | **(0.11** | | **)** |  | 0.08 | |  |
| Non-GAAP Operating Earnings (5) | **$** | **1.38** |  |  | $ | 1.23 |  |  | **$** | **3.49** |  |  | $ | 2.96 |  |

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|  |  |
| --- | --- |
|  |  |
| (1) | Due to reporting a net loss for the three and nine months ended September 30, 2019 and 2018, basic shares were used in the diluted GAAP EPS calculation as the use of diluted shares would have resulted in a lower loss per share. |

|  |  |
| --- | --- |
|  |  |
| (2) | Had we modified the treatment of the amortization of DAC for SCS starting in the first quarter of 2018, the adjustment related to Variable annuity product features for the three and nine months ended September 30, 2018 would have been $2.49 and $3.13. |

|  |  |
| --- | --- |
|  |  |
| (3) | “Other adjustments” includes separation costs of $0.08, $0.12, $0.24 and $0.29, for the three and nine months ended September 30, 2019 and 2018, respectively. |

|  |  |
| --- | --- |
|  |  |
| (4) | Had we modified the treatment of the amortization of DAC for SCS starting in the first quarter of 2018, the adjustment related to Income tax expense (benefit) related to above adjustments for the three and nine months ended September 30, 2018 would have been $(0.73) and $(0.79). |

|  |  |
| --- | --- |
|  |  |
| (5) | Had we modified the treatment of the amortization of DAC for SCS starting in the first quarter of 2018, Non-GAAP Operating Earnings for the three and nine months ended September 30, 2018 would have been $1.22 and $2.86. |

***Assets Under Management***

AUM means investment assets that are managed by one of our subsidiaries and includes: (i) assets managed by AB; (ii) the assets in our General Account investment portfolio; and (iii) the Separate Accounts assets of our Individual Retirement, Group Retirement and Protection Solutions businesses. Total AUM reflects exclusions between segments to avoid double counting.

***Assets Under Administration***

AUA includes non-insurance client assets that are invested in our savings and investment products or serviced by our AXA Advisors platform. We provide administrative services for these assets and generally record the revenues received as distribution fees.

***Account Value***

AV generally equals the aggregate policy account value of our retirement products. General Account AV refers to account balances in investment options that are backed by the General Account while Separate Accounts AV refers to Separate Accounts investment assets.

***Protection Solutions Reserves***

Protection Solutions Reserves equals the aggregate value of Policyholders’ account balances and Future policy benefits for policies in our Protection Solutions segment.

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**Consolidated Results of Operations**

Our consolidated results of operations are significantly affected by conditions in the capital markets and the economy because we offer market sensitive products. These products have been a significant driver of our results of operations. Because the future claims exposure on these products is sensitive to movements in the equity markets and interest rates, we have in place various hedging and reinsurance programs that are designed to mitigate the economic risks of movements in the equity markets and interest rates. The volatility in Net income attributable to Holdings for the periods presented below results from the mismatch between: (i) the change in carrying value of the reserves for GMDB and certain GMIB features that do not fully and immediately reflect the impact of equity and interest market fluctuations; and (ii) the change in fair value of products with the GMIB feature that has a no-lapse guarantee, and our hedging and reinsurance programs.

***Reclassification of DAC Capitalization***

During the fourth quarter of 2018, we changed our presentation of the capitalization of DAC in the consolidated statements of income for all prior periods presented herein by netting the capitalized amounts within the applicable expense line items, such as Compensation and benefits, Commissions and distribution-related payments, and Other operating costs and expenses. Previously, the capitalized amounts were netted within the Amortization of DAC. There was no impact on Net income (loss) or Non-GAAP Operating Earnings of this reclassification.

The reclassification adjustments for the three and nine months ended September 30, 2018 are presented in the tables below. Capitalization of DAC reclassified to Compensation and benefits, Commissions and distribution-related payments, and Other operating costs and expenses reduced the amounts previously reported in those expense line items, whereas the capitalization of DAC reclassified from the Amortization of DAC line item increases that expense line item.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30, 2018** | | | | | | | | | | | | | | |  | **Nine Months Ended September 30, 2018** | | | | | | | | | | | | | | |
|  | **Individual Retirement** | | |  | **Group Retirement** | | |  | **Protection Solutions** | | |  | **Consoli-dated** | | |  | **Individual Retirement** | | |  | **Group Retirement** | | |  | **Protection Solutions** | | |  | **Consoli-dated** | | |
|  | **(in millions)** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| **Reductions to expense line items:** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Commissions and distribution-related payments | $ | 89 |  |  | $ | 13 |  |  | $ | 36 |  |  | $ | 139 |  |  | $ | 242 |  |  | $ | 42 |  |  | $ | 106 |  |  | $ | 390 |  |
| Compensation and benefits and other operating costs and expenses | 18 | |  |  | 8 | |  |  | 15 | |  |  | 41 | |  |  | 53 | |  |  | 23 | |  |  | 46 | |  |  | 122 | |  |
| Total reductions | $ | 107 |  |  | $ | 21 |  |  | $ | 51 |  |  | $ | 180 |  |  | $ | 295 |  |  | $ | 65 |  |  | $ | 152 |  |  | $ | 512 |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| **Increase to expense line item:** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Amortization of deferred policy acquisition costs | $ | 107 |  |  | $ | 21 |  |  | $ | 51 |  |  | $ | 180 |  |  | $ | 295 |  |  | $ | 65 |  |  | $ | 152 |  |  | $ | 512 |  |

***DAC Amortization for SCS***

In the first quarter of 2019, the Company updated its Operating earnings measure to exclude market value adjustments impacting the DAC amortization for its SCS variable annuity product in order to be consistent with the treatment of the market value adjustments on the SCS liability and with industry practice. The presentation of Operating earnings in prior periods was not revised to reflect this modification, however, the Company estimated that had the treatment in the Company’s Operating earnings measure of the Amortization of DAC for SCS been modified in the first quarter of 2018, the pre-tax impact on Operating earnings of excluding the SCS-related DAC amortization from Operating earnings would have been a decrease of $52 million, $17 million and $4 million during the first, second and third quarters of 2018, respectively, and an increase of $17 million during the fourth quarter of 2018.

***Ownership and Consolidation of AllianceBernstein***

Our indirect, wholly owned subsidiary, AllianceBernstein Corporation, is the General Partner of AB. Accordingly, AB is consolidated in our financial statements, and its results are fully reflected in our consolidated financial statements. Our blended economic interest in AB was approximately 65% during both the three and nine months of 2019 and approximately 65% and 57% during the three and nine months of 2018, respectively.

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***Effective Tax Rates***

For interim reporting periods, we calculate income tax expense using an estimated annual effective tax rate (“ETR”), with discrete items recognized in the period in which they occur.

***Consolidated Results of Operations***

The following table summarizes our consolidated statements of income (loss) for the three and nine months ended September 30, 2019 and 2018:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | |  | **Nine Months Ended September 30,** | | | | | | |
|  | **2019** | | |  | 2018 | | |  | **2019** | | |  | 2018 | | |
|  | **(in millions, except per share data)** | | | | | | | | | | | | | | |
| **REVENUES** |  | | |  |  | | |  |  | | |  |  | | |
| Policy charges and fee income | **$** | **929** |  |  | $ | 951 |  |  | **$** | **2,801** |  |  | $ | 2,881 |  |
| Premiums | **284** | |  |  | 269 | |  |  | **847** | |  |  | 823 | |  |
| Net derivative gains (losses) | **(451** | | **)** |  | (2,006 | | ) |  | **(2,317** | | **)** |  | (2,288 | | ) |
| Net investment income (loss) | **824** | |  |  | 681 | |  |  | **2,815** | |  |  | 1,868 | |  |
| Investment gains (losses), net: |  | | |  |  | | |  |  | | |  |  | | |
| Total other-than-temporary impairment losses | **—** | |  |  | (4 | | ) |  | **—** | |  |  | (4 | | ) |
| Other investment gains (losses), net | **199** | |  |  | (31 | | ) |  | **176** | |  |  | 49 | |  |
| Total investment gains (losses), net | **199** | |  |  | (35 | | ) |  | **176** | |  |  | 45 | |  |
| Investment management and service fees | **1,101** | |  |  | 1,088 | |  |  | **3,172** | |  |  | 3,218 | |  |
| Other income | **142** | |  |  | 135 | |  |  | **408** | |  |  | 376 | |  |
| Total revenues | **3,028** | |  |  | 1,083 | |  |  | **7,902** | |  |  | 6,923 | |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| **BENEFITS AND OTHER DEDUCTIONS** |  | | |  |  | | |  |  | | |  |  | | |
| Policyholders’ benefits | **1,757** | |  |  | 318 | |  |  | **3,533** | |  |  | 1,812 | |  |
| Interest credited to policyholders’ account balances | **304** | |  |  | 278 | |  |  | **922** | |  |  | 817 | |  |
| Compensation and benefits | **502** | |  |  | 507 | |  |  | **1,523** | |  |  | 1,606 | |  |
| Commissions and distribution-related payments | **317** | |  |  | 286 | |  |  | **905** | |  |  | 864 | |  |
| Interest expense | **54** | |  |  | 65 | |  |  | **167** | |  |  | 171 | |  |
| Amortization of deferred policy acquisition costs | **85** | |  |  | (183 | | ) |  | **460** | |  |  | 174 | |  |
| Other operating costs and expenses | **449** | |  |  | 430 | |  |  | **1,315** | |  |  | 1,347 | |  |
| Total benefits and other deductions | **3,468** | |  |  | 1,701 | |  |  | **8,825** | |  |  | 6,791 | |  |
| Income (loss) from continuing operations, before income taxes | **(440** | | **)** |  | (618 | | ) |  | **(923** | | **)** |  | 132 | |  |
| Income tax (expense) benefit | **124** | |  |  | 175 | |  |  | **328** | |  |  | 23 | |  |
| Net income (loss) | **(316** | | **)** |  | (443 | | ) |  | **(595** | | **)** |  | 155 | |  |
| Less: Net income (loss) attributable to the noncontrolling interest | **68** | |  |  | 53 | |  |  | **201** | |  |  | 273 | |  |
| Net income (loss) attributable to Holdings | **$** | **(384** | **)** |  | $ | (496 | ) |  | **$** | **(796** | **)** |  | $ | (118 | ) |
|  |  | | |  |  | | |  |  | | |  |  | | |
| **EARNINGS PER SHARE** |  | | |  |  | | |  |  | | |  |  | | |
| Earnings per share - Common stock: |  | | |  |  | | |  |  | | |  |  | | |
| Basic | **$** | **(0.78** | **)** |  | $ | (0.89 | ) |  | **$** | **(1.59** | **)** |  | $ | (0.21 | ) |
| Diluted | **$** | **(0.78** | **)** |  | $ | (0.89 | ) |  | **$** | **(1.59** | **)** |  | $ | (0.21 | ) |
| Weighted-average common shares outstanding: |  | | |  |  | | |  |  | | |  |  | | |
| Basic | **490.4** | |  |  | 560.2 | |  |  | **499.8** | |  |  | 560.5 | |  |
| Diluted | **490.4** | |  |  | 560.2 | |  |  | **499.8** | |  |  | 560.5 | |  |

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|  | **Three Months Ended September 30,** | | | | | | |  | **Nine Months Ended September 30,** | | | | | | |
|  | **2019** | | |  | 2018 | | |  | **2019** | | |  | 2018 | | |
|  | **(in millions)** | | | | | | | | | | | | | | |
| Non-GAAP Operating Earnings (1) | **$** | **677** |  |  | $ | 693 |  |  | **$** | **1,745** |  |  | $ | 1,662 |  |

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|  |  |
| (1) | Had we modified the treatment of the amortization of DAC for SCS starting in the first quarter of 2018, Non-GAAP Operating Earnings for the three and nine months ended September 30, 2018 would have been $690 million and $1.6 billion, respectively. |

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The following table summarizes our Non-GAAP Operating EPS for the three and nine months ended September 30, 2019 and 2018:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
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|  | **Three Months Ended September 30,** | | | | | | |  | **Nine Months Ended September 30,** | | | | | | |
|  | **2019** | | |  | 2018 | | |  | **2019** | | |  | 2018 | | |
|  | **(earnings per share amounts)** | | | | | | | | | | | | | | |
| Non-GAAP Operating EPS - common stock: |  | | |  |  | | |  |  | | |  |  | | |
| Basic (1) | **$** | **1.38** |  |  | $ | 1.24 |  |  | **$** | **3.49** |  |  | $ | 2.96 |  |
| Diluted (2) | **$** | **1.38** |  |  | $ | 1.23 |  |  | **$** | **3.49** |  |  | $ | 2.96 |  |

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|  |  |
| (1) | Had we modified the treatment of the amortization of DAC for SCS starting in the first quarter of 2018, Non-GAAP Operating EPS - common stock, basic for the three and nine months ended September 30, 2018 would have been $1.22 and $2.86, respectively. |

|  |  |
| --- | --- |
|  |  |
| (2) | Had we modified the treatment of the amortization of DAC for SCS starting in the first quarter of 2018, Non-GAAP Operating EPS - common stock, diluted for the three and nine months ended September 30, 2018 would have been $1.22 and $2.86, respectively. |

The following discussion compares the results for the three and nine months ended September 30, 2019 to the results for the three and nine months ended September 30, 2018.

**Three Months Ended September 30, 2019 Compared to the Three Months Ended September 30, 2018**

***Net Income Attributable to Holdings***

Net loss attributable to Holdings decreased by $112 million, to a net loss of $384 million for the three months ended September 30, 2019 from a net loss of $496 million for the three months ended September 30, 2018, primarily driven by the following notable items:

|  |  |
| --- | --- |
|  |  |
| • | Net derivative losses decreased by $1.6 billion mainly due to higher income from freestanding derivatives reflecting lower interest rates. This was partially offset by a higher increase in the fair value of the GMIBNLG liability reflecting lower interest rates, which was partially offset by a lower increase in the liability as a result of assumption updates (a $578 million and $1.1 billion unfavorable impact of assumption updates in 2019 and 2018, respectively). |

|  |  |
| --- | --- |
|  |  |
| • | Net investment gains increased by $234 million mainly due to gains on sales of available-for-sale fixed maturities as a result of rebalancing of our U.S. Treasury portfolio. |

|  |  |
| --- | --- |
|  |  |
| • | Net investment income increased by $143 million mainly due higher balances supporting our SCS product and our General Account portfolio optimization. |

|  |  |
| --- | --- |
|  |  |
| • | Revenue from fees and related items (“fee-type revenue”), including Policy charges and fee income, Premiums, Investment Management service fees and Other income, increased by $13 million mainly driven by an increase in our Investment Management and Research and Protection Solutions segments partially offset by a decrease in our Individual Retirement segment. The increase in our Investment Management and Research segment was primarily due higher base fees and distribution revenues which primarily resulted from an increase in average AUM partially offset by lower performance-based fees and lower Bernstein Research Services revenues. The increase in our Protection Solutions segment was primarily due to higher premiums from our employee benefits and term life products and a $3 million favorable impact of assumptions in 2019 compared to a $24 million unfavorable impact of assumption updates in 2018, partially offset by an inforce update that reduced our policy charges and fee income (offset in Amortization of DAC). The decrease in our Individual Retirement segment was primarily due to lower average Separate Accounts AV. |

|  |  |
| --- | --- |
|  |  |
| • | Interest expense decreased by $11 million due to the absence of interest expense on repurchase agreements in third quarter 2019. |

Partially offsetting this increase were the following notable items:

|  |  |
| --- | --- |
|  |  |
| • | Policyholders’ benefits increased by $1.4 billion mainly due to the impact of assumption updates in our Individual Retirement segment (the $890 million impact of unfavorable assumption updates in 2019 compared to the $731 million impact of favorable assumption updates in 2018). The increase in our Individual Retirement segment was partially offset by a decrease in our Protection Solutions segment mainly driven by the $42 million favorable impact of assumption updates in 2019 compared to the $53 million unfavorable impact of assumption updates in 2018, combined with improved mortality experience and a reserve adjustment on our disability deduction waiver rider reserves. |

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|  |  |
| --- | --- |
|  |  |
| • | Amortization of DAC increased by $268 million mainly due to higher amortization in our Protection Solutions, Group Retirement and Individual Retirement segments. The higher amortization in our Protection Solutions segment was mainly due to the $49 million unfavorable impact of assumption updates in 2019 compared to the $183 million favorable impact of assumption updates in 2018, partially offset by an inforce update that reduced the Amortization of DAC by $35 million (offset in Policy charges and fee income) in 2019. The higher amortization in our Group Retirement segment was primarily due to the less favorable impact of assumption updates ($3 million in 2019 compared to $43 million in 2018). The increase in our Individual Retirement segment is primarily driven by an inforce update for non-SCS products, partly offset by the higher favorable impact of assumption updates ($92 million in 2019 compared to $60 million in 2018). |

|  |  |
| --- | --- |
|  |  |
| • | Commissions and distribution-related payments increased by $31 million mainly driven by higher distribution-related payments in our Investment Management and Research segment and higher broker-dealer sales. |

|  |  |
| --- | --- |
|  |  |
| • | Interest credited to policyholders’ account balances increased by $26 million mainly driven by our Protection Solutions segment and Corporate and Other. The increase in our Protection Solutions segment mainly reflected an increase in Indexed Universal Life reserves due to new business. The increase in Corporate and Other reflected higher interest credited on funding agreements, due to higher balances. |

|  |  |
| --- | --- |
|  |  |
| • | Compensation, benefits and other operating expenses increased by $14 million mainly due to higher separation costs. |

|  |  |
| --- | --- |
|  |  |
| • | Income tax benefit decreased by $51 million mainly due to lower pre-tax losses. |

|  |  |
| --- | --- |
|  |  |
| • | Net income (loss) attributable to the noncontrolling interest increased by $15 million mainly due to higher income from consolidated VIEs. |

See “—Significant Factors Impacting Our Results—Assumption Updates and Model Changes” for more information regarding assumption updates.

