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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**———————————————**

**FORM 10-Q**

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

**For the quarterly period ended March 31, 2020**

**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**

**————————————————**

**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.) |

**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)

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | | | |
|  |  |  |  |  |
| **Title of each class** |  | **Trading symbol** |  | **Name of each exchange on which registered** |
| Common Stock |  | EQH |  | New York Stock Exchange |
| Depositary Shares, each representing a 1/1,000th interest in a share of Fixed Rate Noncumulative Perpetual Preferred Stock, Series A |  | EQH PR A |  | New York Stock Exchange |

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

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 ☒    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  ☒    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 | ☐ | 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 ☒

As of May 5, 2020, 450,549,631 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 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, access to and cost of capital and the impact of COVID-19 and related economic conditions; (ii) operational factors, including reliance on the payment of dividends to Holdings by its subsidiaries, remediation of our material weakness, indebtedness, protection of confidential customer information or proprietary business information, information systems failing or being compromised, strong industry competition and catastrophic events, such as the outbreak of pandemic diseases including COVID-19; (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, morbidity and lapse 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 separation from, and continuing relationship with, AXA, including 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, 2019, 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**

**EQUITABLE HOLDINGS, INC.**

**Consolidated Balance Sheets**

**March 31, 2020 (Unaudited) and December 31, 2019**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **March 31, 2020** | | |  | December 31, 2019 | | |
|  | **(in millions, except share data)** | | | | | | |
| **ASSETS** |  | | |  |  | | |
| Investments: |  | | |  |  | | |
| Fixed maturities available-for-sale, at fair value (amortized cost of $65,044 and $62,937) (allowance for credit losses of $2 at March 31, 2020) | **$** | **70,321** |  |  | $ | 66,343 |  |
| Mortgage loans on real estate (net of allowance for credit losses of $46 at March 31, 2020) | **12,123** | |  |  | 12,107 | |  |
| Policy loans | **3,720** | |  |  | 3,735 | |  |
| Other equity investments (1) | **1,406** | |  |  | 1,344 | |  |
| Trading securities, at fair value | **6,534** | |  |  | 7,031 | |  |
| Other invested assets (1) | **2,112** | |  |  | 2,780 | |  |
| Total investments | **96,216** | |  |  | 93,340 | |  |
| Cash and cash equivalents (1) | **10,315** | |  |  | 4,405 | |  |
| Cash and securities segregated, at fair value | **2,013** | |  |  | 1,095 | |  |
| Broker-dealer related receivables | **2,436** | |  |  | 1,987 | |  |
| Deferred policy acquisition costs | **4,809** | |  |  | 5,890 | |  |
| Goodwill and other intangible assets, net | **4,760** | |  |  | 4,751 | |  |
| Amounts due from reinsurers (allowance for credit losses of $6 at March 31, 2020) | **4,614** | |  |  | 4,592 | |  |
| GMIB reinsurance contract asset, at fair value | **2,823** | |  |  | 2,139 | |  |
| Other assets (1) | **5,824** | |  |  | 3,799 | |  |
| Assets held-for-sale | **843** | |  |  | 962 | |  |
| Separate Accounts assets | **106,128** | |  |  | 126,910 | |  |
| Total Assets | **$** | **240,781** |  |  | $ | 249,870 |  |
| **LIABILITIES** |  | | |  |  | | |
| Policyholders’ account balances | **$** | **55,810** |  |  | $ | 58,879 |  |
| Future policy benefits and other policyholders' liabilities | **37,968** | |  |  | 34,587 | |  |
| Broker-dealer related payables | **1,001** | |  |  | 722 | |  |
| Customer related payables | **3,630** | |  |  | 2,523 | |  |
| Amounts due to reinsurers | **1,380** | |  |  | 1,404 | |  |
| Short-term and long-term debt | **4,217** | |  |  | 4,111 | |  |
| Current and deferred income taxes | **2,355** | |  |  | 549 | |  |
| Other liabilities (1) | **5,716** | |  |  | 3,970 | |  |
| Liabilities held-for-sale | **679** | |  |  | 724 | |  |
| Separate Accounts liabilities | **106,128** | |  |  | 126,910 | |  |
| Total Liabilities | **$** | **218,884** |  |  | $ | 234,379 |  |
| Redeemable noncontrolling interest (1) (2) | **$** | **257** |  |  | $ | 365 |  |
| Commitments and contingent liabilities (Note 14) |  | |  |  |  | |  |
| **EQUITY** |  | | |  |  | | |
| Equity attributable to Holdings: |  | | |  |  | | |
| Preferred stock and additional paid-in capital, $1 par value, 32 million shares authorized, issued and outstanding; $25,000 liquidation preference | **$** | **775** |  |  | $ | 775 |  |
| Common stock, $0.01 par value, 2,000,000,000 shares authorized; 552,896,328 and 552,896,328 shares issued, respectively; 450,584,788 and 463,711,392 shares outstanding, respectively | **5** | |  |  | 5 | |  |
| Additional paid-in capital | **1,930** | |  |  | 1,920 | |  |
| Treasury stock, at cost, 102,311,540 and 89,184,936 shares, respectively | **(2,025** | | **)** |  | (1,832 | | ) |
| Retained earnings | **17,112** | |  |  | 11,827 | |  |
| Accumulated other comprehensive income (loss) | **2,289** | |  |  | 840 | |  |
| Total equity attributable to Holdings | **20,086** | |  |  | 13,535 | |  |
| Noncontrolling interest | **1,554** | |  |  | 1,591 | |  |
| Total Equity | **21,640** | |  |  | 15,126 | |  |
| **Total Liabilities, Redeemable Noncontrolling Interest and Equity** | **$** | **240,781** |  |  | $ | 249,870 |  |

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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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**EQUITABLE HOLDINGS, INC.**