***Non-GAAP Operating Earnings***

Non-GAAP Operating Earnings decreased by $16 million to $677 million during the three months ended September 30, 2019 from $693 million in the three months ended September 30, 2018. Had we modified the treatment of the amortization of DAC for SCS starting in the first quarter of 2018, Non-GAAP Operating Earnings for the three months ended September 30, 2019 would have decreased $13 million from $690 million in the three months ended September 30, 2018. The following notable items were the primary drivers for the decrease in Non-GAAP Operating Earnings.

|  |  |
| --- | --- |
|  |  |
| • | Amortization of DAC increased by $246 million mainly due to higher amortization in our Protection Solutions and Group Retirement segments. The higher amortization in our Protection Solutions segment was mainly due to the $49 million unfavorable impact of assumption updates in 2019 compared to the $183 million favorable impact of assumption updates in 2018, partially offset by an inforce update that reduced the Amortization of DAC by $35 million (offset in Policy charges and fee income) in 2019. The higher amortization in our Group Retirement segment was primarily due to the less favorable impact of assumption updates ($3 million in 2019 compared to $43 million in 2018). Had the treatment in our Non-GAAP Operating Earnings measure of the Amortization of DAC for SCS been modified starting in the first quarter of 2018, the SCS-related DAC amortization excluded from Non-GAAP Operating Earnings would have been $4 million lower, decreasing Non-GAAP Operating Earnings. |

|  |  |
| --- | --- |
|  |  |
| • | Commissions and distribution-related payments increased by $31 million mainly driven by higher distribution-related payments in our Investment Management and Research segment and higher broker-dealer sales. |

|  |  |
| --- | --- |
|  |  |
| • | Interest credited to policyholders’ account balances increased by $26 million mainly driven by our Protection Solutions segment and Corporate and Other. The increase in our Protection Solutions segment mainly reflected an increase in Indexed Universal Life reserves due to new business. The increase in Corporate and Other reflected higher interest credited on funding agreements, due to higher balances. |

|  |  |
| --- | --- |
|  |  |
| • | Income tax expense increased by $25 million mainly driven by higher pre-tax earnings partially offset by a lower effective tax rate. Had the treatment in our Non-GAAP Operating Earnings measure of the Amortization of DAC for SCS been modified starting in the first quarter of 2018, income tax benefit excluded from Non-GAAP Operating Earnings would have been $1 million lower. |

Partially offsetting this decrease were the following notable items:

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|  |  |
| --- | --- |
|  |  |
| • | Net derivative gains increased by $109 million mainly due to a $106 million increase in our Individual Retirement segment primarily offsetting the impact of equity markets on our GMxB liabilities. |

|  |  |
| --- | --- |
|  |  |
| • | Policyholders’ benefits decreased by $107 million mainly due to our Protection Solutions segment resulting from the $42 million favorable impact of assumption updates in 2019 compared to the $53 million unfavorable impact of assumption updates in 2018, combined with improved mortality experience and a reserve adjustment on our disability deduction waiver rider reserves. The decrease in our Protection Solutions segment was partially offset by an increase in our Individual Retirement segment reflecting the impacts of equity markets (partially offset by an increase in Net derivatives gains). |

|  |  |
| --- | --- |
|  |  |
| • | Net investment income increased by $77 million mainly due to the positive impacts of higher asset balances. |

|  |  |
| --- | --- |
|  |  |
| • | Fee-type revenue increased by $11 million mainly driven by an increase in our Investment Management and Research and Protection Solutions segments partially offset by a decrease in our Individual Retirement segment. The increase in our Investment Management and Research segment was primarily due higher base fees and distribution revenues which primarily resulted from an increase in average AUM partially offset by lower performance-based fees and lower Bernstein Research Services revenues. The increase in our Protection Solutions segment was primarily due to higher premiums from our employee benefits and term life products and a $3 million favorable impact of assumptions in 2019 compared to a $24 million unfavorable impact of assumption updates in 2018, partially offset by an inforce update that reduced our policy charges and fee income (offset in Amortization of DAC). The decrease in our Individual Retirement segment was primarily due to lower average Separate Accounts AV. |

See “—Significant Factors Impacting Our Results—Assumption Updates and Model Changes” for more information regarding assumption updates.

**Nine Months Ended September 30, 2019 Compared to the Nine Months Ended September 30, 2018**

***Net Income Attributable to Holdings***

Net loss attributable to Holdings increased by $678 million, to a net loss of $796 million for the nine months ended September 30, 2019 from a net loss of $118 million for the nine months ended September 30, 2018, primarily driven by the following notable items:

|  |  |
| --- | --- |
|  |  |
| • | Policyholders’ benefits increased by $1.7 billion mainly due to the impact of assumption updates in our Individual Retirement segment (the $890 million impact of unfavorable assumption updates in 2019 compared to the $731 million impact of favorable assumption updates in 2018) and the impacts of interest rates and equity markets. The increase in our Individual Retirement segment was partially offset by a decrease in our Protection Solutions segment mainly driven by the $42 million favorable impact of assumption updates in 2019 compared to the $53 million unfavorable impact of assumption updates in 2018, combined with a reserve adjustment on our disability deduction waiver rider reserves. |

|  |  |
| --- | --- |
|  |  |
| • | Amortization of DAC increased by $286 million mainly due to higher amortization in our Individual Retirement, Protection Solutions and Group Retirement segments. The higher amortization in our Individual Retirement segment was primarily due to the impact of interest rate and equity market movements on assets supporting our SCS block and higher amortization normal amortization partially offset by the higher favorable impact of assumption updates ($92 million in 2019 compared to $60 million in 2018). The higher amortization in our Protection Solutions segment was mainly due to the $49 million unfavorable impact of assumption updates in 2019 compared to the $183 million favorable impact of assumption updates in 2018 partially offset by the non-repeat of a $123 million DAC write-off as we exited loss recognition in the second quarter of 2018 and an inforce update that reduced the amortization of DAC by $35 million (offset in Policy charges and fee income) in 2019. The higher amortization in our Group segment was primarily due to the less favorable impact of assumption updates ($3 million in 2019 compared to $43 million in 2018). |

|  |  |
| --- | --- |
|  |  |
| • | Interest credited to policyholders’ account balances increased by $105 million mainly driven by our Protection Solutions and Individual Retirement segments and Corporate and Other. The increase in our Protection Solutions segment, mainly reflected an increase in Indexed Universal Life reserves due to new business, partially offset by higher Net derivative gains. The increase in our Individual Retirement segment was primarily driven by higher SCS AV due to new business growth partially offset by a $13 million favorable impact of assumption updates. The increase in Corporate and Other reflected higher interest credited on funding agreements, due to higher balances. |

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|  |  |
| --- | --- |
|  |  |
| • | Fee-type revenue decreased by $70 million mainly driven by our Individual Retirement and Investment Management and Research segments. The decrease in the Individual Retirement segment was mainly due to lower average Separate Accounts AV in 2019 compared to 2018 as a result of a decline in equity markets in the fourth quarter of 2018. The decrease in our Investment Management and Research segment was primarily due to lower Bernstein Research Services revenues and lower performance-based fees. |

|  |  |
| --- | --- |
|  |  |
| • | Commissions and distribution-related payments increased by $41 million mainly driven by higher commission expense due to higher broker-dealer sales and higher distribution-related payments in our Investment Management and Research segment. |

|  |  |
| --- | --- |
|  |  |
| • | Net derivative losses increased by $29 million mainly due to increases in the fair value of the GMIBNLG liability reflecting the impacts lower interest rates partially offset by a lower increase in the liability as a result of assumption updates (a $578 million and $1.1 billion unfavorable impact of assumption updates in 2019 and 2018, respectively) and by higher income from freestanding derivatives reflecting lower interest rates. |

Partially offsetting this decrease were the following notable items:

|  |  |
| --- | --- |
|  |  |
| • | Net investment income increased by $947 million mainly due to a change in the market value of trading securities supporting our variable annuity products due to lower interest rates and higher investment income from higher asset balances and General Account investment portfolio optimization. |

|  |  |
| --- | --- |
|  |  |
| • | Net investment gains increased by $131 million primarily due to the rebalancing of our treasury portfolio partially offset by a real estate impairment in 2019. |

|  |  |
| --- | --- |
|  |  |
| • | Compensation, benefits and other operating expenses decreased by $115 million mainly due to the partial settlement of the employee pension plan in the first nine months of 2018 and lower separation costs. |

|  |  |
| --- | --- |
|  |  |
| • | Net income attributable to noncontrolling interest decreased by $72 million mainly due to lower AB Net income and from the increase in our ownership percentage of AB that reduced the noncontrolling interest's share of AB's Net income. |

|  |  |
| --- | --- |
|  |  |
| • | Income tax benefit increased by $305 million driven primarily by a pre-tax loss in the first nine months of 2019 compared to pre-tax income in the first nine months of 2018 and by a $63 million income tax benefit from the release of a state income tax liability in the nine months ended September 30, 2019. |

See “—Significant Factors Impacting Our Results—Assumption Updates and Model Changes” for more information regarding assumption updates.

***Non-GAAP Operating Earnings***

Non-GAAP Operating Earnings increased by $83 million to $1.7 billion during the nine months ended September 30, 2019 from $1.7 billion in the nine months ended September 30, 2018. Had we modified the treatment of the amortization of DAC for SCS starting in the first quarter of 2018, Non-GAAP Operating Earnings for the nine months ended September 30, 2019 would have increased $140 million from $1.6 billion in the nine months ended September 30, 2018. The following notable items were the primary drivers for the increase in Non-GAAP Operating Earnings.

|  |  |
| --- | --- |
|  |  |
| • | Net derivative gains increased by $353 million mainly due to a $377 million increase in our Individual Retirement segment primarily offsetting the impact of higher interest rates in the first nine months of 2018 in our GMxB liabilities. |

|  |  |
| --- | --- |
|  |  |
| • | Net investment income increased by $284 million mainly due to the positive impacts of higher asset balances, General Account investment portfolio optimization and higher seed money investment income. |

|  |  |
| --- | --- |
|  |  |
| • | Compensation, benefits and other operating costs and expenses decreased by $51 million mainly due to productivity initiatives, as well as a decrease in our Investment Management and Research segment driven by the non-recurrence of a $43 million expense related to the impact of adopting revenue recognition standard ASC 606 in 2018, partially offset by higher operating expenses. |

|  |  |
| --- | --- |
|  |  |
| • | Earnings attributable to the noncontrolling interest decreased by $86 million mainly in our Investment Management and Research segment due to lower AB Operating earnings and from the increase in our ownership percentage of AB that reduced the noncontrolling interest’s share of AB’s Operating earnings. |

Partially offsetting this increase were the following notable items:

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|  |  |
| --- | --- |
|  |  |
| • | Policyholders’ benefits increased by $186 million mainly driven by our Individual Retirement segment partially offset by our Protection Solutions segment. The increase in our Individual Retirement segment, which was offset by an increase in Net derivatives gains, was primarily due to the favorable impact of higher interest rates in the first nine months of 2018. The assumption updates in the third quarter of 2018 reduced the impact of interest rates on GMxB policyholders’ benefits in the first nine months of 2019. The decrease in our Protection Solutions segment was mainly driven by the $42 million favorable impact of assumption updates in 2019 compared to the $53 million unfavorable impact of assumption updates in 2018, combined with a reserve adjustment on our disability deduction waiver rider reserves. |

|  |  |
| --- | --- |
|  |  |
| • | Amortization of DAC increased by $171 million mainly due to higher amortization in our Individual Retirement, Group Retirement and Protection Solutions segments. The increase in our Individual Retirement segment was primarily due to the impact of interest rate and equity market movements on assets supporting our SCS block in the first nine months of 2018 and higher baseline amortization, partially offset by the higher favorable impact of assumption updates ($92 million in 2019 compared to $60 million in 2018). The increase in our Group Retirement segment was primarily due to the less favorable impact of assumption updates ($3 million in 2019 compared to $43 million in 2018). The increase in our Protection Solutions segment was mainly due to the $49 million unfavorable impact of assumption updates in 2019 compared to the $183 million favorable impact of assumption updates in 2018 partially offset by the non-repeat of a $123 million DAC write-off as we exited loss recognition in the second quarter of 2018 and an inforce update that reduced the amortization of DAC by $35 million (offset in Policy charges and fee income) in 2019. Had the treatment in our Non-GAAP Operating Earnings measure of the Amortization of DAC for SCS been modified starting in the first quarter of 2018, the SCS-related DAC amortization excluded from Non-GAAP Operating Earnings would have been $73 million lower, decreasing Non-GAAP Operating Earnings. |

|  |  |
| --- | --- |
|  |  |
| • | Fee-type revenue decreased by $149 million mainly driven by our Investment Management and Research and Individual Retirement segments. The decrease in our Investment Management and Research segment was mainly due to lower performance-based fees, primarily due to the non-recurrence of a $78 million increase in revenues in the first nine months of 2018 from the impact of adopting revenue recognition standard ASC 606 in 2018 and lower Bernstein Research Services revenues. The decrease in our Individual Retirement segment was mainly due to lower average Separate Accounts AV in 2019 compared to 2018 as a result of the decline in equity markets in the fourth quarter of 2018. |

|  |  |
| --- | --- |
|  |  |
| • | Interest credited to policyholders’ account balances increased by $105 million mainly driven by our Protection Solutions and Individual Retirement segments and Corporate and Other. The increase in our Protection Solutions segment, mainly reflected an increase in Indexed Universal Life reserves due to new business, partially offset by higher Net derivative gains. The increase in our Individual Retirement segment was primarily driven by higher SCS AV due to new business growth partially offset by a $13 million favorable impact of assumption updates. The increase in Corporate and Other reflected higher interest credited on funding agreements, due to higher balances. |

|  |  |
| --- | --- |
|  |  |
| • | Commissions and distribution-related payments increased by $41 million mainly driven by higher commission expense due to higher broker-dealer sales and higher distribution-related payments in our Investment Management and Research segment. |

|  |  |
| --- | --- |
|  |  |
| • | Income tax expense increased by $31 million mainly driven by higher pre-tax earnings. Had we modified the treatment of the Amortization of DAC for SCS starting in the first quarter of 2018, the income tax benefit excluded from Non-GAAP Operating Earnings would have been $16 million lower. |

See “—Significant Factors Impacting Our Results—Assumption Updates and Model Changes” for more information regarding assumption updates.

**Results of Operations by Segment**

We manage our business through the following four segments: Individual Retirement, Group Retirement, Investment Management and Research, and Protection Solutions. We report certain activities and items that are not included in our four segments in Corporate and Other. The following section presents our discussion of Operating earnings (loss) by segment and AUM, AV and Protection Solutions Reserves by segment, as applicable. Consistent with U.S. GAAP guidance for segment reporting, Operating earnings (loss) is our U.S. GAAP measure of segment performance. See Note 15 of the Notes to the Consolidated Financial Statements for further information on our segments.

The following table summarizes Operating earnings (loss) by segment and Corporate and Other for the periods presented:

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | |  | **Nine Months Ended September 30,** | | | | | | |
|  | **2019** | | |  | 2018 | | |  | **2019** | | |  | 2018 | | |
|  | **(in millions)** | | | | | | | | | | | | | | |
| Operating earnings (loss): |  | | |  |  | | |  |  | | |  |  | | |
| Individual Retirement (1) | **$** | **457** |  |  | $ | 434 |  |  | **$** | **1,186** |  |  | $ | 1,207 |  |
| Group Retirement | **104** | |  |  | 134 | |  |  | **280** | |  |  | 287 | |  |
| Investment Management and Research | **93** | |  |  | 96 | |  |  | **250** | |  |  | 274 | |  |
| Protection Solutions | **113** | |  |  | 137 | |  |  | **268** | |  |  | 160 | |  |
| Corporate and Other | **(90** | | **)** |  | (108 | | ) |  | **(239** | | **)** |  | (266 | | ) |
| Non-GAAP Operating Earnings (2) | **$** | **677** |  |  | $ | 693 |  |  | **$** | **1,745** |  |  | $ | 1,662 |  |

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|  |  |
| --- | --- |
|  |  |
| (1) | Had we modified the treatment of the amortization of DAC for SCS starting in the first quarter of 2018, Operating earnings for the three and nine months ended September 30, 2018 for the Individual Retirement segment would have been $431 million and $1.2 billion, respectively. |

|  |  |
| --- | --- |
|  |  |
| (2) | Had we modified the treatment of the amortization of DAC for SCS starting in the first quarter of 2018, Non-GAAP Operating Earnings for the three and nine months ended September 30, 2018 would have been $690 million and $1.6 billion, respectively. |

***Effective Tax Rates by Segment***

For interim reporting periods, we calculate income tax expense using an estimated annual effective tax rate (“ETR”), with discrete items recognized in the period in which they occur. Income tax expense is calculated using the ETR and then allocated to our business segments using a 17% ETR for our retirement and protection businesses (Individual Retirement, Group Retirement, and Protection Solutions) and a 28% ETR for Investment Management and Research.

**Individual Retirement**

The Individual Retirement segment includes our variable annuity products which primarily meet the needs of individuals saving for retirement or seeking retirement income.

The following table summarizes Operating earnings of our Individual Retirement segment for the periods presented:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | |  | **Nine Months Ended September 30,** | | | | | | |
|  | **2019** | | |  | 2018 | | |  | **2019** | | |  | 2018 | | |
|  | **(in millions)** | | | | | | | | | | | | | | |
| **Operating earnings (1)** | **$** | **457** |  |  | $ | 434 |  |  | **$** | **1,186** |  |  | $ | 1,207 |  |

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|  |  |
| --- | --- |
|  |  |
| (1) | Had we modified the treatment of the amortization of DAC for SCS starting in the first quarter of 2018, Operating earnings for the three and nine months ended September 30, 2018 for the Individual Retirement segment would have been $431 million and $1.2 billion, respectively. |

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Key components of Operating earnings are:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | |  | **Nine Months Ended September 30,** | | | | | | |
|  | **2019** | | |  | 2018 | | |  | **2019** | | |  | 2018 | | |
|  | **(in millions)** | | | | | | | | | | | | | | |
| **REVENUES** |  | | |  |  | | |  |  | | |  |  | | |
| Policy charges, fee income and premiums | **$** | **538** |  |  | $ | 560 |  |  | **$** | **1,560** |  |  | $ | 1,619 |  |
| Net investment income | **287** | |  |  | 247 | |  |  | **835** | |  |  | 733 | |  |
| Net derivative gains (losses) | **175** | |  |  | 69 | |  |  | **325** | |  |  | (52 | | ) |
| Investment management, service fees and other income | **186** | |  |  | 194 | |  |  | **546** | |  |  | 573 | |  |
| **Segment revenues** | **$** | **1,186** |  |  | $ | 1,070 |  |  | **$** | **3,266** |  |  | $ | 2,873 |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| **BENEFITS AND OTHER DEDUCTIONS** |  | | |  |  | | |  |  | | |  |  | | |
| Policyholders’ benefits | **$** | **391** |  |  | $ | 312 |  |  | **$** | **926** |  |  | $ | 608 |  |
| Interest credited to policyholders’ account balances | **61** | |  |  | 63 | |  |  | **207** | |  |  | 176 | |  |
| Commissions and distribution-related payments | **72** | |  |  | 78 | |  |  | **209** | |  |  | 221 | |  |
| Amortization of deferred policy acquisition costs (1) | **10** | |  |  | 5 | |  |  | **168** | |  |  | 99 | |  |
| Compensation, benefits and other operating costs and expenses | **100** | |  |  | 103 | |  |  | **325** | |  |  | 313 | |  |
| Interest expense and financing fees | **—** | |  |  | — | |  |  | **—** | |  |  | — | |  |
| **Segment benefits and other deductions (2)** | **$** | **634** |  |  | $ | 561 |  |  | **$** | **1,835** |  |  | $ | 1,417 |  |

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|  |  |
| --- | --- |
|  |  |
| (1) | Had we modified the treatment of the amortization of DAC for SCS starting in the first quarter of 2018, Amortization of deferred policy acquisition costs for the three and nine months ended September 30, 2018 for the Individual Retirement segment would have been $9 million and $172 million, respectively. |

|  |  |
| --- | --- |
|  |  |
| (2) | Had we modified the treatment of the amortization of DAC for SCS starting in the first quarter of 2018, Segment benefits and other deductions for the three and nine months ended September 30, 2018 for the Individual Retirement segment would have been $565 million and $1.5 billion, respectively. |

The following table summarizes AV for our Individual Retirement segment as of the dates indicated:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **As of** | | | | | | |
|  | **September 30, 2019** | | |  | December 31, 2018 | | |
|  | **(in millions)** | | | | | | |
| **AV** |  | | |  |  | | |
| General Account | **$** | **24,409** |  |  | $ | 20,631 |  |
| Separate Accounts | **79,570** | |  |  | 73,958 | |  |
| Total AV | **$** | **103,979** |  |  | $ | 94,589 |  |

The following table summarizes a roll-forward of AV for our Individual Retirement segment for the periods indicated:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | |  | **Nine Months Ended September 30,** | | | | | | |
|  | **2019** | | |  | 2018 | | |  | **2019** | | |  | 2018 | | |
|  | **(in millions)** | | | | | | | | | | | | | | |
| **Balance as of beginning of period** | **$** | **104,307** |  |  | $ | 103,113 |  |  | **$** | **94,589** |  |  | $ | 103,423 |  |
| Gross premiums | **2,135** | |  |  | 1,991 | |  |  | **6,346** | |  |  | 5,833 | |  |
| Surrenders, withdrawals and benefits | **(2,258** | | **)** |  | (2,249 | | ) |  | **(6,649** | | **)** |  | (6,702 | | ) |
| Net flows | **(123** | | **)** |  | (258 | | ) |  | **(303** | | **)** |  | (869 | | ) |
| Investment performance, interest credited and policy charges | **(205** | | **)** |  | 2,889 | |  |  | **10,151** | |  |  | 3,190 | |  |
| Transfer to Corporate and Other (1) | **—** | |  |  | — | |  |  | **(458** | | **)** |  | — | |  |
| **Balance as of end of period** | **$** | **103,979** |  |  | $ | 105,744 |  |  | **$** | **103,979** |  |  | $ | 105,744 |  |

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|  |  |
| --- | --- |
|  |  |
| (1) | Transfer to Corporate and Other represents the placement of an Individual Retirement product in run-off effective for the second quarter of 2019. |

**Three Months Ended September 30, 2019 Compared to the Three Months Ended September 30, 2018 for the Individual Retirement Segment**

***Operating earnings***

Operating earnings increased by $23 million to $457 million in the three months ended September 30, 2019 from $434 million in the three months ended September 30, 2018. Had we modified the treatment of the amortization of DAC for SCS starting in the first quarter of 2018, Operating earnings for the three months ended September 30, 2019 would have increased $26 million from $431 million in the three months ended September 30, 2018. The following notable items were the primary drivers for the increase in Operating earnings.

|  |  |
| --- | --- |
|  |  |
| • | Improvement in GMxB results of $41 million primarily due to higher fees, higher reinsurance ceded claims on our GMIB business and a non-repeat of a model update in the third quarter of 2018. GMxB results include Policy charges and fee income, Net derivative gains (losses) and Policyholders’ benefits. |

|  |  |
| --- | --- |
|  |  |
| • | Increase in Net investment income of $40 million mainly due to higher SCS AV due to new business growth. |

|  |  |
| --- | --- |
|  |  |
| • | Commissions and distribution-related payments decreased by $6 million primarily driven by lower asset balances. |

The increase was partially offset by:

|  |  |
| --- | --- |
|  |  |
| • | Fee-type revenue decreased by $31 million mainly due to lower average Separate Accounts AV. |

|  |  |
| --- | --- |
|  |  |
| • | Non-GMxB related Policyholders’ benefits increased by $13 million mainly due to a one-time reserve increase. |

|  |  |
| --- | --- |
|  |  |
| • | Amortization of DAC increased by $5 million, primarily driven by an inforce update for non-SCS products, partly offset by the higher favorable impact of assumption updates ($92 million in 2019 compared to $59 million in 2018). Had the treatment in our Operating earnings measure of the Amortization of DAC for SCS been modified starting in the first quarter of 2018, the SCS-related DAC amortization excluded from Operating earnings would have been $4 million lower. |

|  |  |
| --- | --- |
|  |  |
| • | Decrease in Interest credited to policyholders’ account balances of $2 million primarily driven by higher SCS AV due to new business growth offset by a favorable $13 million assumption update in 2019. |

|  |  |
| --- | --- |
|  |  |
| • | Increase in Income tax expense of $20 million driven by higher pre-tax earnings. Had the treatment in our Non-GAAP Operating Earnings measure of the Amortization of DAC for SCS been modified starting in the first quarter of 2018, income tax benefit excluded from Non-GAAP Operating Earnings would have been $1 million lower. |

See “—Significant Factors Impacting Our Results—Assumption Updates and Model Changes” for more information regarding assumption updates.

***Net Flows and AV***

|  |  |
| --- | --- |
|  |  |
| • | The decrease in AV of $328 million during the three months ended September 30, 2019 and $1.8 billion from September 30, 2018 was mainly due to net outflows in our older fixed-rate GMxB block. |

|  |  |
| --- | --- |
|  |  |
| • | Net outflows of $123 million decreased by $135 million compared to 2018, driven by higher deposits in our current product offerings and lower surrenders in the Company’s older fixed-rate GMxB block. |

**Nine Months Ended September 30, 2019 Compared to the Nine Months Ended September 30, 2018 for the Individual Retirement Segment**

***Operating earnings***

Operating earnings decreased by $21 million to $1.2 billion in the first nine months of 2019 from $1.2 billion in the first nine months of 2018. Had we modified the treatment of the amortization of DAC for SCS starting in the first quarter of 2018, Operating earnings for the nine months ended September 30, 2019 would have increased $36 million from $1.2 billion in the nine months ended September 30, 2018. The following notable items were the primary drivers for the decrease in Operating earnings.

|  |  |
| --- | --- |
|  |  |
| • | Fee-type revenue decreased by $87 million mainly due to lower average Separate Accounts AV in 2019 compared to 2018 as a result of the sharp decline in equity markets in the fourth quarter of 2018. |

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|  |  |
| --- | --- |
|  |  |
| • | Increase in Amortization of DAC of $69 million, primarily due to the impact of interest rate and equity market movements on our SCS block in the first nine months of 2018 and higher normal amortization partially offset by the higher favorable impact of assumption updates ($92 million in 2019 compared to $60 million in 2018). Had the treatment in our Operating earnings measure of the Amortization of DAC for SCS been modified starting in the first quarter of 2018, the SCS-related DAC amortization excluded from Operating earnings would have been $73 million lower. |

|  |  |
| --- | --- |
|  |  |
| • | Increase in Interest credited to policyholders’ account balances of $31 million primarily driven by higher SCS AV due to new business growth partially offset by a $13 million favorable impact of assumption updates. |

|  |  |
| --- | --- |
|  |  |
| • | Compensation, benefits and other operating costs and expenses increased by $12 million primarily as expenses normalized in 2019 after a one-time release of a legal fee reserve in 2018. |

|  |  |
| --- | --- |
|  |  |
| • | Non-GMxB related Policyholders’ benefits increased by $11 million mainly due to a one-time reserve increase. |

The decrease was partially offset by:

|  |  |
| --- | --- |
|  |  |
| • | Increase in Net investment income of $102 million mainly due to higher SCS asset balances partially offset by lower investment income from assets supporting our GMxB products. |

|  |  |
| --- | --- |
|  |  |
| • | Improvement in GMxB results of $72 million primarily due to assumption updates in the third quarter of 2018. GMxB results include Policy charges and fee income, Net derivative gains (losses) and Policyholders’ benefits. |

|  |  |
| --- | --- |
|  |  |
| • | Commissions and distribution-related payments decreased by $12 million due to lower asset balances. |

See “—Significant Factors Impacting Our Results—Assumption Updates and Model Changes” for more information regarding assumption updates.

***Net Flows and AV***

|  |  |
| --- | --- |
|  |  |
| • | The increase in AV of $9.4 billion during the nine months ended September 30, 2019 was due to higher equity markets partially offset by net outflows in our older fixed-rate GMxB block. |

|  |  |
| --- | --- |
|  |  |
| • | Net outflows of $303 million improved by $566 million compared to 2018, driven by higher deposits in our current product offerings and lower surrenders in the Company’s older fixed-rate GMxB block. |

**Group Retirement**

The Group Retirement segment offers tax-deferred investment and retirement services or products to plans sponsored by educational entities, municipalities and not-for-profit entities, as well as small and medium-sized businesses.

The following table summarizes Operating earnings of our Group Retirement segment for the periods presented:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | |  | **Nine Months Ended September 30,** | | | | | | |
|  | **2019** | | |  | 2018 | | |  | **2019** | | |  | 2018 | | |
|  | **(in millions)** | | | | | | | | | | | | | | |
| **Operating earnings** | **$** | **104** |  |  | $ | 134 |  |  | **$** | **280** |  |  | $ | 287 |  |

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Key components of Operating earnings are:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | |  | **Nine Months Ended September 30,** | | | | | | |
|  | **2019** | | |  | 2018 | | |  | **2019** | | |  | 2018 | | |
|  | **(in millions)** | | | | | | | | | | | | | | |
| **REVENUES** |  | | |  |  | | |  |  | | |  |  | | |
| Policy charges, fee income and premiums | **$** | **72** |  |  | $ | 70 |  |  | **$** | **206** |  |  | $ | 204 |  |
| Net investment income | **148** | |  |  | 140 | |  |  | **432** | |  |  | 395 | |  |
| Net derivative gains (losses) | **1** | |  |  | — | |  |  | **3** | |  |  | 1 | |  |
| Investment management, service fees and other income | **51** | |  |  | 52 | |  |  | **149** | |  |  | 145 | |  |
| **Segment revenues** | **$** | **272** |  |  | $ | 262 |  |  | **$** | **790** |  |  | $ | 745 |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| **BENEFITS AND OTHER DEDUCTIONS** |  | | |  |  | | |  |  | | |  |  | | |
| Policyholders’ benefits | **$** | **—** |  |  | $ | 3 |  |  | **$** | **1** |  |  | $ | 3 |  |
| Interest credited to policyholders’ account balances | **78** | |  |  | 72 | |  |  | **226** | |  |  | 216 | |  |
| Commissions and distribution-related payments | **9** | |  |  | 8 | |  |  | **30** | |  |  | 30 | |  |
| Amortization of deferred policy acquisition costs | **5** | |  |  | (35 | | ) |  | **27** | |  |  | (18 | | ) |
| Compensation, benefits and other operating costs and expenses | **54** | |  |  | 56 | |  |  | **168** | |  |  | 169 | |  |
| Interest expense and financing fees | **—** | |  |  | — | |  |  | **—** | |  |  | — | |  |
| **Segment benefits and other deductions** | **$** | **146** |  |  | $ | 104 |  |  | **$** | **452** |  |  | $ | 400 |  |

The following table summarizes AV for our Group Retirement segment as of the dates indicated:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **As of** | | | | | | |
|  | **September 30, 2019** | | |  | December 31, 2018 | | |
|  | **(in millions)** | | | | | | |
| **AV** |  | | |  |  | | |
| General Account | **$** | **12,018** |  |  | $ | 11,619 |  |
| Separate Accounts | **24,043** | |  |  | 20,782 | |  |
| Total AV | **$** | **36,061** |  |  | $ | 32,401 |  |

The following table summarizes a roll-forward of AV for our Group Retirement segment for the periods indicated:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | |  | **Nine Months Ended September 30,** | | | | | | |
|  | **2019** | | |  | 2018 | | |  | **2019** | | |  | 2018 | | |
|  | **(in millions)** | | | | | | | | | | | | | | |
| **Balance as of beginning of period** | **$** | **36,057** |  |  | $ | 34,649 |  |  | **$** | **32,401** |  |  | $ | 33,906 |  |
| Gross premiums | **770** | |  |  | 744 | |  |  | **2,520** | |  |  | 2,466 | |  |
| Surrenders, withdrawals and benefits | **(793** | | **)** |  | (844 | | ) |  | **(2,272** | | **)** |  | (2,314 | | ) |
| Net flows | **(23** | | **)** |  | (100 | | ) |  | **248** | |  |  | 152 | |  |
| Investment performance, interest credited and policy charges | **27** | |  |  | 1,027 | |  |  | **3,412** | |  |  | 1,518 | |  |
| **Balance as of end of period** | **$** | **36,061** |  |  | $ | 35,576 |  |  | **$** | **36,061** |  |  | $ | 35,576 |  |

**Three Months Ended September 30, 2019 Compared to the Three Months Ended September 30, 2018 for the Group Retirement Segment**

***Operating earnings***

Operating earnings decreased by $30 million to $104 million in the three months ended September 30, 2019 from $134 million in the three months ended September 30, 2018 primarily attributable to the following:

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|  |  |
| --- | --- |
|  |  |
| • | Amortization of DAC increased by $40 million mainly due to the less favorable impact of assumption updates ($3 million in 2019 compared to $43 million in 2018). In 2019, we updated our maintenance expense assumption and in 2018 our assumption updates resulted from favorable lapse experience. |

|  |  |
| --- | --- |
|  |  |
| • | Increase in the total of Interest credited to policyholders’ account balances and Commissions and distribution-related payments of $7 million, primarily due to new business and AV growth. |

The decrease was partially offset by the following:

|  |  |
| --- | --- |
|  |  |
| • | Net investment income increased by $8 million due to higher asset balances. |

See “—Significant Factors Impacting Our Results—Assumption Updates and Model Changes” for more information regarding assumption updates.

***Net Flows and AV***

|  |  |
| --- | --- |
|  |  |
| • | AV remained relatively flat during the three months ended September 30, 2019 as improved market performance was offset by net outflows. The $486 million increase from September 30, 2018 was primarily due to positive net inflows and higher equity market performance in 2019. |

|  |  |
| --- | --- |
|  |  |
| • | Net outflows of $23 million decreased by $77 million compared to 2018, driven by positive net inflows reflecting strong sales and client engagement and lower surrenders in our tax-exempt market. |

**Nine Months Ended September 30, 2019 Compared to the Nine Months Ended September 30, 2018 for the Group Retirement Segment**

***Operating earnings***

Operating earnings decreased by $7 million to $280 million for the first nine months of 2019 from $287 million in the first nine months of 2018.

The decrease is primarily attributable to the following:

|  |  |
| --- | --- |
|  |  |
| • | Amortization of DAC increased by $45 million mainly due to the less favorable impact of assumption updates ($3 million in 2019 compared to $43 million in 2018). In 2019, we updated our maintenance expense assumption and in 2018 our assumption updates resulted from favorable lapse experience. |

|  |  |
| --- | --- |
|  |  |
| • | Interest credited to policyholders’ account balances increased by $10 million due to AV growth. |

The decrease was partially offset by the following:

|  |  |
| --- | --- |
|  |  |
| • | Net investment income increased by $37 million due to higher asset balances and our General Account investment portfolio optimization. |

|  |  |
| --- | --- |
|  |  |
| • | Increase in fee-type revenues of $6 million due to higher average Separate Accounts AV, reflecting higher equity markets and positive net flows. |

See “—Significant Factors Impacting Our Results—Assumption Updates and Model Changes” for more information regarding assumption updates.

***Net Flows and AV***

|  |  |
| --- | --- |
|  |  |
| • | The increase in AV of $3.7 billion during the nine months ended September 30, 2019 was primarily due to higher equity market performance in 2019 and positive net flows. |

|  |  |
| --- | --- |
|  |  |
| • | Net inflows of $248 million improved by $96 million compared to 2018, driven by positive net inflows reflecting strong sales and client engagement and lower surrenders in our tax-exempt market. |

**Investment Management and Research**

The Investment Management and Research segment provides diversified investment management, research and related services to a broad range of clients around the world. Operating earnings (loss), net of tax, presented here represents our blended economic interest in AB of approximately 65% during both the three and nine months of 2019 and approximately 65% and 57% during the three and nine months of 2018, respectively.