**Consolidated Statements of Income (Loss)**

**For the Three Months Ended March 31, 2020 and 2019 (Unaudited)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
|  | **(in millions, except per share data)** | | | | | | |
| **REVENUES** |  | | |  |  | | |
| Policy charges and fee income | **$** | **991** |  |  | $ | 931 |  |
| Premiums | **289** | |  |  | 283 | |  |
| Net derivative gains (losses) | **9,401** | |  |  | (1,630 | | ) |
| Net investment income (loss) | **616** | |  |  | 1,015 | |  |
| Investment gains (losses), net: |  | | |  |  | | |
| Credit losses on AFS debt securities and loans | **(12** | | **)** |  | — | |  |
| Other investment gains (losses), net | **16** | |  |  | (11 | | ) |
| Total investment gains (losses), net | **4** | |  |  | (11 | | ) |
| Investment management and service fees | **1,136** | |  |  | 999 | |  |
| Other income | **156** | |  |  | 127 | |  |
| Total revenues | **12,593** | |  |  | 1,714 | |  |
|  |  | | |  |  | | |
| **BENEFITS AND OTHER DEDUCTIONS** |  | | |  |  | | |
| Policyholders’ benefits | **2,788** | |  |  | 880 | |  |
| Interest credited to policyholders’ account balances | **317** | |  |  | 304 | |  |
| Compensation and benefits | **526** | |  |  | 509 | |  |
| Commissions and distribution-related payments | **338** | |  |  | 281 | |  |
| Interest expense | **52** | |  |  | 56 | |  |
| Amortization of deferred policy acquisition costs | **1,248** | |  |  | 198 | |  |
| Other operating costs and expenses | **437** | |  |  | 410 | |  |
| Total benefits and other deductions | **5,706** | |  |  | 2,638 | |  |
| Income (loss) from continuing operations, before income taxes | **6,887** | |  |  | (924 | | ) |
| Income tax (expense) benefit | **(1,440** | | **)** |  | 215 | |  |
| Net income (loss) | **5,447** | |  |  | (709 | | ) |
| Less: Net income (loss) attributable to the noncontrolling interest | **37** | |  |  | 66 | |  |
| Net income (loss) attributable to Holdings | **5,410** | |  |  | (775 | | ) |
| Less: Preferred stock dividends | **13** | |  |  | — | |  |
| Net income (loss) available to Holdings’ common shareholders | **$** | **5,397** |  |  | $ | (775 | ) |
|  |  | | |  |  | | |
| **EARNINGS PER COMMON SHARE** |  | | |  |  | | |
| Net income (loss) applicable to Holdings’ common shareholders per common share: |  | | |  |  | | |
| Basic | **$** | **11.71** |  |  | $ | (1.50 | ) |
| Diluted | **$** | **11.65** |  |  | $ | (1.50 | ) |
| Weighted average common shares outstanding (in millions): |  | | |  |  | | |
| Basic | **461.0** | |  |  | 518.0 | |  |
| Diluted | **463.5** | |  |  | 518.0 | |  |

See Notes to Consolidated Financial Statements (Unaudited).

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**EQUITABLE HOLDINGS, INC.**

**Consolidated Statements of Comprehensive Income (Loss)**

**For the Three Months Ended March 31, 2020 and 2019 (Unaudited)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
|  | **(in millions)** | | | | | | |
| **COMPREHENSIVE INCOME (LOSS)** |  | | |  |  | | |
| Net income (loss) | **$** | **5,447** |  |  | $ | (709 | ) |
| Other comprehensive income (loss) net of income taxes: |  | | |  |  | | |
| Change in unrealized gains (losses), net of reclassification adjustment | **1,434** | |  |  | 834 | |  |
| Changes in defined benefit plan related items not yet recognized in periodic benefit cost, net of reclassification adjustment | **28** | |  |  | 49 | |  |
| Foreign currency translation adjustment | **(21** | | **)** |  | (1 | | ) |
| Total other comprehensive income (loss), net of income taxes | **1,441** | |  |  | 882 | |  |
| Comprehensive income (loss) | **6,888** | |  |  | 173 | |  |
| Less: Comprehensive income (loss) attributable to the noncontrolling interest | **29** | |  |  | 65 | |  |
| Comprehensive income (loss) attributable to Holdings | **$** | **6,859** |  |  | $ | 108 |  |

See Notes to Consolidated Financial Statements (Unaudited).

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**EQUITABLE HOLDINGS, INC.**

**Consolidated Statements of Equity**

**For the Three Months Ended March 31, 2020 and 2019 (Unaudited)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | | |  | **Three Months Ended March 31,** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  |  | | |  | **Equity Attributable to Holdings** | | | | | | | | | | | | | | | | | | | | | | |  |  | | |  |  | | |
|  | **Preferred Stock and Additional Paid-In Capital** | | |  | **Common Stock** | | |  | **Additional Paid-in Capital** | | |  | **Treasury Stock** | | |  | **Retained Earnings** | | |  | **Accumulated Other Comprehensive Income (Loss)** | | |  | **Total Holdings Equity** | | |  | **Non-controlling Interest** | | |  | **Total Equity** | | |
|  |  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| **January 1, 2020** | **$** | **775** |  |  | **$** | **5** |  |  | **$** | **1,920** |  |  | **$** | **(1,832** | **)** |  | **$** | **11,827** |  |  | **$** | **840** |  |  | **$** | **13,535** |  |  | **$** | **1,591** |  |  | **$** | **15,126** |  |
| Cumulative effect of adoption of ASU 2016-03, CECL | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **(30** | | **)** |  | **—** | |  |  | **(30** | | **)** |  | **—** | |  |  | **(30** | | **)** |
| Stock compensation | **—** | |  |  | **—** | |  |  | **14** | |  |  | **13** | |  |  | **—** | |  |  | **—** | |  |  | **27** | |  |  | **3** | |  |  | **30** | |  |
| Purchase of treasury stock | **—** | |  |  | **—** | |  |  | **—** | |  |  | **(206** | | **)** |  | **—** | |  |  | **—** | |  |  | **(206** | | **)** |  | **—** | |  |  | **(206** | | **)** |
| Reissuance of treasury stock |  | | |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **(13** | | **)** |  | **—** | |  |  | **(13** | | **)** |  | **—** | |  |  | **(13** | | **)** |
| Repurchase of AB Holding units | **—** | |  |  | **—** | |  |  | **6** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **6** | |  |  | **(6** | | **)** |  | **—** | |  |
| Dividends paid to noncontrolling interest | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **(93** | | **)** |  | **(93** | | **)** |
| Dividends on common stock (cash dividends declared per common share of $0.15 in 2020) | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **(69** | | **)** |  | **—** | |  |  | **(69** | | **)** |  | **—** | |  |  | **(69** | | **)** |
| Dividends on preferred stock | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **(13** | | **)** |  | **—** | |  |  | **(13** | | **)** |  | **—** | |  |  | **(13** | | **)** |
| Net income (loss) | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **5,410** | |  |  | **—** | |  |  | **5,410** | |  |  | **67** | |  |  | **5,477** | |  |
| Other comprehensive income (loss) | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **1,449** | |  |  | **1,449** | |  |  | **(8** | | **)** |  | **1,441** | |  |
| Other | **—** | |  |  | **—** | |  |  | **(10** | | **)** |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **(10** | | **)** |  | **—** | |  |  | **(10** | | **)** |
| **March 31, 2020** | **$** | **775** |  |  | **$** | **5** |  |  | **$** | **1,930** |  |  | **$** | **(2,025** | **)** |  | **$** | **17,112** |  |  | **$** | **2,289** |  |  | **$** | **20,086** |  |  | **$** | **1,554** |  |  | **$** | **21,640** |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| January 1, 2019 | $ | — |  |  | $ | 5 |  |  | $ | 1,908 |  |  | $ | (640 | ) |  | $ | 13,989 |  |  | $ | (1,396 | ) |  | $ | 13,866 |  |  | $ | 1,566 |  |  | $ | 15,432 |  |
| Stock compensation | — | |  |  | — | |  |  | (19 | | ) |  | — | |  |  | — | |  |  | — | |  |  | (19 | | ) |  | 9 | |  |  | (10 | | ) |
| Purchase of treasury stock | — | |  |  | — | |  |  | — | |  |  | (594 | | ) |  | — | |  |  | — | |  |  | (594 | | ) |  | — | |  |  | (594 | | ) |
| Retirement of common stock | — | |  |  | — | |  |  | — | |  |  | — | |  |  | (142 | | ) |  | — | |  |  | (142 | | ) |  | — | |  |  | (142 | | ) |
| Repurchase of AB Holding units | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | (21 | | ) |  | (21 | | ) |
| Dividends paid to noncontrolling interest | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | (68 | | ) |  | (68 | | ) |
| Dividends on common stock (cash dividends declared per common share of $0.13 in 2019) | — | |  |  | — | |  |  | — | |  |  | — | |  |  | (68 | | ) |  | — | |  |  | (68 | | ) |  | — | |  |  | (68 | | ) |
| Net income (loss) | — | |  |  | — | |  |  | — | |  |  | — | |  |  | (775 | | ) |  | — | |  |  | (775 | | ) |  | 54 | |  |  | (721 | | ) |
| Other comprehensive income (loss) | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | 883 | |  |  | 883 | |  |  | (1 | | ) |  | 882 | |  |
| Other | — | |  |  | — | |  |  | (8 | | ) |  | — | |  |  | — | |  |  | — | |  |  | (8 | | ) |  | — | |  |  | (8 | | ) |
| March 31, 2019 | $ | — |  |  | $ | 5 |  |  | $ | 1,881 |  |  | $ | (1,234 | ) |  | $ | 13,004 |  |  | $ | (513 | ) |  | $ | 13,143 |  |  | $ | 1,539 |  |  | $ | 14,682 |  |