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The following table summarizes Operating earnings of our Investment Management and Research segment for the periods presented:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | |  | **Nine Months Ended September 30,** | | | | | | |
|  | **2019** | | |  | 2018 | | |  | **2019** | | |  | 2018 | | |
|  | **(in millions)** | | | | | | | | | | | | | | |
| **Operating earnings** | **$** | **93** |  |  | $ | 96 |  |  | **$** | **250** |  |  | $ | 274 |  |

Key components of Operating earnings are:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | |  | **Nine Months Ended September 30,** | | | | | | |
|  | **2019** | | |  | 2018 | | |  | **2019** | | |  | 2018 | | |
|  | **(in millions)** | | | | | | | | | | | | | | |
| **REVENUES** |  | | |  |  | | |  |  | | |  |  | | |
| Policy charges, fee income and premiums | **$** | **—** |  |  | $ | — |  |  | **$** | **—** |  |  | $ | — |  |
| Net investment income | **5** | |  |  | 7 | |  |  | **44** | |  |  | 14 | |  |
| Net derivative gains (losses) | **—** | |  |  | (6 | | ) |  | **(29** | | **)** |  | (4 | | ) |
| Investment management, service fees and other income | **867** | |  |  | 850 | |  |  | **2,485** | |  |  | 2,592 | |  |
| **Segment revenues** | **$** | **872** |  |  | $ | 851 |  |  | **$** | **2,500** |  |  | $ | 2,602 |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| **BENEFITS AND OTHER DEDUCTIONS** |  | | |  |  | | |  |  | | |  |  | | |
| Policyholders’ benefits | **$** | **—** |  |  | $ | — |  |  | **$** | **—** |  |  | $ | — |  |
| Interest credited to policyholders’ account balances | **—** | |  |  | — | |  |  | **—** | |  |  | — | |  |
| Commissions and distribution-related payments | **128** | |  |  | 107 | |  |  | **350** | |  |  | 323 | |  |
| Amortization of deferred policy acquisition costs | **—** | |  |  | — | |  |  | **—** | |  |  | — | |  |
| Compensation, benefits and other operating costs and expenses | **542** | |  |  | 540 | |  |  | **1,598** | |  |  | 1,615 | |  |
| Interest expense and financing fees | **2** | |  |  | 2 | |  |  | **9** | |  |  | 6 | |  |
| **Segment benefits and other deductions** | **$** | **672** |  |  | $ | 649 |  |  | **$** | **1,957** |  |  | $ | 1,944 |  |

Changes in AUM in the Investment Management and Research segment for the periods presented were as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | |  | **Nine Months Ended September 30,** | | | | | | |
|  | **2019** | | |  | 2018 | | |  | **2019** | | |  | 2018 | | |
|  | **(in billions)** | | | | | | | | | | | | | | |
| **Balance as of beginning of period** | **$** | **580.8** |  |  | $ | 539.8 |  |  | **$** | **516.4** |  |  | 554.5 | |  |
| Long-term flows: |  | | |  |  | | |  |  | | |  |  | | |
| Sales/new accounts | **26.3** | |  |  | 19.3 | |  |  | **76.7** | |  |  | 72.6 | |  |
| Redemptions/terminations | **(18.6** | | **)** |  | (13.3 | | ) |  | **(52.8** | | **)** |  | (67.9 | | ) |
| Cash flow/unreinvested dividends | **0.4** | |  |  | (4.7 | | ) |  | **(5.2** | | **)** |  | (13.5 | | ) |
| Net long-term (outflows) inflows | **8.1** | |  |  | 1.3 | |  |  | **18.7** | |  |  | (8.8 | | ) |
| AUM adjustment (1) | **—** | |  |  | — | |  |  | **(0.9** | | **)** |  | — | |  |
| Market appreciation (depreciation) | **3.5** | |  |  | 9.3 | |  |  | **58.2** | |  |  | 4.7 | |  |
| Net change | **11.6** | |  |  | 10.6 | |  |  | **76.0** | |  |  | (4.1 | | ) |
| **Balance as of end of period** | **$** | **592.4** |  |  | **$** | **550.4** |  |  | **$** | **592.4** |  |  | $ | 550.4 |  |

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|  |  |
| --- | --- |
|  |  |
| (1) | Approximately $900 million of non-investment management fee earning taxable and tax-exempt money market assets |

were removed from assets under management during the second quarter of 2019.

Average AUM in the Investment Management and Research segment for the periods presented by distribution channel and investment services were as follows:

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | |  | **Nine Months Ended September 30,** | | | | | | |
|  | **2019** | | |  | 2018 | | |  | **2019** | | |  | 2018 | | |
|  | **(in billions)** | | | | | | | | | | | | | | |
| ***Distribution Channel:*** |  | | |  |  | | |  |  | | |  |  | | |
| Institutions | **$** | **270.7** |  |  | $ | 256.6 |  |  | **$** | **261.4** |  |  | $ | 261.1 |  |
| Retail | **218.5** | |  |  | 194.0 | |  |  | **206.1** | |  |  | 193.4 | |  |
| Private Wealth Management | **97.1** | |  |  | 96.3 | |  |  | **95.5** | |  |  | 95.0 | |  |
| **Total** | **$** | **586.3** |  |  | $ | 546.9 |  |  | **$** | **563.0** |  |  | $ | 549.5 |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| ***Investment Service:*** |  | | |  |  | | |  |  | | |  |  | | |
| Equity Actively Managed | **$** | **160.3** |  |  | $ | 152.4 |  |  | **$** | **154.8** |  |  | $ | 147.3 |  |
| Equity Passively Managed (1) | **57.1** | |  |  | 55.3 | |  |  | **55.6** | |  |  | 54.3 | |  |
| Fixed Income Actively Managed – Taxable | **246.9** | |  |  | 225.5 | |  |  | **234.7** | |  |  | 233.4 | |  |
| Fixed Income Actively Managed – Tax-exempt | **45.3** | |  |  | 41.9 | |  |  | **44.0** | |  |  | 41.2 | |  |
| Fixed Income Passively Managed(1) | **9.5** | |  |  | 10.0 | |  |  | **9.4** | |  |  | 10.0 | |  |
| Other (2) | **67.2** | |  |  | 61.8 | |  |  | **64.5** | |  |  | 63.3 | |  |
| **Total** | **$** | **586.3** |  |  | $ | 546.9 |  |  | **$** | **563.0** |  |  | $ | 549.5 |  |

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|  |  |
| --- | --- |
|  |  |
| (1) | Includes index and enhanced index services. |

|  |  |
| --- | --- |
|  |  |
| (2) | Includes multi-asset solutions and services, and certain alternative investments. |

**Three Months Ended September 30, 2019 Compared to the Three Months Ended September 30, 2018 for the Investment Management and Research Segment**

***Operating earnings***

Operating earnings decreased by $3 million in the three months ended September 30, 2019 to $93 million from $96 million in the three months ended September 30, 2018 primarily attributable to the following:

|  |  |
| --- | --- |
|  |  |
| • | Higher commissions and distribution-related payments of $21 million due to higher payments to financial intermediaries for distribution of AB mutual funds. |

|  |  |
| --- | --- |
|  |  |
| • | Income tax expense increased $8 million driven by a higher effective tax rate from restructuring of our AB ownership. |

This decrease was partially offset by the following:

|  |  |
| --- | --- |
|  |  |
| • | Increase in fee-type revenues of $17 million primarily due to higher base fees and distribution revenues which primarily resulted from an increase in average AUM partially offset by lower performance-based fees and lower Bernstein Research Services revenues. |

|  |  |
| --- | --- |
|  |  |
| • | Net derivative gains (losses) increased $6 million primarily due to derivative losses mainly offsetting the increase in Net investment income. |

|  |  |
| --- | --- |
|  |  |
| • | Earnings attributable to the noncontrolling interest decreased by $7 million due to lower AB Operating earnings. |

***Long-Term Net Flows and AUM***

|  |  |
| --- | --- |
|  |  |
| • | Total AUM as of September 30, 2019 was $592.4 billion, up $11.6 billion, or 2.0%, compared to June 30, 2019. The increase during the third quarter of 2019 was driven by net inflows of $8.1 billion (net inflows of $7.4 billion and $1.5 billion for Retail and Institutions, respectively, offset by Private Wealth Management net outflows of $0.8 billion) and market appreciation of $3.5 billion. |

**Nine Months Ended September 30, 2019 Compared to the Nine Months Ended September 30, 2018 for the Investment Management and Research Segment**

***Operating earnings***

Operating earnings decreased by $24 million in the first nine months of 2019 to $250 million from $274 million in the first nine months of 2018 primarily attributable to the following:

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|  |  |
| --- | --- |
|  |  |
| • | Decrease in fee-type revenues of $107 million mainly due lower performance-based fees, primarily due to the non-recurrence of a $78 million increase in revenues in the first nine months of 2018 from the impact of adopting revenue recognition standard ASC 606 in 2018 and lower Bernstein Research Services revenues. |

|  |  |
| --- | --- |
|  |  |
| • | Higher commissions and distribution-related payments of $27 million due to higher payments to financial intermediaries for distribution of AB mutual funds. |

|  |  |
| --- | --- |
|  |  |
| • | Net derivative gains (losses) decreased $25 million primarily due to derivative losses mainly offsetting the increase in Net investment income. |

This decrease was partially offset by the following:

|  |  |
| --- | --- |
|  |  |
| • | Increase in Net investment income of $30 million mainly offsetting the decrease in Net derivative gains (losses). |

|  |  |
| --- | --- |
|  |  |
| • | Compensation, benefits and other operating costs and expenses decreased $17 million primarily due to the non-recurrence of a $43 million expense related to the impact of adopting revenue recognition standard ASC 606 in the first nine months of 2018, partially offset by higher general and administrative expenses. |

|  |  |
| --- | --- |
|  |  |
| • | Earnings attributable to the noncontrolling interest decreased by $93 million due to lower AB Operating earnings and from the increase in our ownership percentage of AB that reduced the noncontrolling interests’ share of AB’s Operating earnings. |

***Long-Term Net Flows and AUM***

|  |  |
| --- | --- |
|  |  |
| • | Total AUM as of September 30, 2019 was $592.4 billion, up $42.0 billion, or 7.6 %, compared to September 30, 2018. During the twelve months ended September 30, 2019 AUM increased as a result of market appreciation of $23.4 billion and net inflows of $19.5 billion (Retail net inflows of $19.3 billion, and Institutional net inflows of $2.1 billion, offset by net outflows of $1.9 billion for Private Wealth Management). |

**Protection Solutions**

The Protection Solutions segment includes our life insurance and employee benefits businesses. We provide a targeted range of products aimed at serving the financial needs of our clients throughout their lives, including VUL, IUL and term life products. In 2015, we entered the employee benefits market and currently offer a suite of dental, vision, life, as well as short- and long-term disability insurance products to small and medium-size businesses.

In recent years, we have refocused our product offering and distribution towards less capital intensive, higher return accumulation and protection products. We plan to improve our Operating earnings over time through earnings generated from sales of our repositioned product portfolio and by proactively managing and optimizing our in-force book.

The following table summarizes Operating earnings (loss) of our Protection Solutions segment for the periods presented:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | |  | **Nine Months Ended September 30,** | | | | | | |
|  | **2019** | | |  | 2018 | | |  | **2019** | | |  | 2018 | | |
|  | **(in millions)** | | | | | | | | | | | | | | |
| **Operating earnings** | **$** | **113** |  |  | $ | 137 |  |  | **$** | **268** |  |  | $ | 160 |  |

Key components of Operating earnings (loss) are:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | |  | **Nine Months Ended September 30,** | | | | | | |
|  | **2019** | | |  | 2018 | | |  | **2019** | | |  | 2018 | | |
|  | **(in millions)** | | | | | | | | | | | | | | |
| **REVENUES** |  | | |  |  | | |  |  | | |  |  | | |
| Policy charges, fee income and premiums | **$** | **503** |  |  | $ | 485 |  |  | **$** | **1,575** |  |  | $ | 1,562 |  |
| Net investment income | **242** | |  |  | 233 | |  |  | **714** | |  |  | 647 | |  |
| Net derivative gains (losses) | **(1** | | **)** |  | 2 | |  |  | **10** | |  |  | 4 | |  |
| Investment management, service fees and other income | **59** | |  |  | 55 | |  |  | **178** | |  |  | 166 | |  |
| **Segment revenues** | **$** | **803** |  |  | $ | 775 |  |  | **$** | **2,477** |  |  | $ | 2,379 |  |

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | |  | **Nine Months Ended September 30,** | | | | | | |
|  | **2019** | | |  | 2018 | | |  | **2019** | | |  | 2018 | | |
|  | **(in millions)** | | | | | | | | | | | | | | |
| **BENEFITS AND OTHER DEDUCTIONS** |  | | |  |  | | |  |  | | |  |  | | |
| Policyholders’ benefits | **$** | **355** |  |  | $ | 515 |  |  | **$** | **1,226** |  |  | $ | 1,343 |  |
| Interest credited to policyholders’ account balances | **131** | |  |  | 117 | |  |  | **396** | |  |  | 359 | |  |
| Commissions and distribution-related payments | **41** | |  |  | 30 | |  |  | **122** | |  |  | 101 | |  |
| Amortization of deferred policy acquisition costs | **56** | |  |  | (141 | | ) |  | **156** | |  |  | 105 | |  |
| Compensation, benefits and other operating costs and expenses | **84** | |  |  | 89 | |  |  | **254** | |  |  | 279 | |  |
| Interest expense and financing fees | **—** | |  |  | — | |  |  | **—** | |  |  | — | |  |
| **Segment benefits and other deductions** | **$** | **667** |  |  | $ | 610 |  |  | **$** | **2,154** |  |  | $ | 2,187 |  |

The following table summarizes Protection Solutions Reserves for our Protection Solutions segment as of the dates presented:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **As of** | | | | | | |
|  | **September 30, 2019** | | |  | December 31, 2018 | | |
|  | **(in millions)** | | | | | | |
| **Protection Solutions Reserves (1)** |  | | |  |  | | |
| General Account | **$** | **17,819** |  |  | $ | 17,562 |  |
| Separate Accounts | **12,804** | |  |  | 11,393 | |  |
| **Total Protection Solutions Reserves** | **$** | **30,623** |  |  | $ | 28,955 |  |

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|  |  |
| --- | --- |
|  |  |
| (1) | Does not include Protection Solutions Reserves for our Employee Benefits business as it is a start-up business and therefore has immaterial in-force policies. |

The following table presents our in-force face amounts for the periods indicated, respectively, for our individual life insurance products:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **As of** | | | | | | |
|  | **September 30, 2019** | | |  | December 31, 2018 | | |
|  | **(in billions)** | | | | | | |
| **In-force face amount by product: (1)** |  | | |  |  | | |
| Universal Life (2) | **$** | **53.8** |  |  | $ | 55.9 |  |
| Indexed Universal Life | **24.9** | |  |  | 22.9 | |  |
| Variable Universal Life (3) | **126.8** | |  |  | 127.3 | |  |
| Term | **235.4** | |  |  | 234.9 | |  |
| Whole Life | **1.4** | |  |  | 1.4 | |  |
| **Total in-force face amount** | **$** | **442.3** |  |  | $ | 442.4 |  |

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|  |  |
| --- | --- |
|  |  |
| (1) | Includes individual life insurance and does not include Employee Benefits as it is a start-up business and therefore has immaterial in-force policies. |

|  |  |
| --- | --- |
|  |  |
| (2) | Universal Life includes Guaranteed Universal Life. |

|  |  |
| --- | --- |
|  |  |
| (3) | Variable Universal Life includes VL and COLI. |

**Three Months Ended September 30, 2019 Compared to the Three Months Ended September 30, 2018 for the Protection Solutions Segment**

***Operating earnings***

Operating earnings decreased by $24 million to $113 million in the three months ended September 30, 2019 from $137 million in the three months ended September 30, 2018 primarily attributable to the following:

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|  |  |
| --- | --- |
|  |  |
| • | Increase in Amortization of DAC of $197 million mainly due to the $49 million unfavorable impact of assumption updates in 2019 compared to the $183 million favorable impact of assumption updates in 2018, partially offset by an inforce update that reduced the Amortization of DAC by $35 million (offset in Policy charges and fee income) in 2019. |

|  |  |
| --- | --- |
|  |  |
| • | Interest credited to policyholders’ account balances increased $14 million primarily due to an increase in Indexed Universal Life reserves due to new business. |

|  |  |
| --- | --- |
|  |  |
| • | Increase in Commissions and distribution-related payments of $11 million due to higher non-proprietary products and employee benefits product sales. |

This decrease was offset by the following:

|  |  |
| --- | --- |
|  |  |
| • | Decrease in Policyholders’ benefits of $160 million mainly driven by the $42 million favorable impact of assumption updates in 2019 compared to the $53 million unfavorable impact of assumption updates in 2018, combined with improved mortality experience and a reserve adjustment on our disability deduction waiver rider reserves. |

|  |  |
| --- | --- |
|  |  |
| • | Fee-type revenue increased by $22 million primarily due to higher premiums from our employee benefits and term life products and a $3 million favorable impact of assumptions in 2019 compared to a $24 million unfavorable impact of assumption updates in 2018, partially offset by an inforce update that reduced our policy charges and fee income (offset in amortization of DAC). |

|  |  |
| --- | --- |
|  |  |
| • | Net investment income increased by $9 million primarily due to higher asset balances. |

|  |  |
| --- | --- |
|  |  |
| • | Compensation, benefits and other operating costs and expenses decreased by $5 million mainly due to productivity initiatives. |

|  |  |
| --- | --- |
|  |  |
| • | Income tax expense decreased $5 million driven by lower pre-tax earnings. |

See “—Significant Factors Impacting Our Results—Assumption Updates and Model Changes” for more information regarding assumption updates.

**Nine Months Ended September 30, 2019 Compared to the Nine Months Ended September 30, 2018 for the Protection Solutions Segment**

***Operating earnings***

Operating earnings increased by $108 million to $268 million in the first nine months of 2019 from $160 million in the first nine months of 2018 primarily attributable to the following:

|  |  |
| --- | --- |
|  |  |
| • | Decrease in Policyholders’ benefits of $117 million mainly driven by the $42 million favorable impact of assumption updates in 2019 compared to the $53 million unfavorable impact of assumption updates in 2018, combined with a reserve adjustment on our disability deduction waiver rider reserves. |

|  |  |
| --- | --- |
|  |  |
| • | Net investment income increased by $67 million primarily due to higher asset balances and the General Account investment portfolio optimization. |

|  |  |
| --- | --- |
|  |  |
| • | Compensation, benefits and other operating costs and expenses decreased by $25 million mainly due to an $11 million release of a litigation reserve and productivity initiatives. |

|  |  |
| --- | --- |
|  |  |
| • | Fee-type revenue increased by $25 million mainly due to higher term and employee benefits premiums, higher costs of insurance charges and a $3 million favorable impact of assumptions in 2019 compared to a $24 million unfavorable impact of assumption updates in 2018, partially offset by an inforce update that reduced our policy charges and fee income (offset in amortization of DAC). |

|  |  |
| --- | --- |
|  |  |
| • | Net derivative gains increased $6 million primarily attributable to our Indexed Universal Life hedging program, partially offset by the increase in Interest credited to policyholders’ account balances. |

This increase was partially offset by the following:

|  |  |
| --- | --- |
|  |  |
| • | Increase in Amortization of DAC of $51 million mainly due to the $49 million unfavorable impact of assumption updates in 2019 compared to the $183 million favorable impact of assumption updates in 2018 partially offset by the non-repeat of a $123 million DAC write-off as we exited loss recognition in the second quarter of 2018 and an inforce update that reduced the amortization of DAC by $35 million (offset in Policy charges and fee income) in 2019. |

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|  |  |
| --- | --- |
|  |  |
| • | Interest credited to policyholders’ account balances increased $37 million primarily due to an increase in Indexed Universal Life reserves due to new business, partially offset by higher Net derivative gains. |

|  |  |
| --- | --- |
|  |  |
| • | Increase in Commissions and distribution-related payments of $21 million due to higher non-proprietary products and employee benefits product sales. |

|  |  |
| --- | --- |
|  |  |
| • | Income tax expense increased $23 million driven by higher pre-tax earnings. |

See “—Significant Factors Impacting Our Results—Assumption Updates and Model Changes” for more information regarding assumption updates.

**Corporate and Other**

Corporate and Other includes certain of our financing and investment expenses. It also includes: AXA Advisors broker-dealer business, the Closed Block, run-off variable annuity reinsurance business, run-off group pension business, run-off health business, benefit plans for our employees, certain strategic investments and certain unallocated items, including capital and related investments, interest expense and financing fees and corporate expense. AB’s results of operations are reflected in the Investment Management and Research segment. Accordingly, Corporate and Other does not include any items applicable to AB.

The following table summarizes Operating earnings (loss) of Corporate and Other for the periods presented:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | |  | **Nine Months Ended September 30,** | | | | | | |
|  | **2019** | | |  | 2018 | | |  | **2019** | | |  | 2018 | | |
|  | **(in millions)** | | | | | | | | | | | | | | |
| **Operating earnings (loss)** | **$** | **(90** | **)** |  | $ | (108 | ) |  | **$** | **(239** | **)** |  | $ | (266 | ) |

**General Account Investment Portfolio**

The General Account investment portfolio supports the insurance and annuity liabilities of our Individual Retirement, Group Retirement and Protection Solutions businesses. Our General Account investment portfolio investment strategy seeks to achieve sustainable risk-adjusted returns by focusing on principal preservation, investment return, duration and liquidity requirements by product class and the diversification of risks. Investment activities are undertaken according to investment policy statements that contain internally established guidelines and are required to comply with applicable laws and insurance regulations. Risk tolerances are established for credit risk, market risk, liquidity risk and concentration risk across types of issuers and asset classes and that seek to mitigate the impact of cash flow variability arising from these risks.

The General Account investment portfolio consists largely of investment grade fixed maturities, short-term investments, commercial and agricultural mortgage loans, alternative investments and other financial instruments. Fixed maturities include publicly issued corporate bonds, government bonds, privately placed notes and bonds, bonds issued by states and municipalities, mortgage-backed securities and asset-backed securities.

The General Account investment portfolio also includes credit derivatives to replicate exposure to individual securities or pools of securities as a means of achieving credit exposure similar to bonds of the underlying issuer(s) more efficiently. In addition, from time to time we use derivatives for hedging purposes to reduce our exposure to equity markets, interest rates and credit spreads.

As part of our asset and liability management strategies, we maintain a weighted-average duration for our General Account investment portfolio that is within an acceptable range of the estimated duration of our liabilities given our risk appetite and hedging programs. Our asset and liability management strategies are applied to portfolio duration groups within the General Account investment portfolio. For example, we maintain a “short duration” group comprised primarily of investment grade fixed maturity securities that are aligned with the duration of product liabilities with an average duration of less than six years (e.g., our SCS product). As of September 30, 2019 and December 31, 2018, 63% and 69% of the fixed maturities in the short duration group were rated NAIC 1, and 37% and 31% were rated NAIC 2, respectively. During the first quarter of 2019, new purchases from both new money flows and portfolio rebalancing activity were designated as available-for-sale (“AFS”) included in fixed maturities. The remaining trading securities in the short duration VA portfolio will be opportunistically rebalanced to AFS and shown with fixed maturities, which is consistent with other portfolios in our General Account. New AFS assets included in fixed maturities was $9.9 billion as of September 30, 2019.

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Investment portfolios are primarily managed by legal entity with dedicated portfolios for certain blocks of business. For portfolios that back multiple product groups, investment results are allocated to business segments.

The General Account investment portfolio reflects certain differences from the presentation of the U.S. GAAP Consolidated Financial Statements. This presentation is consistent with how we manage the General Account investment portfolio. For further investment information, please refer to Note 3 and Note 4 in the Notes to the Consolidated Financial Statements.

***Investment Results of the General Account Investment Portfolio***

The following table summarizes the General Account investment portfolio results with Non-GAAP Operating Earnings adjustments by asset category for the periods indicated. This presentation is consistent with how we measure investment performance for management purposes.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | | | | | | | |
|  | **2019** | | | | | |  | 2018 (3) | | | | | |
|  | **Yield** | |  | **Amount (2)** | | |  | Yield | |  | Amount (2) | | |
|  | **(Dollars in millions)** | | | | | | | | | | | | |
| **Fixed Maturities:** |  | |  |  | | |  |  | |  |  | | |
| Income (loss) | **3.69** | **%** |  | **$** | **535** |  |  | 3.85 | % |  | $ | 428 |  |
| Ending assets |  | |  | **61,684** | |  |  |  | |  | 44,212 | |  |
| **Mortgages:** |  | |  |  | | |  |  | |  |  | | |
| Income (loss) | **4.44** | **%** |  | **135** | |  |  | 4.30 | % |  | 124 | |  |
| Ending assets |  | |  | **12,022** | |  |  |  | |  | 12,070 | |  |
| **Real Estate Held for the Production of Income:** |  | |  |  | | |  |  | |  |  | | |
| Interest expense and other | **(2.64** | **)%** |  | **(1** | | **)** |  | (0.73 | )% |  | (1 | | ) |
| Ending assets |  | |  | **27** | |  |  |  | |  | 54 | |  |
| **Other Equity Investments (1):** |  | |  |  | | |  |  | |  |  | | |
| Income (loss) | **8.01** | **%** |  | **28** | |  |  | 7.05 | % |  | 23 | |  |
| Ending assets |  | |  | **1,461** | |  |  |  | |  | 1,325 | |  |
| **Policy Loans:** |  | |  |  | | |  |  | |  |  | | |
| Income (loss) | **5.66** | **%** |  | **53** | |  |  | 5.41 | % |  | 51 | |  |
| Ending assets |  | |  | **3,750** | |  |  |  | |  | 3,739 | |  |
| **Cash and Short-Term Investments:** |  | |  |  | | |  |  | |  |  | | |
| Income (loss) | **(1.04** | **)%** |  | **(7** | | **)** |  | 0.79 | % |  | 9 | |  |
| Ending assets |  | |  | **2,071** | |  |  |  | |  | 3,788 | |  |
| **Repurchase and Funding Agreements:** |  | |  |  | | |  |  | |  |  | | |
| Interest expense and other |  | |  | **(27** | | **)** |  |  | |  | (27 | | ) |
| Ending assets (liabilities) |  | |  | **(6,510** | | **)** |  |  | |  | (4,891 | | ) |
| **Total Invested Assets:** |  | |  |  | | |  |  | |  |  | | |
| Income (loss) | **3.94** | **%** |  | **716** | |  |  | 3.98 | % |  | 607 | |  |
| Ending assets |  | |  | **74,505** | |  |  |  | |  | 60,297 | |  |
| **Short Duration Fixed Maturities:** |  | |  |  | | |  |  | |  |  | | |
| Income (loss) | **3.33** | **%** |  | **70** | |  |  | 2.61 | % |  | 85 | |  |
| Ending assets |  | |  | **8,030** | |  |  |  | |  | 14,084 | |  |
| **Total:** |  | |  |  | | |  |  | |  |  | | |
| Investment income (loss) | **3.87** | **%** |  | **786** | |  |  | 3.75 | % |  | 692 | |  |
| Less: Investment fees | **(0.08** | **)%** |  | **(16** | | **)** |  | (0.09 | )% |  | (15 | | ) |
| Investment income, net | **3.79** | **%** |  | **$** | **770** |  |  | 3.66 | % |  | $ | 677 |  |
| **Ending Net Assets** |  | |  | **$** | **82,535** |  |  |  | |  | $ | 74,381 |  |

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Nine Months Ended September 30,** | | | | | | | | | | | | |  | Year Ended December 31, 2018 (2) | | |
|  | **2019** | | | | | |  | 2018 (3) | | | | | |  |
|  | **Yield** | |  | **Amount (2)** | | |  | Yield | |  | Amount (2) | | |  |
|  | **(Dollars in millions)** | | | | | | | | | | | | | | | | |
| **Fixed Maturities:** |  | |  |  | | |  |  | |  |  | | |  |  | | |
| Income (loss) | **3.78** | **%** |  | **$** | **1,486** |  |  | 3.83 | % |  | $ | 1,280 |  |  | $ | 1,732 |  |
| Ending assets |  | |  | **61,684** | |  |  |  | |  | 44,212 | |  |  | 46,447 | |  |
| **Mortgages:** |  | |  |  | | |  |  | |  |  | | |  |  | | |
| Income (loss) | **4.37** | **%** |  | **397** | |  |  | 4.19 | % |  | 362 | |  |  | 494 | |  |
| Ending assets |  | |  | **12,022** | |  |  |  | |  | 12,070 | |  |  | 11,835 | |  |
| **Real Estate Held for the Production of Income:** |  | |  |  | | |  |  | |  |  | | |  |  | | |
| Interest expense and other | **(3.85** | **)%** |  | **(2** | | **)** |  | (4.35 | )% |  | (6 | | ) |  | (6 | | ) |
| Ending assets |  | |  | **27** | |  |  |  | |  | 54 | |  |  | 52 | |  |
| **Other Equity Investments (1):** |  | |  |  | | |  |  | |  |  | | |  |  | | |
| Income (loss) | **7.36** | **%** |  | **75** | |  |  | 8.69 | % |  | 85 | |  |  | 133 | |  |
| Ending assets |  | |  | **1,461** | |  |  |  | |  | 1,325 | |  |  | 1,354 | |  |
| **Policy Loans:** |  | |  |  | | |  |  | |  |  | | |  |  | | |
| Income (loss) | **5.57** | **%** |  | **157** | |  |  | 5.62 | % |  | 159 | |  |  | 215 | |  |
| Ending assets |  | |  | **3,750** | |  |  |  | |  | 3,739 | |  |  | 3,779 | |  |
| **Cash and Short-Term Investments:** |  | |  |  | | |  |  | |  |  | | |  |  | | |
| Income (loss) | **0.04** | **%** |  | **1** | |  |  | 0.72 | % |  | 25 | |  |  | 21 | |  |
| Ending assets |  | |  | **2,071** | |  |  |  | |  | 3,788 | |  |  | 3,332 | |  |
| **Repurchase and Funding Agreements:** |  | |  |  | | |  |  | |  |  | | |  |  | | |
| Interest expense and other |  | |  | **(76** | | **)** |  |  | |  | (76 | | ) |  | (104 | | ) |
| Ending assets (liabilities) |  | |  | **(6,510** | | **)** |  |  | |  | (4,891 | | ) |  | (4,561 | | ) |
| **Total Invested Assets:** |  | |  |  | | |  |  | |  |  | | |  |  | | |
| Income (loss) | **3.98** | **%** |  | **2,038** | |  |  | 3.99 | % |  | 1,829 | |  |  | 2,485 | |  |
| Ending assets |  | |  | **74,505** | |  |  |  | |  | 60,297 | |  |  | 62,238 | |  |
| **Short Duration Fixed Maturities:** |  | |  |  | | |  |  | |  |  | | |  |  | | |
| Income (loss) | **3.09** | **%** |  | **251** | |  |  | 2.37 | % |  | 232 | |  |  | 333 | |  |
| Ending assets |  | |  | **8,030** | |  |  |  | |  | 14,084 | |  |  | 14,818 | |  |
| **Total:** |  | |  |  | | |  |  | |  |  | | |  |  | | |
| Investment income (loss) | **3.86** | **%** |  | **2,289** | |  |  | 3.71 | % |  | 2,061 | |  |  | 2,818 | |  |
| Less: Investment fees | **(0.08** | **)%** |  | **(48** | | **)** |  | (0.08 | )% |  | (44 | | ) |  | (62 | | ) |
| Investment income, net | **3.78** | **%** |  | **$** | **2,241** |  |  | 3.63 | % |  | $ | 2,017 |  |  | $ | 2,756 |  |
| **Ending Net Assets** |  | |  | **$** | **82,535** |  |  |  | |  | $ | 74,381 |  |  | $ | 77,056 |  |

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|  |  |
| --- | --- |
|  |  |
| (1) | Includes Other invested assets of $320 million, $169 million and $211 million as of September 30, 2019, September 30, 2018 and December 31, 2018 respectively. |

|  |  |
| --- | --- |
|  |  |
| (2) | Amount for fixed maturities and mortgages represents original cost, reduced by repayments, write-downs, adjusted amortization of premiums, accretion of discount and valuation allowances. Cost for equity securities represents original cost reduced by write-downs. Cost for other limited partnership interests represents original cost adjusted for equity in earnings and reduced by distributions. |

|  |  |
| --- | --- |
|  |  |
| (3) | Prior period amounts have been reclassified to conform to the current period’s presentation. |

***Fixed Maturities***

The fixed maturity portfolio consists largely of investment grade corporate debt securities and includes significant amounts of U.S. government and agency obligations. The limited number of below investment grade securities in the General Account investment portfolio consist of “fallen angels,” originally purchased as investment grade, as well as short duration public high yield securities and loans to middle market companies.

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***Fixed Maturities by Industry***

The following table sets forth these fixed maturities by industry category as of the dates indicated along with their associated gross unrealized gains and losses.

**Fixed Maturities by Industry (1)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Amortized Cost** | | |  | **Gross Unrealized Gains** | | |  | **Gross Unrealized Losses** | | |  | **Fair Value** | | |  | **Percentage of Total (%)** | |
|  | **(in millions)** | | | | | | | | | | | | | | | | | |
| **As of September 30, 2019:** |  | | |  |  | | |  |  | | |  |  | | |  |  | |
| Corporate Securities: |  | | |  |  | | |  |  | | |  |  | | |  |  | |
| Finance | **$** | **11,388** |  |  | **$** | **477** |  |  | **$** | **7** |  |  | **$** | **11,858** |  |  | **18** | **%** |
| Manufacturing | **12,808** | |  |  | **728** | |  |  | **5** | |  |  | **13,531** | |  |  | **21** | **%** |
| Utilities | **5,074** | |  |  | **336** | |  |  | **3** | |  |  | **5,407** | |  |  | **8** | **%** |
| Services | **6,563** | |  |  | **367** | |  |  | **13** | |  |  | **6,917** | |  |  | **10** | **%** |
| Energy | **3,791** | |  |  | **186** | |  |  | **15** | |  |  | **3,962** | |  |  | **6** | **%** |
| Retail and wholesale | **3,467** | |  |  | **190** | |  |  | **6** | |  |  | **3,651** | |  |  | **6** | **%** |
| Transportation | **1,825** | |  |  | **121** | |  |  | **2** | |  |  | **1,944** | |  |  | **3** | **%** |
| Other | **169** | |  |  | **8** | |  |  | **—** | |  |  | **177** | |  |  | **—** | **%** |
| Total corporate securities | **45,085** | |  |  | **2,413** | |  |  | **51** | |  |  | **47,447** | |  |  | **72** | **%** |
| U.S. government | **14,271** | |  |  | **1,890** | |  |  | **55** | |  |  | **16,106** | |  |  | **24** | **%** |
| Residential mortgage-backed (2) | **199** | |  |  | **14** | |  |  | **—** | |  |  | **213** | |  |  | **—** | **%** |
| Preferred stock | **407** | |  |  | **16** | |  |  | **4** | |  |  | **419** | |  |  | **1** | **%** |
| State and municipal | **623** | |  |  | **83** | |  |  | **1** | |  |  | **705** | |  |  | **1** | **%** |
| Foreign governments | **487** | |  |  | **44** | |  |  | **6** | |  |  | **525** | |  |  | **1** | **%** |
| Asset-backed securities | **612** | |  |  | **4** | |  |  | **2** | |  |  | **614** | |  |  | **1** | **%** |
| Total | **$** | **61,684** |  |  | **$** | **4,464** |  |  | **$** | **119** |  |  | **$** | **66,029** |  |  | **100** | **%** |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | |
| As of December 31, 2018 |  | | |  |  | | |  |  | | |  |  | | |  |  | |
| Corporate Securities: |  | | |  |  | | |  |  | | |  |  | | |  |  | |
| Finance | $ | 6,343 |  |  | $ | 77 |  |  | $ | 124 |  |  | $ | 6,296 |  |  | 14 | % |
| Manufacturing | 9,123 | |  |  | 105 | |  |  | 273 | |  |  | 8,955 | |  |  | 20 | % |
| Utilities | 4,413 | |  |  | 80 | |  |  | 121 | |  |  | 4,372 | |  |  | 9 | % |
| Services | 4,317 | |  |  | 52 | |  |  | 102 | |  |  | 4,267 | |  |  | 9 | % |
| Energy | 2,347 | |  |  | 40 | |  |  | 75 | |  |  | 2,312 | |  |  | 5 | % |
| Retail and wholesale | 2,163 | |  |  | 19 | |  |  | 49 | |  |  | 2,133 | |  |  | 5 | % |
| Transportation | 1,357 | |  |  | 29 | |  |  | 54 | |  |  | 1,332 | |  |  | 3 | % |
| Other | 171 | |  |  | 4 | |  |  | 2 | |  |  | 173 | |  |  | — | % |
| Total corporate securities | 30,234 | |  |  | 406 | |  |  | 800 | |  |  | 29,840 | |  |  | 65 | % |
| U.S. government and agency | 13,989 | |  |  | 295 | |  |  | 470 | |  |  | 13,814 | |  |  | 30 | % |
| Residential mortgage-backed (2) | 225 | |  |  | 9 | |  |  | — | |  |  | 234 | |  |  | 1 | % |
| Preferred stock | 448 | |  |  | 15 | |  |  | 18 | |  |  | 445 | |  |  | 1 | % |
| State and municipal | 415 | |  |  | 48 | |  |  | 1 | |  |  | 462 | |  |  | 1 | % |
| Foreign governments | 524 | |  |  | 19 | |  |  | 13 | |  |  | 530 | |  |  | 1 | % |
| Asset-backed securities | 612 | |  |  | 1 | |  |  | 12 | |  |  | 601 | |  |  | 1 | % |
| Total | $ | 46,447 |  |  | $ | 793 |  |  | $ | 1,314 |  |  | $ | 45,926 |  |  | 100 | % |

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|  |  |
| --- | --- |
|  |  |
| (1) | Investment data has been classified based on standard industry categorizations for domestic public holdings and similar classifications by industry for all other holdings. |

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|  |  |
| (2) | Includes publicly traded agency pass-through securities and collateralized obligations. |

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***Fixed Maturities Credit Quality***

The Securities Valuation Office (“SVO”) of the National Association of Insurance Commissioners (“NAIC”) evaluates the investments of insurers for regulatory reporting purposes and assigns fixed maturities to one of six categories (“NAIC Designations”). NAIC Designations of “1” or “2” include fixed maturities considered investment grade, which include securities rated Baa3 or higher by Moody’s or BBB- or higher by Standard & Poor’s. NAIC Designations of “3” through “6” are referred to as below investment grade, which include securities rated Ba1 or lower by Moody’s and BB+ or lower by Standard & Poor’s. As a result of time lags between the funding of investments and the completion of the SVO filing process, the fixed maturity portfolio typically includes securities that have not yet been rated by the SVO as of each balance sheet date. Pending receipt of SVO ratings, the categorization of these securities by NAIC designation is based on the expected ratings indicated by internal analysis.

The following table sets forth the General Account’s fixed maturities portfolio by NAIC rating at the dates indicated.