See Notes to Consolidated Financial Statements (Unaudited).

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**EQUITABLE HOLDINGS, INC.**

**Consolidated Statements of Cash Flows**

**For the Three Months Ended March 31, 2020 and 2019 (Unaudited)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
|  | **(in millions)** | | | | | | |
| **Cash flows from operating activities:** |  | | |  |  | | |
| Net income (loss) | **$** | **5,447** |  |  | $ | (709 | ) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |  | | |  |  | | |
| Interest credited to policyholders’ account balances | **317** | |  |  | 304 | |  |
| Policy charges and fee income | **(991** | | **)** |  | (931 | | ) |
| Net derivative (gains) losses | **(9,401** | | **)** |  | 1,630 | |  |
| Credit losses on AFS debt securities and loans | **12** | |  |  | — | |  |
| Investment (gains) losses, net | **(65** | | **)** |  | 11 | |  |
| Loss on businesses held for sale | **49** | |  |  | — | |  |
| Realized and unrealized (gains) losses on trading securities | **170** | |  |  | (294 | | ) |
| Non-cash long term incentive compensation expense | **5** | |  |  | 42 | |  |
| Amortization and depreciation | **1,275** | |  |  | 239 | |  |
| Equity (income) loss from limited partnerships | **22** | |  |  | (13 | | ) |
| Changes in: |  | | |  |  | | |
| Net broker-dealer and customer related receivables/payables | **881** | |  |  | (221 | | ) |
| Reinsurance recoverable | **(113** | | **)** |  | (18 | | ) |
| Segregated cash and securities, net | **(918** | | **)** |  | (93 | | ) |
| Capitalization of deferred policy acquisition costs | **(185** | | **)** |  | (173 | | ) |
| Future policy benefits | **1,936** | |  |  | 22 | |  |
| Current and deferred income taxes | **1,425** | |  |  | 183 | |  |
| Other, net | **(448** | | **)** |  | (88 | | ) |
| Net cash provided by (used in) operating activities | **$** | **(582** | **)** |  | $ | (109 | ) |
|  |  | | |  |  | | |
| **Cash flows from investing activities:** |  | | |  |  | | |
| Proceeds from the sale/maturity/prepayment of: |  | | |  |  | | |
| Fixed maturities, available-for-sale | **$** | **2,762** |  |  | $ | 2,900 |  |
| Mortgage loans on real estate | **120** | |  |  | 216 | |  |
| Trading account securities | **510** | |  |  | 3,843 | |  |
| Real estate joint ventures | **—** | |  |  | 1 | |  |
| Short term investments | **718** | |  |  | 794 | |  |
| Other | **147** | |  |  | 48 | |  |
| Payment for the purchase/origination of: |  | | |  |  | | |
| Fixed maturities, available-for-sale | **(4,993** | | **)** |  | (5,187 | | ) |
| Mortgage loans on real estate | **(181** | | **)** |  | (517 | | ) |
| Trading account securities | **(166** | | **)** |  | (536 | | ) |
| Short term investments | **(359** | | **)** |  | (685 | | ) |
| Other | **(194** | | **)** |  | (74 | | ) |
| Cash settlements related to derivative instruments | **5,581** | |  |  | (1,005 | | ) |
| Investment in capitalized software, leasehold improvements and EDP equipment | **(14** | | **)** |  | (16 | | ) |
| Other, net | **216** | |  |  | 148 | |  |
| Net cash provided by (used in) investing activities | **$** | **4,147** |  |  | $ | (70 | ) |
|  |  | | |  |  | | |
| **Cash flows from financing activities:** |  | | |  |  | | |
| Policyholders’ account balances: |  | | |  |  | | |
| Deposits | **$** | **2,507** |  |  | $ | 2,430 |  |
| Withdrawals | **(1,099** | | **)** |  | (1,067 | | ) |
| Transfers (to) from Separate Accounts | **513** | |  |  | 424 | |  |

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**EQUITABLE HOLDINGS, INC.**

**Consolidated Statements of Cash Flows**

**For the Three Months Ended March 31, 2020 and 2019 (Unaudited)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
|  | **(in millions)** | | | | | | |
| Change in short-term financings | **105** | |  |  | (6 | | ) |
| Change in collateralized pledged assets | **44** | |  |  | (6 | | ) |
| Change in collateralized pledged liabilities | **657** | |  |  | 631 | |  |
| (Decrease) increase in overdrafts payable | **85** | |  |  | (65 | | ) |
| Dividends paid on common stock | **(69** | | **)** |  | (68 | | ) |
| Dividends paid on preferred stock | **(13** | | **)** |  | — | |  |
| Purchases of AB Holding Units to fund long-term incentive compensation plan awards | **(18** | | **)** |  | — | |  |
| Purchase of treasury shares | **(205** | | **)** |  | (744 | | ) |
| Purchases (redemptions) of noncontrolling interests of consolidated company-sponsored investment funds | **(74** | | **)** |  | — | |  |
| Distribution to noncontrolling interest of consolidated subsidiaries | **(93** | | **)** |  | (68 | | ) |
| Increase (decrease) in securities sold under agreement to repurchase | **—** | |  |  | (573 | | ) |
| Other, net | **(6** | | **)** |  | (50 | | ) |
| Net cash provided by (used in) financing activities | **$** | **2,334** |  |  | $ | 838 |  |
|  |  | | |  |  | | |
| Effect of exchange rate changes on cash and cash equivalents | **$** | **(13** | **)** |  | $ | 1 |  |
| Change in cash and cash equivalents | **5,886** | |  |  | 660 | |  |
| Cash and cash equivalents, beginning of year | **4,405** | |  |  | 4,469 | |  |
| Change in cash of businesses held for sale | **24** | |  |  | — | |  |
| Cash and cash equivalents, end of year | **$** | **10,315** |  |  | $ | 5,129 |  |
|  |  | | |  |  | | |
| **Non-cash transactions:** |  | | |  |  | | |
| Right-of-use assets obtained in exchange for lease obligations | **$** | **14** |  |  | $ | 3 |  |

See Notes to Consolidated Financial Statements (Unaudited).

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited)**

**1)    ORGANIZATION**

Equitable Holdings, Inc. (which removed “AXA” from its name on January 13, 2020, “Holdings” and, with its consolidated subsidiaries, the “Company”) is the holding company for a diversified financial services organization. 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. Our 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 our segments in Corporate and Other. Corporate and Other includes certain of our financing and investment expenses. It also includes: AXA Advisors, LLC (“Equitable 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 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.

At March 31, 2020 and December 31, 2019, the Company’s economic interest in AB was approximately 65% and 65%, respectively. 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 and Principles of Consolidation

The unaudited interim consolidated financial statements (the “consolidated financial statements”) have been prepared in conformity 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 the Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission (“SEC”).

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, with the exception of the Company’s update of its interest rate assumption as further described in Assumption Updates and Model Changes. 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 consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019.

The accompanying consolidated financial statements present the consolidated results of operations, financial condition, and cash flows of the Company and its subsidiaries and those investment companies, partnerships and joint

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

ventures in which the Company has control and a majority economic interest as well as those variable interest entities (“VIEs”) that meet the requirements for consolidation.

All significant intercompany transactions and balances have been eliminated in consolidation. The terms “first quarter 2020” and “first quarter 2019” refer to the three months ended March 31, 2020 and 2019, respectively.

Adoption of New Accounting Pronouncements

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| **Description** | **Effect on the Financial Statement or Other Significant Matters** |
| ***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 2019-11: Codification Improvements to Topic 326, Financial Instruments—Credit Losses* | |
| 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, ASU 2019-04 and ASU 2019-11 clarified the codification guidance and did not materially change the standard. | On January 1, 2020, the Company adopted the new standard and completed implementation of its updated expected credit loss models, processes and controls related to the identified financial assets that fall within the scope of the new standard. Upon adoption, the Company recorded a cumulative effect adjustment to reduce the opening retained earnings balance by approximately $40 million, on a pre-tax and pre-DAC basis. The adjustment is primarily attributable to an increase in the allowance for credit losses associated with the Company’s commercial and agricultural mortgage loan portfolios and reinsurance.  Results for reporting periods beginning after January 1, 2020 are presented under ASU 2016-13 while prior period amounts continue to be reported in accordance with previously applicable GAAP. |
| ***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 impact the disclosure requirements in Topic 820, including the removal, modification and addition to existing disclosure requirements. | The Company elected to early adopt during 2019 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 adopted the additional disclosures related to Level 3 fair value information on January 1, 2020. |
| ***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. | The Company adopted this new standard effective for January 1, 2020. Adoption of this standard did not materially impact the Company’s financial position or results of operations. |

Future Adoption of New Accounting Pronouncements

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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);* **ASU 2019-09:** *Financial Services - Insurance (Topic 944): Effective Date* | | |
| 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: | In November 2019, ASU 2019-09 was issued which modified ASU 2018-12 to be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021. Early adoption is permitted. | The Company is currently 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. |

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

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| **Description** | **Effective Date and Method of Adoption** | **Effect on the Financial Statement or Other Significant Matters** |
| 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.  Amortization of deferred acquisition costs. The ASU simplifies the amortization of deferred 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.  Expanded footnote disclosures. The ASU requires additional disclosures including disaggregated roll-forwards of beginning to ending balances of the liability for future policy benefits, policyholder account balances, MRBs, separate account liabilities and deferred acquisition costs. Companies will also be required to disclose information about significant inputs, judgements, assumptions and methods used in measurement. | 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 Accumulated other comprehensive income (“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.  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 2019-12:** *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* | | |
| This ASU simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740, as well as clarifying and amending existing guidance. | Effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early adoption is permitted. | The Company is currently evaluating the impact adopting the guidance will have on the Company’s consolidated financial statements, however the adoption is not expected to materially impact the Company’s financial position, results of operation, or cash flows. |
| **ASU2020-04***: Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* | | |
| The amendments in this ASU provide optional expedients and exceptions to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met.  The amendments in this ASU apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. | This ASU is effective as of March 12, 2020 through December 31, 2022. | The Company will determine the applicability of the optional expedients and exceptions provided under the ASU as reference rate reform continues to develop. |

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

Investments

The carrying values of fixed maturities classified as available-for-sale (“AFS”) are reported at fair value. Changes in fair value are reported in other comprehensive income (“OCI”), net of allowance for credit losses, policy related amounts and deferred income taxes. With the adoption of the new Financial Instruments-Credit Losses standard, changes in credit losses are recognized in Investment gains (losses), net. The redeemable preferred stock investments that are reported in fixed maturities include real estate investment trusts (“REIT”), perpetual preferred stock and redeemable preferred stock. These securities may not have a stated maturity, may not be cumulative and do not provide for mandatory redemption by the issuer.

The Company determines the fair values of fixed maturities and equity securities based upon quoted prices in active markets, when available, or through the use of alternative approaches when market quotes are not readily accessible or available. These alternative approaches include matrix or model pricing and use of independent pricing services, each supported by reference to principal market trades or other observable market assumptions for similar securities. More specifically, the matrix pricing approach to fair value is a discounted cash flow methodology that incorporates market interest rates commensurate with the credit quality and duration of the investment. The Company’s management, with the assistance of its investment advisors, evaluates AFS debt securities that experienced a decline in fair value below amortized cost for credit losses which are evaluated in accordance with the new financial instruments credit losses guidance effective January 1, 2020. Integral to this review is an assessment made each quarter, on a security-by-security basis, by the Company’s Investments Under Surveillance (“IUS”) Committee, of various indicators of credit deterioration to determine whether the investment security has experienced a credit loss. This assessment includes, but is not limited to, consideration of the severity of the unrealized loss, failure, if any, of the issuer of the security to make scheduled payments, actions taken by rating agencies, adverse conditions specifically related to the security or sector, the financial strength, liquidity and continued viability of the issuer.

The Company recognizes an allowance for credit losses on AFS debt securities with a corresponding adjustment to earnings rather than a direct write down that reduces the cost basis of the investment, and credit losses are limited to the amount by which the security’s amortized cost basis exceeds its fair value. Any improvements in estimated credit losses on AFS debt securities are recognized immediately in earnings. Management does not use the length of time a security has been in an unrealized loss position as a factor, either by itself or in combination with other factors, to conclude that a credit loss does not exist, as they were permitted to do prior to January 1, 2020.

If there is no intent to sell or likely requirement to dispose of the fixed maturity security before its recovery, only the credit loss component of any resulting allowance is recognized in income (loss) and the remainder of the fair value loss is recognized in OCI. The amount of credit loss is the shortfall of the present value of the cash flows expected to be collected as compared to the amortized cost basis of the security. The present value is calculated by discounting management’s best estimate of projected future cash flows at the effective interest rate implicit in the debt security at the date of acquisition. Projections of future cash flows are based on assumptions regarding probability of default and estimates regarding the amount and timing of recoveries. These assumptions and estimates require use of management judgment and consider internal credit analyses as well as market observable data relevant to the collectability of the security.