**Fixed Maturities**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **NAIC Designation** |  | **Rating Agency Equivalent** |  | **Amortized Cost** | | |  | **Gross Unrealized Gains** | | |  | **Gross Unrealized Losses** | | |  | **Fair Value** | | |
|  |
|  |  |  |  |  | **(in millions)** | | | | | | | | | | | | | | |
|  | **As of September 30, 2019:** |  |  |  |  | | |  |  | | |  |  | | |  |  | | |
|  | 1 |  | Aaa, Aa, A |  | **$** | **41,722** |  |  | **$** | **3,349** |  |  | **$** | **76** |  |  | **$** | **44,995** |  |
|  | 2 |  | Baa |  | **18,663** | |  |  | **1,102** | |  |  | **17** | |  |  | **19,748** | |  |
|  |  |  | Investment grade |  | **60,385** | |  |  | **4,451** | |  |  | **93** | |  |  | **64,743** | |  |
|  | 3 |  | Ba |  | **705** | |  |  | **9** | |  |  | **9** | |  |  | **705** | |  |
|  | 4 |  | B |  | **557** | |  |  | **4** | |  |  | **14** | |  |  | **547** | |  |
|  | 5 |  | Caa |  | **34** | |  |  | **—** | |  |  | **2** | |  |  | **32** | |  |
|  | 6 |  | Ca, C |  | **3** | |  |  | **—** | |  |  | **1** | |  |  | **2** | |  |
|  |  |  | Below investment grade |  | **1,299** | |  |  | **13** | |  |  | **26** | |  |  | **1,286** | |  |
|  | Total Fixed Maturities | | |  | **$** | **61,684** |  |  | **$** | **4,464** |  |  | **$** | **119** |  |  | **$** | **66,029** |  |
|  |  |  |  |  |  | | |  |  | | |  |  | | |  |  | | |
|  | As of December 31, 2018: |  |  |  |  | | |  |  | | |  |  | | |  |  | | |
|  | 1 |  | Aaa, Aa, A |  | $ | 30,805 |  |  | $ | 587 |  |  | $ | 835 |  |  | $ | 30,557 |  |
|  | 2 |  | Baa |  | 14,541 | |  |  | 202 | |  |  | 437 | |  |  | 14,306 | |  |
|  |  |  | Investment grade |  | 45,346 | |  |  | 789 | |  |  | 1,272 | |  |  | 44,863 | |  |
|  | 3 |  | Ba |  | 589 | |  |  | 1 | |  |  | 18 | |  |  | 572 | |  |
|  | 4 |  | B |  | 489 | |  |  | 1 | |  |  | 22 | |  |  | 468 | |  |
|  | 5 |  | Caa |  | 18 | |  |  | 1 | |  |  | 1 | |  |  | 18 | |  |
|  | 6 |  | Ca, C |  | 5 | |  |  | 1 | |  |  | 1 | |  |  | 5 | |  |
|  |  |  | Below investment grade |  | 1,101 | |  |  | 4 | |  |  | 42 | |  |  | 1,063 | |  |
|  | Total Fixed Maturities | | |  | $ | 46,447 |  |  | $ | 793 |  |  | $ | 1,314 |  |  | $ | 45,926 |  |

***Mortgage Loans***

The mortgage portfolio primarily consists of commercial and agricultural mortgage loans. The investment strategy for the mortgage loan portfolio emphasizes diversification by property type and geographic location with a primary focus on asset quality. The tables below show the breakdown of the amortized cost of the General Account’s investments in mortgage loans by geographic region and property type as of the dates indicated.

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**Mortgage Loans by Region and Property Type**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **September 30, 2019** | | | | | |  | December 31, 2018 | | | | | |
|  | **Amortized**  **Cost** | | |  | **% of Total** | |  | Amortized  Cost | | |  | % of Total | |
|  | **(in millions)** | | | | | | | | | | | | |
| **By Region:** |  | | |  |  | |  |  | | |  |  | |
| U.S. Regions: |  | | |  |  | |  |  | | |  |  | |
| Pacific | **$** | **3,371** |  |  | **28.0** | **%** |  | $ | 3,288 |  |  | 27.7 | % |
| Middle Atlantic | **3,262** | |  |  | **27.1** |  |  | 3,183 | |  |  | 26.9 |  |
| South Atlantic | **1,335** | |  |  | **11.1** |  |  | 1,207 | |  |  | 10.2 |  |
| East North Central | **837** | |  |  | **7.0** |  |  | 963 | |  |  | 8.1 |  |
| Mountain | **1,020** | |  |  | **8.5** |  |  | 1,014 | |  |  | 8.6 |  |
| West North Central | **917** | |  |  | **7.6** |  |  | 910 | |  |  | 7.7 |  |
| West South Central | **575** | |  |  | **4.8** |  |  | 578 | |  |  | 4.9 |  |
| New England | **566** | |  |  | **4.7** |  |  | 556 | |  |  | 4.7 |  |
| East South Central | **139** | |  |  | **1.2** |  |  | 143 | |  |  | 1.2 |  |
| Total Mortgage Loans | **$** | **12,022** |  |  | **100.0** | **%** |  | $ | 11,842 |  |  | 100.0 | % |
| **By Property Type:** |  | | |  |  | |  |  | | |  |  | |
| Office | **$** | **3,908** |  |  | **32.5** | **%** |  | $ | 3,977 |  |  | 33.6 | % |
| Multifamily | **3,599** | |  |  | **29.9** |  |  | 3,440 | |  |  | 29.0 |  |
| Agricultural loans | **2,740** | |  |  | **22.8** |  |  | 2,695 | |  |  | 22.8 |  |
| Retail | **666** | |  |  | **5.5** |  |  | 667 | |  |  | 5.6 |  |
| Industrial | **343** | |  |  | **2.9** |  |  | 333 | |  |  | 2.8 |  |
| Hospitality | **423** | |  |  | **3.5** |  |  | 384 | |  |  | 3.3 |  |
| Other | **343** | |  |  | **2.9** |  |  | 346 | |  |  | 2.9 |  |
| Total Mortgage Loans | **$** | **12,022** |  |  | **100.0** | **%** |  | $ | 11,842 |  |  | 100.0 | % |

**Liquidity and Capital Resources**

Liquidity refers to our ability to generate adequate amounts of cash from our operating, investment and financing activities to meet our cash requirements with a prudent margin of safety. Capital refers to our long-term financial resources available to support business operations and future growth. Our ability to generate and maintain sufficient liquidity and capital is dependent on the profitability of our businesses, timing of cash flows related to our investments and products, our ability to access the capital markets, general economic conditions and the alternative sources of liquidity and capital described herein. When considering our liquidity and cash flows, it is important to distinguish between the needs of Holdings and the needs of our insurance and non-insurance subsidiaries. We also distinguish and separately manage the liquidity and capital resources of our retirement and protection businesses, including our Individual Retirement, Group Retirement and Protection Solutions segments, and our Investment Management and Research segment.

***Sources and Uses of Liquidity and Capital Position of Holdings***

As a holding company with no business operations of its own, Holdings primarily derives cash flows from dividends from its subsidiaries and distributions related to its economic interest in AB, nearly all of which is currently held outside our insurance company subsidiaries. These principal sources of liquidity are augmented by cash and short-term investments held by Holdings and access to bank lines of credit and the capital markets. The main uses of liquidity for Holdings are interest payments and debt repayment, payment of dividends and other distributions to stockholders, which may include stock repurchases, and capital contributions, if needed, to our insurance subsidiaries. Our principal sources and uses of liquidity and our capital position are described in the following paragraphs.

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*Cash Distributions from Our Subsidiaries*

In 2019, Holdings has received cash distributions from AB of $330 million and $1.0 billion in dividends from AXA Equitable Life. Also, Holdings received $576 million from AXA Equitable Life as repayment of principal of $572 million and interest of $4 million related to a $572 million surplus note. In 2018, Holdings received net cash distributions from subsidiaries of $1.4 billion. These net cash distributions comprised of $1.1 billion in dividends from our insurance subsidiaries, $255 million in distributions from AB and $45 million in distributions from AXA Advisors.

*Distributions from Insurance Subsidiaries*

Our insurance companies are subject to limitations on the payment of dividends and other transfers of funds to Holdings and other affiliates under applicable insurance law and regulation. Also, more generally, the ability of our insurance subsidiaries to pay dividends can be affected by market conditions and other factors beyond our control.

Under New York insurance law applicable to AXA Equitable Life, a domestic stock life insurer may not, without prior approval of the NYDFS, pay a dividend to its stockholders exceeding an amount calculated under either the Earned Surplus Standard or the Alternative Standard. Dividends exceeding these prescribed limits require the insurer to file a notice of its intent to declare the dividends with the NYDFS and prior approval or non-disapproval from the NYDFS. Also, in 2016, the NYDFS issued a circular letter to its regulated insurance companies stating that ordinary dividends which exceed an insurer’s positive unassigned funds (as reported on the insurer’s most recent annual statement) may fail one of the qualitative tests imposed by the Earned Surplus Standard. Given the circular letter, it is possible that the NYDFS could limit the amount of ordinary dividends declared by AXA Equitable Life under the Earned Surplus Standard to the amount of AXA Equitable Life’s positive unassigned funds.

In December 2018, AXA Equitable Life transferred its interests in ABLP, AB Holding and the General Partner to a newly formed subsidiary and distributed the shares of that subsidiary to its direct parent which subsequently distributed such shares to Holdings (the “AB Ownership Transfer”). In connection with the AB Ownership Transfer, AXA Equitable Life paid an extraordinary cash dividend of $572 million and issued a surplus note to Holdings in the same amount. AXA Equitable Life repaid the outstanding principal balance of the surplus note in March 2019.

Applying the formulas under the dividend standards above, AXA Equitable Life could pay ordinary dividends in 2019 of up to $2.1 billion under the Earned Surplus Standard, assuming the amount was limited to the amount of AXA Equitable Life’s positive unassigned funds as described above. However, in connection with the AB Ownership Transfer, AXA Equitable Life agreed with the NYDFS that it would not seek a dividend of greater than $1.0 billion under the Earned Surplus Standard during 2019. The repayment of the $572 million surplus note and interest of $4 million in March 2019 and the $1.0 billion dividend paid in July 2019 resulted in a total cash payout from AXA Equitable Life of $1.6 billion in 2019.

*Distributions from AllianceBernstein*

ABLP is required to distribute all of its Available Cash Flow, as defined in the Partnership Agreement of ABLP, to the holders of AB Units and to the General Partner. Available Cash Flow can be summarized as the cash flow received by ABLP from operations minus such amounts as the General Partner determines, in its sole discretion, should be retained by ABLP for use in its business, or plus such amounts as the General Partner determines, in its sole discretion, should be released from previously retained cash flow. Distributions by ABLP are made 1% to the General Partner and 99% among the limited partners.

Typically, Available Cash Flow has been the adjusted diluted net income per unit for the quarter multiplied by the number of general and limited partnership interests at the end of the quarter. In future periods, management of AB anticipates that Available Cash Flow will be based on adjusted diluted net income per unit, unless management of AB determines, with the concurrence of the Board of Directors of AB, that one or more adjustments that are made for adjusted net income should not be made with respect to the Available Cash Flow calculation.

AB Holding is required to distribute all of its Available Cash Flow, as defined in the Amended and Restated Agreement of Limited Partnership of AB Holding, to holders of AB Holding Units pro rata in accordance with their percentage interest in AB Holding. Available Cash Flow is defined as the cash distributions AB Holding receives from ABLP minus such amounts as the General Partner determines, in its sole discretion, should be retained by AB Holding for use in its business (such as the payment of taxes) or plus such amounts as the General Partner determines, in its sole discretion, should be released from previously retained cash flow. AB Holding is dependent on the quarterly cash distributions it receives from ABLP, which is subject to the performance of capital markets and other factors beyond our control. Distributions from AB Holding are made pro rata based on the holder’s percentage ownership interest in AB Holding.

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Holdings and its non-insurance company subsidiaries hold approximately 170 million AB Units, 4 million AB Holding Units and the 1% General Partnership interest in ABLP. MLOA holds 3 million AB Units. Because MLOA is subject to regulatory restrictions on the amount of dividends it may pay, distributions it receives from AB may not be distributable to Holdings.

As of September 30, 2019, the ownership structure of ABLP, including AB Units outstanding as well as the general partner’s 1% interest, was as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | | | |
|  |  |  |  |
| **Owner** |  | **Percentage Ownership** | |
| Holdings and its non-insurance subsidiaries |  | 62.8 | % |
| MLOA |  | 1.0 | % |
| AB Holding |  | 35.4 | % |
| Unaffiliated holders |  | 0.8 | % |
| Total |  | 100.0 | % |

Including both the general partnership and limited partnership interests in AB Holding and ABLP, Holdings and its subsidiaries had an approximate 65% economic interest in AB as of September 30, 2019.

*Holdings Credit Facilities*

We have a $2.5 billion five-year senior unsecured revolving credit facility (the “Revolver”), which may provide significant support to our liquidity position when alternative sources of credit are limited. In addition to the Revolver, we entered into letter of credit facilities with an aggregate principal amount of approximately $1.9 billion (the “LOC Facilities”), primarily to be used to support our life insurance business reinsured to EQ AZ Life Re in April 2018.

The Revolver and LOC Facilities contain certain administrative, reporting, legal and financial covenants, including requirements to maintain a specified minimum consolidated net worth and to maintain a ratio of indebtedness to total capitalization not in excess of a specified percentage, and limitations on the dollar amount of indebtedness that may be incurred by our subsidiaries and the dollar amount of secured indebtedness that may be incurred by us, which could restrict our operations and use of funds. The right to borrow funds under the Revolver and LOC Facilities is subject to the fulfillment of certain conditions, including compliance with all covenants, and the ability to borrow thereunder is also subject to the continued ability of the lenders that are or will be parties to the facilities to provide funds. As of September 30, 2019, we were in compliance with these covenants. For additional information regarding the covenants in the facilities and the conditions to borrowing thereunder, see “Part I Item 1A-Risk Factors” in the Annual Report on Form 10-K for the year ended December 31, 2018.

*Contingent Funding Arrangements*

In April 2019, pursuant to separate Purchase Agreements among Holdings, Credit Suisse Securities (USA) LLC, as representative of the several initial purchasers, and the Trusts (as defined below), Pine Street Trust I, a Delaware statutory trust (the “2029 Trust”), completed the issuance and sale of 600,000 of its Pre-Capitalized Trust Securities redeemable February 15, 2029 (the “2029 P-Caps”) for an aggregate purchase price of $600 million and Pine Street Trust II, a Delaware statutory trust (the “2049 Trust” and, together with the 2029 Trust, the “Trusts”), completed the issuance and sale of 400,000 of its Pre-Capitalized Trust Securities redeemable February 15, 2049 (the “2049 P-Caps” and, together with the 2029 P-Caps, the “P-Caps”) for an aggregate purchase price of $400 million, in each case to qualified institutional buyers in reliance on Rule 144A that are also “qualified purchasers” for purposes of Section 3(c)(7) of the Investment Company Act of 1940, as amended. The P-Caps are a contingent funding arrangement that, upon Holdings’ election, gives Holdings the right over a ten-year period (in the case of the 2029 Trust) or over a thirty-year period (in the case of the 2049 Trust) to issue senior notes to the Trusts. The Trusts each invested the proceeds from the sale of their P-Caps in separate portfolios of principal and/or interest strips of U.S. Treasury securities.

*Capital Position*

We manage our capital position to maintain financial strength and credit ratings that facilitate the distribution of our products and provide our desired level of access to the bank and public financing markets. Our capital position is supported by the ability of our subsidiaries to generate cash flows and distribute cash to us and our ability to effectively manage the risk of our businesses and to borrow funds and raise capital to meet our operating and growth needs.

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*Capital Management*

Our Board and senior management are directly involved in the development of our capital management policies. Accordingly, capital actions, including proposed changes to the annual capital plan, capital targets and capital policies, are approved by the Board.

*Dividend Declared and Paid*

On February 14, 2019, May 23, 2019 and August 8, 2019, Holdings’ Board of Directors declared a cash dividend on Holdings’ common stock of $0.13, $0.15 and $0.15 per share, respectively, payable on March 15, 2019, June 11, 2019 and August 29, 2019, to shareholders of record as of March 5, 2019, June 3, 2019 and August 22, 2019, respectively.

On November 6, 2019, Holdings’ Board of Directors declared a cash dividend on Holdings’ common stock of $0.15 per share, payable on November 25, 2019, to shareholders of record as of November 18, 2019.

The declaration and payment of future dividends is subject to the discretion of our Board of Directors and depends on our financial condition, results of operations, cash requirements, future prospects, regulatory restrictions on the payment of dividends by Holdings’ insurance subsidiaries and other factors deemed relevant by the Board.

*Share Repurchase Program*

On February 27, 2019, Holdings’ Board of Directors authorized a $800 million share repurchase program. Under this authorization, Holdings, may, from time to time through December 31, 2019, purchase shares of its common stock through various means. Holdings may choose to suspend or discontinue the repurchase program at any time. The repurchase program does not obligate Holdings to purchase any particular number of shares.

On March 25, 2019, AXA completed a secondary offering of 46 million shares of common stock of Holdings and the sale to Holdings of 30 million shares of common stock of Holdings. During August 2019, Holdings repurchased an additional two million shares of common stock of Holdings from the open market. Following the completion of the share buybacks by Holdings, and other subsequent repurchases as of September 30, 2019, Holdings had $163 million remaining under its share repurchase program authorization.

On November 6, 2019, Holdings’ Board of Directors authorized a new share repurchase program. Under this authorization, Holdings may, from time to time through December 31, 2020, purchase up to $400 million of its common stock through various means. Holdings may choose to suspend or discontinue the repurchase program at any time. The repurchase program does not obligate Holdings to purchase any particular number of shares. Holdings has approximately $163 million outstanding under its previously authorized share repurchase program.

*Accelerated Share Repurchase Agreement*

In January 2019, Holdings entered into an Accelerated Share Repurchase agreement (the “ASR”) with a third-party financial institution to repurchase an aggregate of $150 million of Holdings’ common stock. Holdings received seven million shares upon entering the ASR in January and one million shares upon settlement of the ASR, which terminated on March 1, 2019.

*Credit Facility with AB*

On November 4, 2019, Holdings made available to AB a $900 million committed, unsecured senior credit facility (the “EQH Facility”). The EQH Facility matures on November 4, 2024 and is available for AB's general business purposes. Borrowings by AB under the EQH Facility generally bear interest at a rate per annum based on prevailing overnight commercial paper rates. For additional information regarding the EQH Facility, see “Sources and Uses of Liquidity of our Investment Management and Research Segment.”