Write-offs of AFS debt securities are recorded when all or a portion of a financial asset is deemed uncollectible. Full or partial write-offs are recorded as reductions to the amortized cost basis of the AFS debt security and deducted from the allowance in the period in which the financial assets are deemed uncollectible. The Company elected to reverse accrued interest deemed uncollectible as a reversal of interest income. In instances where the Company collects cash that it has previously written off, the recovery will be recognized through earnings or as a reduction of the amortized cost basis for interest and principal, respectively.

Real estate held for the production of income is stated at depreciated cost less allowance for credit losses.Depreciation of real estate held for production of income is computed using the straight-line method over the estimated useful lives of the properties, which generally range from 40 to 50 years.

Policy loans represent funds loaned to policyholders up to the cash surrender value of the associated insurance policies and are carried at the unpaid principal balances due to the Company from the policyholders. Interest income on policy loans is recognized in net investment income at the contract interest rate when earned. Policy loans are fully collateralized by the cash surrender value of the associated insurance policies.

Partnerships, investment companies, and joint venture interests that the Company has control of and has an economic interest in or those that meet the requirements for consolidation under accounting guidance for consolidation of VIEs are consolidated. Those that the Company does not have control of and does not have a majority economic interest in

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

and those that do not meet the VIE requirements for consolidation are reported on the equity method of accounting and are reported in other equity investments. The Company records its interests in certain of these partnerships on a month or one quarter lag.

Trading securities, which include equity securities and fixed maturities, are carried at fair value based on quoted market prices, with realized and unrealized gains (losses) reported in net investment income (loss) in the consolidated statements of income (loss).

Corporate owned life insurance (“COLI”) has been purchased by the Company and certain subsidiaries on the lives of certain key employees and the Company and these subsidiaries are named as beneficiaries under these policies. COLI is carried at the cash surrender value of the policies. At March 31, 2020 and December 31, 2019, the carrying value of COLI was $872 million and $944 million, respectively, and is reported in Other invested assets in the consolidated balance sheets.

Cash and cash equivalents includes cash on hand, demand deposits, money market accounts, overnight commercial paper and highly liquid debt instruments purchased with an original maturity of three months or less. Due to the short-term nature of these investments, the recorded value is deemed to approximate fair value. Cash and securities segregated primarily includes U.S. Treasury Bills segregated by AB in a special reserve bank custody account for the exclusive benefit of its brokerage customers under Rule 15c3-3 of the Exchange Act.

All securities owned, including U.S. government and agency securities, mortgage-backed securities, futures and forwards transactions, are reported in the consolidated financial statements on a trade date basis.

Commercial and Agricultural Mortgage Loans on Real Estate

Mortgage loans are stated at unpaid principal balances, net of unamortized discounts and the allowance for credit losses. The Company calculates the allowance for credit losses in accordance with the current expected credit losses (“CECL”) model in order to provide for the risk of credit losses in the lending process.

Expected credit losses for loans with similar risk characteristics are estimated on a collective (i.e., pool) basis in order to meet CECL’s risk of loss concept which requires the Company to consider possibilities of loss, even if remote.

For collectively evaluated mortgages, the Company estimates the allowance for credit losses based on the amortized cost basis of its mortgages over their expected life using a probability of default (“PD”) / loss given default (“LGD”) model. The PD/LGD model incorporates the Company’s reasonable and supportable forecast of macroeconomic information over a specified period. For periods beyond the reasonable and supportable forecast period, the model reverts to historical loss information.

The CECL model is configured to the Company’s specifications and takes into consideration the detailed risk attributes of each discrete loan in the mortgage portfolio which include, but are not limited to the following:

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| • | Loan-to-value (“LTV”) ratio - Derived from current loan balance divided by the fair market value of the property. An LTV ratio in excess of 100% indicates an underwater mortgage. |

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| • | Debt service coverage (“DSC”) ratio - Derived from actual operating earnings divided by annual debt service. If the ratio is below 1.0x, then the income from the property does not support the debt. |

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| • | Occupancy - Criteria varies by property type but low or below market occupancy is an indicator of sub-par property performance. |

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| • | Lease expirations - The percentage of leases expiring in the upcoming 12 to 36 months are monitored as a decline in rent and/or occupancy may negatively impact the debt service coverage ratio. In the case of single-tenant properties or properties with large tenant exposure, the lease expiration is a material risk factor. |

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| • | Other - Any other factors such as maturity, borrower/tenant related issues, payment status, property condition, or current economic conditions may call into question the performance of the loan. |

For individually evaluated mortgages, the Company continues to recognize an allowance on the present value of expected future cash flows discounted at the loan’s original effective interest rate or on its collateral value.

Mortgage loans that do not share similar risk characteristics with other loans in the portfolio are individually evaluated quarterly by the Company’s IUS Committee. The allowance for credit losses on these individually evaluated

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

mortgages is a loan-specific reserve as a result of the loan review process that is recorded based on the present value of expected future cash flows discounted at the loan’s effective interest rate or based on the fair value of the collateral. The individually assessed allowance for mortgage loans can increase or decrease from period to period based on such factors.

Individually assessed loans may include, but are not limited to, mortgages that have deteriorated in credit quality such as troubled debt restructurings (“TDR”) and reasonably expected TDRs, mortgages for which foreclosure is probable, and mortgages which have been classified as “potential problem” or “problem” loans within the Company’s IUS Committee processes as described below.

Within the IUS process, Commercial mortgages 60 days or more past due and agricultural mortgages 90 days or more past due, as well as all mortgages in the process of foreclosure, are identified as problem mortgages. Based on its monthly monitoring of mortgages, a class of potential problem mortgages are also identified, consisting of mortgage loans not currently classified as problem mortgages but for which management has doubts as to the ability of the borrower to comply with the present loan payment terms and which may result in the loan becoming a problem or being modified. The decision whether to classify a performing mortgage loan as a potential problem involves judgments by management as to likely future industry conditions and developments with respect to the borrower or the individual mortgaged property.

Individually assessed mortgage loans without provision for losses are mortgage loans where the fair value of the collateral or the net present value of the expected future cash flows related to the loan equals or exceeds the recorded investment. Interest income earned on mortgage loans where the collateral value is used to measure impairment is recorded on a cash basis. Interest income on mortgage loans where the present value method is used to measure impairment is accrued on the net carrying value amount of the loan at the interest rate used to discount the cash flows.

Mortgage loans are placed on nonaccrual status once management believes the collection of accrued interest is not probable. Once mortgage loans are classified as nonaccrual mortgage loans, interest income is recognized under the cash basis of accounting and the resumption of the interest accrual would commence only after all past due interest has been collected or the mortgage loan has been restructured to where the collection of interest is considered likely. The Company charges off loan balances and accrued interest that are deemed uncollectible.

Net Investment Income (Loss), Investment Gains (Losses), Net and Unrealized Investment Gains (Losses)

Realized investment gains (losses) are determined by identification with the specific asset and are presented as a component of revenue. Changes in the allowance for credit losses are included in Investment gains (losses), net.

Realized and unrealized holding gains (losses) on trading and equity securities are reflected in Net investment income (loss).

Unrealized investment gains (losses) on fixed maturities designated as AFS held by the Company are accounted for as a separate component of AOCI, net of related deferred income taxes, as are amounts attributable to certain pension operations, Closed Block’s policyholders’ dividend obligation, insurance liability loss recognition, DAC related to UL policies, investment-type products and participating traditional life policies.

Changes in unrealized gains (losses) reflect changes in fair value of only those fixed maturities classified as AFS and do not reflect any change in fair value of policyholders’ account balances and future policy benefits.

Accounting and Consolidation of VIEs

For all new investment products and entities developed by the Company (other than Collateralized Debt Obligations (“CDOs”)), the Company first determines whether the entity is a VIE, which involves determining an entity’s variability and variable interests, identifying the holders of the equity investment at risk and assessing the five characteristics of a VIE. Once an entity has been determined to be a VIE, the Company then identifies the primary beneficiary of the VIE. If the Company is deemed to be the primary beneficiary of the VIE, then the Company consolidates the entity.

Management of the Company reviews quarterly its investment management agreements and its investments in, and other financial arrangements with, certain entities that hold client assets under management (“AUM”) to determine the entities that the Company is required to consolidate under this guidance. These entities include certain mutual fund products, hedge funds, structured products, group trusts, collective investment trusts and limited partnerships.

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

The analysis performed to identify variable interests held, determine whether entities are VIEs or VOEs, and evaluate whether the Company has a controlling financial interest in such entities requires the exercise of judgment and is updated on a continuous basis as circumstances change or new entities are developed. The primary beneficiary evaluation generally is performed qualitatively based on all facts and circumstances, including consideration of economic interests in the VIE held directly and indirectly through related parties and entities under common control, as well as quantitatively, as appropriate.

***Consolidated VIEs***

At March 31, 2020 and December 31, 2019, the Company consolidated one real estate joint venture for which it was identified as the primary beneficiary under the VIE model. The consolidated entity is jointly owned by Equitable Life and AXA France and holds an investment in a real estate venture. Included in Other invested assets in the Company’s consolidated balance sheets at March 31, 2020 and December 31, 2019 are total assets of $32 million and $32 million, respectively, related to this VIE, primarily resulting from the consolidated presentation of this real estate joint venture as real estate held for sale.

***Consolidated AB-Sponsored Investment Funds***

Included in the Company’s consolidated balance sheet at March 31, 2020 and December 31, 2019 are assets of $377 million and $424 million, liabilities of $73 million and $12 million, and redeemable noncontrolling interests of $179 million and $273 million, respectively, associated with the consolidation of AB-sponsored investment funds under the VIE model. Also included in the Company’s consolidated balance sheets at March 31, 2020 and December 31, 2019 are assets of $193 million and $188 million, liabilities of $32 million and $19 million, and redeemable noncontrolling interests of $46 million and $52 million, respectively, from consolidation of AB-sponsored investment funds under the VOE model. The assets of these consolidated funds are presented within Other invested assets and Cash and cash equivalents, and liabilities of these consolidated funds are presented with Other liabilities in the Company’s consolidated balance sheets; ownership interests not held by the Company relating to consolidated VIEs and VOEs are presented either as redeemable or non-redeemable noncontrolling interests, as appropriate. Redeemable noncontrolling interests are presented in mezzanine equity and non-redeemable noncontrolling interests are presented within permanent equity. 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.

***Non-Consolidated VIEs***

At March 31, 2020 and December 31, 2019, respectively, the Company held approximately $1.2 billion and $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 applies the equity method of accounting for these positions. The net assets of these non-consolidated VIEs are approximately $151.4 billion and $160.2 billion at March 31, 2020 and December 31, 2019, respectively. 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 $1.2 billion and approximately $1.1 billion and $1.1 billion of unfunded commitments at March 31, 2020 and December 31, 2019, respectively. The Company has no further economic interest in these VIEs in the form of guarantees, derivatives, credit enhancements or similar instruments and obligations.

In addition, at March 31, 2020 and December 31, 2019, Other invested assets includes real estate held for sale of $(5) million and $(5) million, respectively, as related to one non-consolidated real estate joint venture.

***Non-Consolidated AB-Sponsored Investment Products***

As of March 31, 2020 and December 31, 2019, the net assets of investment products sponsored by AB that are non-consolidated VIEs are approximately $80.5 billion and $79.3 billion, respectively. The Company’s maximum exposure to loss from its direct involvement with these VIEs is its investment of $7 million and $8 million at March 31, 2020 and December 31, 2019, respectively. The Company has no further commitments to or economic interest in these VIEs.

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

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 our insurance business, liabilities for future policyholder benefits, DAC and deferred sales inducement assets (“DSI”).

However, the Company updates its assumptions as needed in the event it becomes aware of economic conditions or events that could require a change in assumptions that it believes may have a significant impact to the carrying value of product liabilities and assets and consequently materially impact its earnings in the period of the change.

Due to the extraordinary economic conditions driven by the COVID-19 pandemic in the first quarter of 2020, the Company updated its interest rate assumption to grade from the current interest rate environment to an ultimate five-year historical average over a 10-year period.  As such, the 10-year U.S. Treasury yield grades from the current level to an ultimate 5-year average of 2.25%.

The low interest rates environment and subsequent update to the interest rate assumption caused a loss recognition event for the Company’s life interest-sensitive products, as well as to certain run-off business. This loss recognition event caused an acceleration of DAC amortization on the life interest-sensitive products and an increase in the premium deficiency reserve on the run-off business in the first quarter of 2020.

The net impact of the economic assumption update in the first quarter of 2020 increased Policyholders’ benefits by $1.4 billion, increased Amortization of DAC by $1.1 billion, increased Policy charges and fee income by $46 million and decreased Interest credited to policyholders’ account balances by $6 million. This resulted in a decrease in Income (loss) from continuing operations, before income taxes of $2.5 billion and decreased Net income (loss) of $1.9 billion.

**3)    INVESTMENTS**

Fixed Maturities Available-for-Sale

Accounting for impairments of fixed maturities classified as AFS has changed from a direct write-down, or other-than-temporary impairment (“OTTI”) approach, to an allowance for credit loss model starting in 2020 upon adoption of the new credit impairment guidance (see Note 2, Significant Accounting Policies — Investments).

The components of fair value and amortized cost for fixed maturities classified as AFS on the consolidated balance sheets excludes accrued interest receivable because the Company elected to present accrued interest receivable within Other assets. Accrued interest receivable on AFS fixed maturities at March 31, 2020 was $498 million.

When the Company determines that there is more than 50% likelihood that it is not going to recover the principal and interest cash flows related to an AFS debt security, the security is placed on nonaccrual status and the Company reverses Accrued interest receivable against Interest income. Since the nonaccrual policy results in a timely reversal of Accrued interest receivable, the Company does not record an allowance for credit losses on Accrued interest receivable.

The total amount of accrued interest written off for the three months ended March 31, 2020 for AFS fixed maturities was $1 million.

Comparative tables as of December 31, 2019 include OTTI, reported net of tax in OCI and in AOCI until realized.

The following tables provide information relating to the Company’s fixed maturities classified as AFS.