***Sources and Uses of Liquidity of Our Insurance Subsidiaries***

The principal sources of liquidity for our insurance subsidiaries are premiums, investment and fee income, deposits associated with our insurance and annuity operations, cash and invested assets, as well as internal borrowings. The principal uses of that liquidity include benefits, claims and dividends paid to policyholders and payments to policyholders in connection with surrenders and withdrawals. Other uses of liquidity include commissions, general and administrative expenses, purchases of investments, the payment of dividends to Holdings and hedging activity. Certain of our insurance subsidiaries’ principal sources and uses of liquidity are described in the paragraphs that follow.

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We manage the liquidity of our insurance subsidiaries with the objective of ensuring that they are able to meet payment obligations linked to our Individual Retirement, Group Retirement and Protection Solutions businesses and to their outstanding debt and derivative positions, including in our hedging programs, without support from Holdings. We employ an asset/liability management approach specific to the requirements of each of our insurance businesses. We measure liquidity against internally-developed benchmarks that consider the characteristics of our asset portfolio and the liabilities that it supports. We consider attributes of the various categories of our liquid assets (for example, type of asset and credit quality) in calculating internal liquidity indicators for our insurance and reinsurance operations. Our liquidity benchmarks are established for various stress scenarios and durations, including company-specific and market-wide events. The scenarios we use to evaluate the liquidity of our subsidiaries are defined to allow operating entities to operate without support from Holdings.

*Liquid Assets*

The investment portfolios of our insurance subsidiaries are a significant component of our overall liquidity. Liquid assets include cash and cash equivalents, short-term investments, U.S. Treasury fixed maturities, fixed maturities that are not designated as held-to-maturity and public equity securities. We believe that our business operations and the liquidity profile of our assets provide sufficient liquidity under reasonably foreseeable stress scenarios for each of our insurance subsidiaries.

See “—General Account Investment Portfolio” and Note 3 and Note 4 for a description of our retirement and protection businesses’ portfolio of liquid assets.

*Hedging Activities*

Because the future claims exposure on our insurance products, and in particular our variable annuity products with GMxB features, is sensitive to movements in the equity markets and interest rates, we have in place various hedging and reinsurance programs that are designed to mitigate the economic risks of movements in the equity markets and interest rates. We use derivatives as part of our overall asset/liability risk management program primarily to reduce exposures to equity market and interest rate risks. In addition, we use credit derivatives to replicate exposure to individual securities or pools of securities as a means of achieving credit exposure similar to bonds of the underlying issuer(s) more efficiently. The derivative contracts are an integral part of our risk management program, especially for the management of our variable annuities program, and are collectively managed to reduce the economic impact of unfavorable movements in capital markets. These derivative transactions require liquidity to meet payment obligations such as payments for periodic settlements, purchases, maturities and terminations as well as liquid assets pledged as collateral related to any decline in the net estimated fair value. Collateral calls represent one of our biggest drivers for liquidity needs for our insurance subsidiaries. Historically, we have managed our liquidity needs related to our derivative portfolio at Holdings and AXA RE Arizona on a combined basis. Due to the limited size of the AXA RE Arizona investment portfolio, we historically supported its collateral funding needs through AXA Financial’s commercial paper program. Following the GMxB Unwind, which was effected on April 12, 2018, our derivatives contracts reside primarily within AXA Equitable Life. As AXA Equitable Life has a significantly larger investment portfolio than AXA RE Arizona had, we have reduced the need for overall liquidity going forward.

*FHLB Membership*

AXA Equitable Life is a member of the Federal Home Loan Bank of New York (“FHLBNY”), which provides AXA Equitable Life with access to collateralized borrowings and other FHLBNY products. At September 30, 2019, Holdings had $4.2 billion of outstanding short-term funding agreements and $2.3 billion of long-term outstanding funding agreements issued to the FHLBNY and had posted $7.6 billion securities as collateral for funding agreements. In addition, AXA Equitable Life implemented a hedge to lock in the funding agreements borrowing rate, and $10 million of hedge impact was reported as funding agreement carrying value. MLOA is a member of the Federal Home Loan Bank of San Francisco.

**Sources and Uses of Liquidity of our Investment Management and Research Segment**

The principal sources of liquidity for our Investment Management and Research business include investment management fees and borrowings under its revolving credit facility and commercial paper program. The principal uses of liquidity include general and administrative expenses, business financing and distributions to holders of AB Units and AB Holding Units plus interest and debt service. The primary liquidity risk for our fee-based Investment Management and Research business is its profitability, which is impacted by market conditions and our investment management performance.

As of September 30, 2019 and December 31, 2018, AB had $303 million and $521 million, respectively, in commercial paper outstanding with weighted-average interest rates of approximately 2.2 % and 2.7 %, respectively. The commercial paper is short term in nature, and as such, recorded value is estimated to approximate fair value (and considered a Level 2 security in the fair value hierarchy). Average daily borrowings of commercial paper during the first nine months of 2019 and the full year

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2018 were $465 million and $350 million, respectively, with weighted-average interest rates of approximately 2.6 % and 2.0 %, respectively.

AB has a $800 million committed, unsecured senior revolving credit facility (the “AB Credit Facility”) that matures September 27, 2023. The credit facility provides for possible increases in the principal amount by up to an aggregate incremental amount of $200 million. Any such increase is subject to the consent of the affected lenders. The AB Credit Facility is available for AB and SCB LLC, for business purposes, including the support of AB’s commercial paper program. Both AB and SCB LLC can draw directly under the AB Credit Facility and AB management expects to draw on the AB Credit Facility from time to time. AB has agreed to guarantee the obligations of SCB LLC under the AB Credit Facility.

The AB Credit Facility contains affirmative, negative and financial covenants, which are customary for facilities of this type, including, among other things, restrictions on dispositions of assets, restrictions on liens, a minimum interest coverage ratio and a maximum leverage ratio. As of September 30, 2019, AB was in compliance with these covenants.

As of September 30, 2019 and December 31, 2018, AB and SCB LLC had no amounts outstanding under the AB Credit Facility. During the first nine months of 2019 and the full year 2018, AB and SCB LLC did not draw upon the AB Credit Facility.

On November 4, 2019, AB established the EQH Facility with Holdings. The EQH Facility matures on November 4, 2024 and is available for AB's general business purposes. Borrowings under the EQH Facility generally bear interest at a rate per annum based on prevailing overnight commercial paper rates. The EQH Facility contains affirmative, negative and financial covenants which are substantially similar to those in AB’s committed bank facilities. The EQH Facility also includes customary events of default substantially similar to those in AB’s committed bank facilities, including provisions under which, upon the occurrence of an event of default, all outstanding loans may be accelerated and/or the lender’s commitment may be terminated. Amounts under the EQH Facility may be borrowed, repaid and re-borrowed by AB from time to time until the maturity of the facility. AB or Holdings may reduce or terminate the commitment at any time without penalty upon proper notice. Holdings also may terminate the facility immediately upon a change of control of the general partner.

AB has a $200 million committed, unsecured senior revolving credit facility (the “AB Revolver”) that matures on November 16, 2021. The AB Revolver is available for AB’s and SCB LLC’s business purposes, including the provision of additional liquidity to meet funding requirements primarily related to SCB LLC’s operations. Both AB and SCB LLC can draw directly under the AB Revolver and management expects to draw on the AB Revolver from time to time. AB has agreed to guarantee the obligations of SCB LLC under the AB Revolver. The AB Revolver contains affirmative, negative and financial covenants that are identical to those of the AB Credit Facility. As of September 30, 2019, and December 31, 2018, AB had $80 million and $25 million outstanding under the AB Revolver, respectively, with an interest rate of 2.9 % and 3.4 %, respectively. Average daily borrowing of the AB Revolver during the first nine months of 2019 and full year 2018 were $28 million and $19 million, respectively, with weighted-average interest rates of approximately 3.4 % and 2.8 %, respectively.

In addition, SCB LLC also has three uncommitted lines of credit with three financial institutions. Two of these lines of credit permit SCB LLC to borrow up to an aggregate of $175 million, with AB named as an additional borrower, while the other line has no stated limit. As of September 30, 2019 and December 31, 2018, SCB LLC had no bank loans outstanding. Average daily borrowings of bank loans during first nine months of 2019 and full year 2018 were $2 million and $3 million, respectively, with weighted-average interest rates of approximately 1.8% and 1.6%, respectively.

**Consolidated Cash Flow Analysis**

We believe that cash flows from our operations on a consolidated basis are adequate to satisfy current liquidity requirements. The continued adequacy of our liquidity will depend upon factors such as future market conditions, changes in interest rate levels, policyholder perceptions of our financial strength, policyholder behavior, the effectiveness of our hedging programs, catastrophic events and the relative safety and attractiveness of competing products. Changes in any of these factors may result in reduced or increased cash outflows. Our insurance subsidiaries’ cash flows from investment activities result from repayments of principal, proceeds from maturities and sales of invested assets and investment income, net of amounts reinvested. The primary liquidity risks with respect to these cash flows are the risk of default by debtors or bond insurers, our counterparties’ willingness to extend repurchase agreements, commitments to invest and market volatility. We closely manage these risks through our asset/liability management process and regular monitoring of our liquidity position.

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|  |  |  |  |  |  |  |  |
|  | **Nine Months Ended September 30,** | | | | | | |
|  | **2019** | | |  | **2018** | | |
|  | **(in millions)** | | | | | | |
| Cash and Cash Equivalents, beginning of period | **$** | **4,469** |  |  | $ | 4,814 |  |
| Net cash provided by (used in) operating activities (1) | **(292** | | **)** |  | (135 | | ) |
| Net cash provided by (used in) investing activities (1) | **(7,411** | | **)** |  | (1,729 | | ) |
| Net cash provided by (used in) financing activities (1) | **7,713** | |  |  | 1,836 | |  |
| Net increase (decrease) | **10** | |  |  | (28 | | ) |
| Effect of exchange rate changes on cash and cash equivalents | **(8** | | **)** |  | (9 | | ) |
| Cash and Cash Equivalents, end of period | **$** | **4,471** |  |  | $ | 4,777 |  |

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

(1) Prior period amounts have been reclassified to conform to current period’s presentation. See Note 17, “Revision of Prior Period Financial Statements” in the Notes to Consolidated Financial Statements for further information.

***Nine Months Ended September 30, 2019 Compared to Nine Months Ended September 30, 2018***

Cash and cash equivalents at September 30, 2019 were $4.5 billion, a decrease of $0.3 billion from $4.8 billion at September 30, 2018.

Net cash used in operating activities was $(292) million in the nine months ended September 30, 2019; an increase of $(157) million from the $(135) million net cash used in operating activities in the nine months ended September 30, 2018. Cash flows from operating activities include such sources as premiums, investment management and advisory fees and investment income offset by such uses as life insurance benefit payments, policyholder dividends, compensation payments, other cash expenditures and tax payments.

Net cash used in investing activities was $(7.4) billion in the nine months ended September 30, 2019; a $5.7 billion increase from the $(1.7) billion net cash used by investing activities in the nine months ended September 30, 2018. The increase was primarily related to $(4.9) billion higher net purchases of investments, $(1.2) billion decrease in repayment of loans to affiliates, $(369) million lower net change in short-term investments and $(446) million lower decrease for other investing activities primarily related to changes in investments of consolidated VIEs partially offset by $1.5 billion lower cash outflows from cash settlements related to derivatives.

Cash flows provided by financing activities were $7.7 billion in the nine months ended September 30, 2019; $5.9 billion higher than the $1.8 billion net cash provided by financing activities in the nine months ended September 30, 2018. The increase was primarily driven by the $3.0 billion decrease in repayments of loans to affiliates, the $1.3 billion lower purchases of AB Units by Holdings, $1.3 billion lower cash repayments of short-term financings, $1.9 billion higher cash inflows due to net pledges of collateral, $657 million higher cash inflows for purchases of noncontrolling interest of consolidated company-sponsored investment funds, $3.1 billion higher net deposits to policyholders' account balances and $98 million lower cash outflows from the distribution to noncontrolling interest of consolidated subsidiaries. These were offset by $(4.1) billion lower borrowings of public debt, $(730) million cash paid to repurchase common stock, $(586) million net decrease in securities sold under repurchase agreements and $(127) million higher dividends paid to shareholders.

**Statutory Capital of Our Insurance Subsidiaries**

Our capital management framework is primarily based on statutory RBC standards and the CTE asset standard for our variable annuity business.

RBC requirements are used as minimum capital requirements by the NAIC and the state insurance departments to evaluate the capital condition of regulated insurance companies. RBC is based on a formula calculated by applying factors to various asset, premium, claim, expense and statutory reserve items. The formula takes into account the risk characteristics of the insurer, including asset risk, insurance risk, interest rate risk, market risk and business risk and is calculated on a quarterly basis and made public on an annual basis. The formula is used as an early warning regulatory tool to identify possible inadequately capitalized insurers for purposes of initiating regulatory action, and not as a means to rank insurers generally. These rules apply to our insurance company subsidiaries and not to Holdings. State insurance laws provide insurance regulators the authority to require various actions by, or take various actions against, insurers whose total adjusted capital does not meet or exceed certain RBC levels. At the date of the most recent annual statutory financial statements filed with insurance regulators, the total adjusted capital of each of these insurance company subsidiaries subject to these requirements was in excess of each of those RBC levels.

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CTE is a statistical measure of tail risk which quantifies the total asset requirement to sustain a loss if an event outside a given probability level has occurred. In the case of our analysis of variable annuity guarantees, CTE98 denotes the financial resources a company would need to cover the average of the worst 2% of scenarios.

We target to maintain an asset level for all variable annuity products at or above a CTE98 level. For our non-variable annuity insurance liabilities, we target to maintain an RBC ratio of 350%–400%. Following the adoption of variable annuity reform, we will reevaluate the statutory capital targets of our insurance subsidiaries.

**Captive Reinsurance Companies**

We use captive reinsurance companies to more effectively manage our reserves and capital on an economic basis and to enable the aggregation and transfer of risks. Our captive reinsurance companies assume business from affiliates only and are closed to new business. All of our captive reinsurance companies are wholly owned subsidiaries and are located in the United States. In addition to state insurance regulation, our captives are subject to internal policies governing their activities. We continue to analyze the use of our existing captive reinsurance structures, as well as additional third-party reinsurance arrangements.

**Description of Certain Indebtedness**

The following table sets forth our total consolidated borrowings as of the dates indicated. Our financial strategy going forward will remain subject to market conditions and other factors. For example, we may from time to time enter into additional bank or other financing arrangements, including public or private debt, structured facilities and contingent capital arrangements, under which we could incur additional indebtedness.

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|  | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | **September 30, 2019** | | | | | | | | | | |
|  | **Holdings** | | |  | **AB** | | |  | **Consolidated** | | |
|  | **(in millions)** | | | | | | | | | | |
| **Short-term debt:** |  | | |  |  | | |  |  | | |
| AB commercial paper (with interest rate of 2.2%) | **$** | **—** |  |  | **$** | **303** |  |  | **$** | **303** |  |
| AB revolving credit facility (with interest rate of 2.9%) | **—** | |  |  | **80** | |  |  | **80** | |  |
| Total short-term debt | **—** | |  |  | **383** | |  |  | **383** | |  |
| **Long-term debt:** |  | | |  |  | | |  |  | | |
| Senior Notes (5.00%, due 2048) | **1,480** | |  |  | **—** | |  |  | **1,480** | |  |
| Senior Notes (4.35%, due 2028) | **1,487** | |  |  | **—** | |  |  | **1,487** | |  |
| Senior Notes (3.90%, due 2023) | **795** | |  |  | **—** | |  |  | **795** | |  |
| Delayed Draw Term Loan (3-month LIBOR + 1.125%, due 2021) | **300** | |  |  | **—** | |  |  | **300** | |  |
| Senior Debentures, 7.0%, due 2028 | **349** | |  |  | **—** | |  |  | **349** | |  |
| Total long-term debt | **4,411** | |  |  | **—** | |  |  | **4,411** | |  |
| **Total borrowings** | **$** | **4,411** |  |  | **$** | **383** |  |  | **$** | **4,794** |  |

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|  |  |  |  |  |  |  |  |  |  |  |  |
|  | **December 31, 2018** | | | | | | | | | | |
|  | **Holdings** | | |  | **AB** | | |  | **Consolidated** | | |
|  | **(in millions)** | | | | | | | | | | |
| **Short-term debt:** |  | | |  |  | | |  |  | | |
| AB commercial paper (with interest rate of 2.7%) | $ | — |  |  | $ | 521 |  |  | $ | 521 |  |
| AB revolving credit facility (with interest rate of 3.4%) | — | |  |  | 25 | |  |  | 25 | |  |
| Total short-term debt | — | |  |  | 546 | |  |  | 546 | |  |
| **Long-term debt:** |  | | |  |  | | |  |  | | |
| Senior Notes (5.00%, due 2048) | 1,480 | |  |  | — | |  |  | 1,480 | |  |
| Senior Notes (4.35%, due 2028) | 1,486 | |  |  | — | |  |  | 1,486 | |  |
| Senior Notes (3.90%, due 2023) | 794 | |  |  | — | |  |  | 794 | |  |
| Delayed Draw Term Loan (3-month LIBOR + 1.125%, due 2021) | 300 | |  |  | — | |  |  | 300 | |  |
| Senior Debentures, 7.0%, due 2028 | 349 | |  |  | — | |  |  | 349 | |  |
| Total long-term debt | 4,409 | |  |  | — | |  |  | 4,409 | |  |
| **Total borrowings** | $ | 4,409 |  |  | $ | 546 |  |  | $ | 4,955 |  |

**Notes and Debentures**

In April 2018, we issued $3.8 billion in aggregate principal amount of notes (consisting of $800 million aggregate principal amount of 3.9% Senior Notes due 2023, $1.5 billion aggregate principal amount of 4.35% Senior Notes due 2028 and $1.5 billion aggregate principal amount of 5.0% Senior Notes due 2048) to third party investors. As of September 30, 2019, we had outstanding $349 million aggregate principal amount of 7.0% Senior Debentures due 2028 (the “Senior Debentures”).

The Senior Notes and Senior Debentures contain customary affirmative and negative covenants, including a limitation on certain liens and a limit on the Company’s ability to consolidate, merge or sell or otherwise dispose of all or substantially all of its assets. The Senior Notes and Senior Debentures also include customary events of default (with customary grace periods, as applicable), including provisions under which, upon the occurrence of an event of default, all outstanding Senior Notes and Senior Debentures may be accelerated. As of September 30, 2019, we were in compliance with all covenants.

**Term Loan**

In May 2018, we borrowed $300 million under a $500 million three-year senior unsecured delayed draw term loan agreement (the “DDTL”) and terminated the remaining $200 million capacity. The DDTL contains certain administrative, reporting, legal and financial covenants, including requirements to maintain a specified minimum consolidated net worth and to maintain a ratio of indebtedness to total capitalization not in excess of a specified percentage, and limitations on the dollar amount of indebtedness that may be incurred by our subsidiaries and the dollar amount of secured indebtedness that may be incurred by us, which could restrict our operations and use of funds. As of September 30, 2019, we were in compliance with these covenants.

For additional information regarding the covenants in the DDTL, see “Part I Item 1A-Risk Factors” in the Annual Report on Form 10-K for the year ended December 31, 2018.

**Ratings**

Financial strength ratings (which are sometimes referred to as “claims-paying” ratings) and credit ratings are important factors affecting public confidence in an insurer and its competitive position in marketing products. Our credit ratings are also important for our ability to raise capital through the issuance of debt and for the cost of such financing.

Financial strength ratings represent the opinions of rating agencies regarding the financial ability of an insurance company to meet its obligations under an insurance policy. Credit ratings represent the opinions of rating agencies regarding an entity’s ability to repay its indebtedness. The following table summarizes the ratings for Holdings and certain of its subsidiaries. S&P, Moody’s and AM Best all have a stable outlook.

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|  |  |  |  |  |  |
|  | **AM Best** |  | **S&P** |  | **Moody’s** |
| **Last review date** | 12/17/2018 |  | 7/19/2019 |  | 8/26/2019 |
| ***Financial Strength Ratings:*** |  |  |  |  |  |
| AXA Equitable Life | A |  | A+ |  | A2 |
| MLOA | A |  | A+ |  | A2 |
|  |  |  |  |  |  |
| ***Credit Ratings:*** |  |  |  |  |  |
| Holdings | bbb+ |  | BBB+ |  | Baa2 |
|  |  |  |  |  |  |
| **Last Review Date** |  |  | 10/03/2019 |  | 07/26/2019 |
| AB | — |  | A/Stable/A-1 |  | A2 |

**SUPPLEMENTARY INFORMATION**

We are involved in a number of ventures and transactions with AXA and certain of its affiliates. See Note 11 of the Notes to the Consolidated Financial Statements included herein and Note 12 in the Notes to Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2018.

**Contractual Obligations**

Our consolidated contractual agreements include policyholder obligations, long-term debt, commercial paper, employee benefits, operating leases and various funding commitments. See “Supplementary Information – Contractual Obligations” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Annual Report on Form 10-K for the year ended December 31, 2018 for additional information.

**Off-Balance Sheet Arrangements**

At September 30, 2019, we were not a party to any off-balance sheet transactions other than those guarantees and commitments described in Note 14 of the Notes to the Consolidated Financial Statements included herein.

**Summary of Critical Accounting Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to adopt accounting policies and make estimates and assumptions that affect amounts reported in our consolidated financial statements included elsewhere herein. For a discussion of our significant accounting policies, see Note 2 of the Notes to the Consolidated Financial Statements included in our 2018 Form 10-K. The most critical estimates include those used in determining:

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| --- | --- |
|  |  |
| • | liabilities for future policy benefits; |

|  |  |
| --- | --- |
|  |  |
| • | accounting for reinsurance; |

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| --- | --- |
|  |  |
| • | capitalization and amortization of DAC and policyholder bonus interest credits; |

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| --- | --- |
|  |  |
| • | estimated fair values of investments in the absence of quoted market values and investment impairments; |

|  |  |
| --- | --- |
|  |  |
| • | estimated fair values of freestanding derivatives and the recognition and estimated fair value of embedded derivatives requiring bifurcation; |

|  |  |
| --- | --- |
|  |  |
| • | goodwill and related impairment; |

|  |  |
| --- | --- |
|  |  |
| • | measurement of income taxes and the valuation of deferred tax assets; and |

|  |  |
| --- | --- |
|  |  |
| • | liabilities for litigation and regulatory matters. |

In applying our accounting policies, we make subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies, estimates and related judgments are common in the insurance and financial services industries while others are specific to our business and operations. Actual results could differ from these estimates.

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A discussion of each of the critical accounting estimates may be found in the 2018 Form 10-K in “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Summary of Critical Accounting Estimates.”

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There have been no material changes to the quantitative and qualitative disclosures about market risk described in the Annual Report on Form 10-K for the year ended December 31, 2018 in “Quantitative and Qualitative Disclosures About Market Risk”.

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**Item 4.**

**CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

The management of the Company, with the participation of the Company’s Chief Executive Officer (CEO) and Chief Financial Officer (CFO), has evaluated the effectiveness of the Company’s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of September 30, 2019. This evaluation is performed to determine if our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Securities and Exchange Act of 1934, as amended, is accumulated and communicated to management, including the Company’s CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure and are effective to provide reasonable assurance that such information is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission’s rules and forms.

Due to the material weaknesses described below, the Company’s CEO and CFO, concluded that the Company’s disclosure controls and procedures were not effective as of September 30, 2019.

As previously reported, the Company identified two material weaknesses in the design and operation of the Company’s internal control over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company’s annual or interim financial statements will not be prevented or detected on a timely basis. The Company’s management, including the Company’s CEO and CFO, have concluded that we do not:

|  |  |
| --- | --- |
|  |  |
| (i) | maintain effective controls to timely validate that actuarial models are properly configured to capture all relevant product features and provide reasonable assurance timely reviews of assumptions and data have occurred, and, as a result, errors were identified in future policyholders’ benefits and deferred policy acquisition costs balances; and |

|  |  |
| --- | --- |
|  |  |
| (ii) | maintain sufficient experienced personnel to prepare the Company’s consolidated financial statements and to verify consolidating and adjusting journal entries are completely and accurately recorded to the appropriate accounts or segments and, as a result, errors were identified in the consolidated financial statements, including in the presentation and disclosure between sections of the statements of cash flows. |

These material weaknesses resulted in misstatements in the Company’s previously issued annual and interim financial statements and resulted in:

|  |  |
| --- | --- |
|  |  |
| (i) | the revision of the interim financial statements for the nine, six, and three months ended September 30, June 30, and March 31, 2018 and 2017, respectively, and the annual financial statements for the year ended December 31, 2017; |

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| --- | --- |
|  |  |
| (ii) | the amended restatement of the interim financial statements for the nine months ended September 30, 2017 and the six months ended June 30, 2017, and the year ended December 31, 2016 and revisions for the six and three months ended June 30, 2018 and March 31, 2018, respectively, and the three months ended March 31, 2017 and the years ended December 31, 2017, 2015, 2014, and 2013, respectively |

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| --- | --- |
|  |  |
| (iii) | the revision of the annual financial statements for the year ended December 31, 2017 and amended the restated annual financial statements for the year ended December 31, 2016, and amended the restated interim financial statements for the nine and six months ended September 30, 2017, and June 30, 2017, respectively; |

|  |  |
| --- | --- |
|  |  |
| (iv) | the restatements of the interim financial statements for the nine and six months ended September 30, 2017 and June 30, 2017, respectively, the restatement of the annual financial statements for the year ended December 31, 2016, the revision of the interim financial statements for the nine and six months ended September 30, 2016 and June 30, 2016, respectively, and the revision of the annual financial statements for the year ended December 31, 2015; and |

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| --- | --- |
|  |  |
| (v) | the restatement of the interim financial statements for the six months ended June 30, 2017 and the revision of the annual financial statements for the years ended December 31, 2016, 2015 and 2014, respectively, and the interim financial statements for the six months ended June 30, 2016. |

These revisions and restatements were directly related to the material weaknesses described above and not indicative of any new material weaknesses. Until remediated, there is a reasonable possibility that these material weaknesses could result in a

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material misstatement of the Company’s consolidated financial statements or disclosures that would not be prevented or detected.

**Remediation Status of Material Weaknesses**

Management continues to execute its plan moving towards remediation of the material weaknesses. Since identifying the material weaknesses, management has performed the following activities:

Material Weakness Related to Actuarial Models, Assumptions and Data

|  |  |
| --- | --- |
|  |  |
| • | We have designed and implemented an enhanced model validation control framework, including a rotational schedule to periodically re-validate all U.S. GAAP models. |

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| • | We have designed and implemented enhanced controls and governance processes for new model implementations. |

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| --- | --- |
|  |  |
| • | We have designed and implemented enhanced controls for model changes. |

|  |  |
| --- | --- |
|  |  |
| • | We have designed and implemented enhanced controls over the annual assumption setting process, including a comprehensive master assumption inventory and risk framework. |

|  |  |
| --- | --- |
|  |  |
| • | We have designed and implemented new controls to validate the reliability of significant data flows feeding actuarial models and assumptions. |

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| --- | --- |
|  |  |
| • | We have begun the process of testing the design and operating effectiveness of the newly implemented controls. |

Material Weakness Related to Insufficient Personnel and Journal Entry Process

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| --- | --- |
|  |  |
| • | With respect to insufficient personnel, we have strengthened our finance team by adding approximately 25 employees to the Accounting and Financial Reporting areas. These additional resources have provided additional requisite skills and experience needed to support a public-company accounting and reporting environment, with the majority possessing a CPA license, “Big 4” public accounting experience, and/or prior working experience in public-company finance roles. We have conducted both specific job-related training and general training on SOX controls and U.S. GAAP-related technical topics to new and existing staff. |

|  |  |
| --- | --- |
|  |  |
| • | To improve controls over journal entries, a less controlled secondary process that was used for consolidating certain entities, reflecting adjustments to prior periods, and generating the business segment disclosures has been eliminated. Beginning with third quarter 2018, all journal entries are recorded in the Company’s general ledger and the secondary process is no longer necessary. |

|  |  |
| --- | --- |
|  |  |
| • | We have enhanced the controls over journal entries through the implementation of new standards designed to ensure effective review and approval of journal entries with sufficient supporting documentation. |

|  |  |
| --- | --- |
|  |  |
| • | We have designed and implemented new management review controls within the period end financial reporting process that will operate at a level of precision sufficient to detect errors that could result in a material misstatement. |

•We have begun the process of testing the design and operating effectiveness of the newly implemented controls.

While progress has been made to remediate both material weaknesses, as of September 30, 2019, we are still in the process of developing and implementing the enhanced processes and procedures and testing the operating effectiveness of these improved controls. We believe our actions will be effective in remediating the material weaknesses, and we continue to devote significant time and attention to these efforts. In addition, the material weaknesses will not be considered remediated until the applicable remedial processes and procedures have been in place for a sufficient period of time and management has concluded, through testing, that these controls are effective. Accordingly, the material weaknesses are not remediated as of September 30, 2019. Management will conclude on the effectiveness of the above remediation efforts of the material weaknesses in conjunction with the company’s implementation of Section 404 of the Sarbanes-Oxley Act, which is required for the December 31, 2019 reporting period.

**Changes in Internal Control Over Financial Reporting**

As described above, the Company continues to design and implement additional controls in connection with its remediation plan. These remediation efforts related to the material weaknesses described above represent changes in our internal control over financial reporting for the quarter ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**Item 1.    Legal Proceedings**

See Note 14 of Notes to Consolidated Financial Statements contained herein. Except as disclosed in Note 14 of Notes to Consolidated Financial Statements, there have been no new material legal proceedings and no new material developments in legal proceedings previously reported in the Annual Report on Form 10-K for the year ended December 31, 2018.

**Item 1A. Risk Factors**

*You should carefully consider the risks described in the “Risk Factors” section included in our Annual Report on Form 10-K for the year ended December 31, 2018, as amended or supplemented in our subsequently filed Quarterly Reports on Form 10-Q. These risks could materially affect our business, consolidated results of operations or financial condition. These risks are not exclusive, and additional risks to which we are subject include, but are not limited to, the factors mentioned under “*[*Note Regarding Forward-Looking Statements and Information*](#sC4FE66600F3B51A78FF8B97705AD5A7F)*” above and the risks of our businesses described elsewhere in this Quarterly Report on Form 10-Q.*

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

The following table provides information about purchases by Holdings during the three months ended September 30, 2019, of its common stock:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Period** | **Total Number of Shares Purchased** | |  | **Average Price Paid per Share** | | |  | **Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs** | |  | **Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs** | | |
| 7/1/19 through 7/31/19 | — |  |  | $ | — |  |  | — |  |  | $ | 200,375,000 |  |
| 8/1/19 through 8/31/19 | 1,822,977 |  |  | $ | 20.25 |  |  | 1,822,977 |  |  | $ | 163,466,738 |  |
| 9/1/19 through 9/30/19 | — |  |  | $ | — |  |  | — |  |  | $ | 163,466,738 |  |
| **Total** | **1,822,977** |  |  | **$** | **20.25** |  |  | **1,822,977** |  |  | **$** | **163,466,738** |  |

**Item 3.    Defaults Upon Senior Securities**

None.

**Item 4.    Mine Safety Disclosures**

None.

**Item 5.    Other Information**

**Iran Threat Reduction and Syria Human Rights Act**

Holdings and its subsidiaries had no transactions or activities requiring disclosure under the Iran Threat Reduction and Syria Human Rights Act, nor were they involved in the AXA Group matters described immediately below.

The non-U.S. based subsidiaries of AXA operate in compliance with applicable laws and regulations of the various jurisdictions in which they operate, including applicable international (United Nations and European Union) laws and regulations. While AXA Group companies based and operating outside the United States generally are not subject to U.S. law, as an international group, AXA has in place policies and standards (including the AXA Group International Sanctions Policy) that apply to all AXA Group companies worldwide and often impose requirements that go well beyond local law.

AXA has informed us that AXA Konzern AG, an AXA insurance subsidiary organized under the laws of Germany, provides accident and health insurance to diplomats based at the Iranian Embassy in Berlin, Germany. The total annual premium of these policies is approximately $109,150 and the annual net profit arising from these policies, which is difficult to calculate with precision, is estimated to be $18,385.

In addition, AXA has informed us that AXA Insurance Ireland, an AXA insurance subsidiary, provides statutorily required

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car insurance under four separate policies to the Iranian Embassy in Dublin, Ireland. AXA has informed us that compliance with the Declined Cases Agreement of the Irish Government prohibits the cancellation of these policies unless another insurer is willing to assume the coverage. The total annual premium for these policies is approximately $7,115 and the annual net profit arising from these policies, which is difficult to calculate with precision, is estimated to be $853.

Also, AXA has informed us that AXA Sigorta, a subsidiary of AXA organized under the laws of the Republic of Turkey, provides car insurance coverage for vehicle pools and compulsory earthquake coverage of the Iranian General Consulate and the Iranian Embassy in Istanbul, Turkey. Motor liability insurance coverage is compulsory in Turkey and cannot be canceled unilaterally. The total annual premium in respect of these policies is approximately $3,150 and the annual net profit, which is difficult to calculate with precision, is estimated to be $473.

Additionally, AXA has informed us that AXA Winterthur, an AXA insurance subsidiary organized under the laws of Switzerland, provides Naftiran Intertrade, a wholly-owned subsidiary of the Iranian state-owned National Iranian Oil Company, with life, disability and accident coverage for its employees. In addition, AXA Winterthur also provides car and property insurance coverage for the Iranian Embassy in Bern. The provision of these forms of coverage is mandatory in Switzerland. The total annual premium of these policies is approximately $396,597 and the annual net profit arising from these policies, which is difficult to calculate with precision, is estimated to be $59,489.

Also, AXA has informed us that AXA Egypt, an AXA insurance subsidiary organized under the laws of Egypt, provides the Iranian state-owned Iran Development Bank, two life insurance contracts, covering individuals who have loans with the bank. The total annual premium of these policies is approximately $20,650 and annual net profit arising from these policies, which is difficult to calculate with precision, is estimated to be $2,000.

In addition, AXA has informed us that AXA Hong Kong, an AXA insurance subsidiary organized under the laws of Hong Kong, provided the Iranian state-owned Hong Kong Branch of Melli Bank PLC, which was re-designated on November 5, 2018 pursuant to E.O. 13224, with group health insurance for its employees. This business has now been canceled. The total annual premium of these policies is approximately $27,122 and the annual net profit arising from these policies, which is difficult to calculate with precision, is estimated to be $4,339.

Lastly, AXA has informed us that AXA XL, which AXA acquired during the third quarter of 2018, through various non-U.S. subsidiaries, provides insurance to marine policyholders located outside of the U.S. or reinsurance coverage to non-U.S. insurers of marine risks as well as mutual associations of ship owners that provide their members with protection and liability coverage. The provision of these coverages may involve entities or activities related to Iran, including transporting crude oil, petrochemicals and refined petroleum products. AXA XL’s non-U.S. subsidiaries insure or reinsure multiple voyages and fleets containing multiple ships, so they are unable to attribute gross revenues and net profits from such marine policies to activities with Iran. As the activities of these insureds and re-insureds are permitted under applicable laws and regulations, AXA XL intends for its non-U.S. subsidiaries to continue providing such coverage to its insureds and re-insureds to the extent permitted by applicable law.

The aggregate annual premium for the above-referenced insurance policies is approximately $563,784, representing approximately 0.0006% of AXA’s 2018 consolidated revenues, which exceed $100 billion. The related net profit, which is difficult to calculate with precision, is estimated to be $85,539, representing approximately 0.002% of AXA’s 2018 aggregate net profit.

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**Item 6.    Exhibits**

|  |  |
| --- | --- |
|  | |
|  |  |
| **Number** | **Description and Method of Filing** |
| [10.1](http://www.sec.gov/Archives/edgar/data/1333986/000133398619000026/eqh-63019exhibit102.htm)† | AXA Equitable Supplemental Severance Plan for Executives, as amended and restated as of August 9, 2019 (incorporated by reference to Exhibit 10.2 of AXA Equitable Holdings, Inc.’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2019, as filed on August 9, 2019). |
| [31.1](eqh-93019exhibit311.htm)# | Certification of the Registrant’s Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| [31.2](eqh-93019exhibit312.htm)# | Certification of the Registrant’s Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| [32.1](eqh-93019exhibit321.htm)# | Certification of the Registrant’s Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| [32.2](eqh-93019exhibit322.htm)# | Certification of the Registrant’s Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |

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#    Filed herewith.

†    Identifies each management contract or compensatory plan or arrangement.

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**SIGNATURES**

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

|  |  |  |  |
| --- | --- | --- | --- |
|  | | | |
|  |  |  |  |
| Date: November 7, 2019 | AXA EQUITABLE HOLDINGS, INC. | | |
|  |  |  | |
|  | By: | /s/ Anders Malmström | |
|  |  | Name: | Anders Malmström |
|  |  | Title: | Senior Executive Vice President and Chief Financial Officer |
|  |  |  |  |
| Date: November 7, 2019 |  | /s/ William Eckert | |
|  |  | Name: | William Eckert |
|  |  | Title: | Senior Vice President, Chief Accounting Officer and Controller |

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