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

**AFS Fixed Maturities by Classification**

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|  | **Amortized Cost** | | |  | **Allowance for Credit Losses (4)** | | |  | **Gross Unrealized Gains** | | |  | **Gross Unrealized Losses** | | |  | **Fair Value** | | |
|  | **(in millions)** | | | | | | | | | | | | | | | | | | |
| **March 31, 2020 (5):** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Fixed Maturities: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Corporate (1) | **$** | **47,408** |  |  | **$** | **2** |  |  | **$** | **1,760** |  |  | **$** | **844** |  |  | **$** | **48,322** |  |
| U.S. Treasury, government and agency | **14,226** | |  |  | **—** | |  |  | **4,407** | |  |  | **—** | |  |  | **18,633** | |  |
| States and political subdivisions | **661** | |  |  | **—** | |  |  | **71** | |  |  | **7** | |  |  | **725** | |  |
| Foreign governments | **483** | |  |  | **—** | |  |  | **27** | |  |  | **12** | |  |  | **498** | |  |
| Residential mortgage-backed (2) | **170** | |  |  | **—** | |  |  | **14** | |  |  | **—** | |  |  | **184** | |  |
| Asset-backed (3) | **1,514** | |  |  | **—** | |  |  | **6** | |  |  | **124** | |  |  | **1,396** | |  |
| Commercial mortgage-backed | **37** | |  |  | **—** | |  |  | **2** | |  |  | **—** | |  |  | **39** | |  |
| Redeemable preferred stock | **545** | |  |  | **—** | |  |  | **10** | |  |  | **31** | |  |  | **524** | |  |
| Total at March 31, 2020 | **$** | **65,044** |  |  | **$** | **2** |  |  | **$** | **6,297** |  |  | **$** | **1,018** |  |  | **$** | **70,321** |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| December 31, 2019 (5): |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Fixed Maturities: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Corporate (1) | $ | 45,900 |  |  | $ | — |  |  | $ | 2,361 |  |  | $ | 62 |  |  | $ | 48,199 |  |
| U.S. Treasury, government and agency | 14,410 | |  |  | — | |  |  | 1,289 | |  |  | 305 | |  |  | 15,394 | |  |
| States and political subdivisions | 638 | |  |  | — | |  |  | 70 | |  |  | 3 | |  |  | 705 | |  |
| Foreign governments | 462 | |  |  | — | |  |  | 35 | |  |  | 5 | |  |  | 492 | |  |
| Residential mortgage-backed (2) | 178 | |  |  | — | |  |  | 13 | |  |  | — | |  |  | 191 | |  |
| Asset-backed (3) | 848 | |  |  | — | |  |  | 4 | |  |  | 3 | |  |  | 849 | |  |
| Redeemable preferred stock | 501 | |  |  | — | |  |  | 17 | |  |  | 5 | |  |  | 513 | |  |
| Total at December 31, 2019 | $ | 62,937 |  |  | $ | — |  |  | $ | 3,789 |  |  | $ | 383 |  |  | $ | 66,343 |  |

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

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| --- | --- |
|  |  |
| (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. |

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| --- | --- |
|  |  |
| (4) | Amounts represent the allowance for credit losses for 2020 (see Note 2 Significant Accounting Policies – Investments) |

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| --- | --- |
|  |  |
| (5) | Excludes amounts reclassified as Held-for-Sale. |

The contractual maturities of AFS fixed maturities at March 31, 2020 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 AFS Fixed Maturities**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Amortized Cost (Less Allowance for Credit Losses)** | | |  | **Fair Value** | | |
|  | **(in millions)** | | | | | | |
| **March 31, 2020 (1) (2):** |  | | |  |  | | |
| Contractual maturities: |  | | |  |  | | |
| Due in one year or less | **$** | **4,680** |  |  | **$** | **4,675** |  |
| Due in years two through five | **14,638** | |  |  | **14,733** | |  |
| Due in years six through ten | **18,606** | |  |  | **19,091** | |  |
| Due after ten years | **24,852** | |  |  | **29,679** | |  |
| Subtotal | **62,776** | |  |  | **68,178** | |  |

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

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| --- | --- | --- | --- | --- | --- | --- | --- |
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|  |  |  |  |  |  |  |  |
|  | **Amortized Cost (Less Allowance for Credit Losses)** | | |  | **Fair Value** | | |
| Residential mortgage-backed | **170** | |  |  | **184** | |  |
| Asset-backed | **1,514** | |  |  | **1,396** | |  |
| Commercial-backed | **37** | |  |  | **39** | |  |
| Redeemable preferred stock | **545** | |  |  | **524** | |  |
| Total at March 31, 2020 | **$** | **65,042** |  |  | **$** | **70,321** |  |

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| --- | --- |
|  |  |
| (1) | Net amortized cost is equal to amortized cost, less any allowance for credit losses to the extent applicable. |

|  |  |
| --- | --- |
|  |  |
| (2) | Excludes amounts reclassified as Held-for-Sale. |

The following table shows proceeds from sales, gross gains (losses) from sales and credit losses for AFS fixed maturities for the three months ended March 31, 2020 and 2019:

**Proceeds from Sales, Gross Gains (Losses) from Sales and Credit Losses for AFS Fixed Maturities**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
|  | **(in millions)** | | | | | | |
| Proceeds from sales | **$** | **1,820** |  |  | $ | 1,450 |  |
| Gross gains on sales | **$** | **70** |  |  | $ | 8 |  |
| Gross losses on sales | **$** | **(6** | **)** |  | $ | (18 | ) |
|  |  | | |  |  | | |
| Credit losses (1) | **$** | **(2** | **)** |  | $ | — |  |

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|  |  |
| (1) | Commencing with the Company’s adoption of ASU 2016-13 on January 1, 2020, credit losses on AFS debt securities were recognized as an allowance for credit losses. In 2019 and prior, credit losses on AFS fixed maturities were recognized as OTTI. |

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.

**AFS Fixed Maturities - Credit Loss Impairments**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
|  | **(in millions)** | | | | | | |
| Balance at January 1, | **$** | **(21** | **)** |  | $ | (58 | ) |
| Previously recognized impairments on securities that matured, paid, prepaid or sold | **—** | |  |  | 32 | |  |
| Recognized impairments on securities impaired to fair value this period (1) | **—** | |  |  | — | |  |
| Credit losses recognized this period on securities for which credit losses were not previously recognized | **(2** | | **)** |  | — | |  |
| Additional credit losses 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 (for OTTI securities 2019 and prior) | **—** | |  |  | — | |  |
| Balance at March 31, | **$** | **(23** | **)** |  | $ | (26 | ) |

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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 AFS fixed maturities 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, split between amounts related to fixed maturities on which a credit loss has been recognized, and all other:

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

**Net Unrealized Gains (Losses) on AFS 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)** | | | | | | | | | | | | | | | | | | |
| **Balance, January 1, 2020** | **$** | **3,453** |  |  | **$** | **(899** | **)** |  | **$** | **(189** | **)** |  | **$** | **(497** | **)** |  | **$** | **1,868** |  |
| Net investment gains (losses) arising during the period | **1,922** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **1,922** | |  |
| Reclassification adjustment: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Included in Net income (loss) | **(62** | | **)** |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **(62** | | **)** |
| Excluded from Net income (loss) | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |
| Impact of net unrealized investment gains (losses) on: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| DAC | **—** | |  |  | **(23** | | **)** |  | **—** | |  |  | **—** | |  |  | **(23** | | **)** |
| Deferred income taxes | **—** | |  |  | **—** | |  |  | **—** | |  |  | **(351** | | **)** |  | **(351** | | **)** |
| Policyholders’ liabilities | **—** | |  |  | **—** | |  |  | **(165** | | **)** |  | **—** | |  |  | **(165** | | **)** |
| Net unrealized investment gains (losses) excluding credit losses | **5,313** | |  |  | **(922** | | **)** |  | **(354** | | **)** |  | **(848** | | **)** |  | **3,189** | |  |
| Net unrealized investment gains (losses) with credit losses | **(7** | | **)** |  | **1** | |  |  | **—** | |  |  | **1** | |  |  | **(5** | | **)** |
| Balance, March 31, 2020 | **$** | **5,306** |  |  | **$** | **(921** | **)** |  | **$** | **(354** | **)** |  | **$** | **(847** | **)** |  | **$** | **3,184** |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Balance, January 1, 2019 | $ | (522 | ) |  | $ | 100 |  |  | $ | (73 | ) |  | $ | 104 |  |  | $ | (391 | ) |
| Net investment gains (losses) arising during the period | 1,710 | |  |  | — | |  |  | — | |  |  | — | |  |  | 1,710 | |  |
| Reclassification adjustment: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Included in Net income (loss) | (1 | | ) |  | — | |  |  | — | |  |  | — | |  |  | (1 | | ) |
| Excluded from Net income (loss) | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |
| Impact of net unrealized investment gains (losses) on: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| DAC | — | |  |  | (701 | | ) |  | — | |  |  | — | |  |  | (701 | | ) |
| Deferred income taxes | — | |  |  | — | |  |  | — | |  |  | (230 | | ) |  | (230 | | ) |
| Policyholders’ liabilities | — | |  |  | — | |  |  | 85 | |  |  | — | |  |  | 85 | |  |
| Net unrealized investment gains (losses) excluding credit losses | 1,187 | |  |  | (601 | | ) |  | 12 | |  |  | (126 | | ) |  | 472 | |  |
| Net unrealized investment gains (losses) with credit losses (1) | 1 | |  |  | — | |  |  | — | |  |  | — | |  |  | 1 | |  |
| Balance, March 31, 2019 | $ | 1,188 |  |  | $ | (601 | ) |  | $ | 12 |  |  | $ | (126 | ) |  | $ | 473 |  |

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| (1) | Credit losses for 2019 were OTTI losses. |

The following tables disclose the fair values and gross unrealized losses of the 1,723 issues at March 31, 2020 and the 413 issues at December 31, 2019 that are not deemed to have credit losses, 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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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

**AFS Fixed Maturities in an Unrealized Loss Position for Which No Allowance Is Recorded**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **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)** | | | | | | | | | | | | | | | | | | | | | | |
| **March 31, 2020 (1):** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Fixed Maturities: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Corporate | **$** | **14,516** |  |  | **$** | **750** |  |  | **$** | **265** |  |  | **$** | **90** |  |  | **$** | **14,781** |  |  | **$** | **840** |  |
| U.S. Treasury, government and agency | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |
| States and political subdivisions | **188** | |  |  | **7** | |  |  | **—** | |  |  | **—** | |  |  | **188** | |  |  | **7** | |  |
| Foreign governments | **127** | |  |  | **5** | |  |  | **36** | |  |  | **8** | |  |  | **163** | |  |  | **13** | |  |
| Residential mortgage-backed | **17** | |  |  | **—** | |  |  | **10** | |  |  | **—** | |  |  | **27** | |  |  | **—** | |  |
| Asset-backed | **1,202** | |  |  | **116** | |  |  | **61** | |  |  | **7** | |  |  | **1,263** | |  |  | **123** | |  |
| Commercial mortgage-backed | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |
| Redeemable preferred stock | **265** | |  |  | **25** | |  |  | **43** | |  |  | **6** | |  |  | **308** | |  |  | **31** | |  |
| Total at March 31, 2020 | **$** | **16,315** |  |  | **$** | **903** |  |  | **$** | **415** |  |  | **$** | **111** |  |  | **$** | **16,730** |  |  | **$** | **1,014** |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| December 31, 2019 (1) (2): |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Fixed Maturities: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Corporate | $ | 2,773 |  |  | $ | 42 |  |  | $ | 373 |  |  | $ | 20 |  |  | $ | 3,146 |  |  | $ | 62 |  |
| U.S. Treasury, government and agency | 4,309 | |  |  | 305 | |  |  | 2 | |  |  | — | |  |  | 4,311 | |  |  | 305 | |  |
| States and political subdivisions | 112 | |  |  | 3 | |  |  | — | |  |  | — | |  |  | 112 | |  |  | 3 | |  |
| Foreign governments | 11 | |  |  | — | |  |  | 47 | |  |  | 5 | |  |  | 58 | |  |  | 5 | |  |
| Residential mortgage-backed | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |
| Asset-backed | 319 | |  |  | 1 | |  |  | 201 | |  |  | 2 | |  |  | 520 | |  |  | 3 | |  |
| Commercial mortgage-backed | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |
| Redeemable preferred stock | 29 | |  |  | — | |  |  | 49 | |  |  | 5 | |  |  | 78 | |  |  | 5 | |  |
| Total at December 31, 2019 | $ | 7,553 |  |  | $ | 351 |  |  | $ | 672 |  |  | $ | 32 |  |  | $ | 8,225 |  |  | $ | 383 |  |

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|  |  |
| --- | --- |
|  |  |
| (1) | Excludes amounts reclassified as Held-for-Sale. |

|  |  |
| --- | --- |
|  |  |
| (2) | Amounts represents fixed maturities in an unrealized loss position that are not deemed to be other-than-temporarily impaired for 2019. |

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 0.6% of total corporate securities. The largest exposures to a single issuer of corporate securities held at March 31, 2020 and December 31, 2019 were $286 million and $309 million, respectively, representing 1.3% and 2.0% 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 March 31, 2020 and December 31, 2019, respectively, approximately $1.7 billion and $1.4 billion, or 2.6% and 2.3%, of the $65.0 billion and $62.9 billion aggregate amortized cost of fixed maturities held by the Company were considered to be other than investment grade. These securities had gross unrealized losses of $217 million and $21 million at March 31, 2020 and December 31, 2019, respectively.

At March 31, 2020 and December 31, 2019, respectively, the $111 million and $32 million of gross unrealized losses of twelve months or more were concentrated in corporate securities, as applicable. In accordance with the policy described in Note 2, the Company concluded that an adjustment to income for OTTI (prior to January 1, 2020) nor an allowance for credit losses (after January 1, 2020) for these securities was not warranted at either March 31, 2020 or

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

December 31, 2019. At March 31, 2020 and December 31, 2019, 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.

Based on the Company’s evaluation both qualitatively and quantitatively of the drivers of the decline in fair value of fixed maturity securities, the Company determined that the unrealized loss was primarily due to increases in credit spreads and changes in credit ratings due to the impact of the COVID-19 pandemic on financial markets and assessments of fundamental risks.

Mortgage Loans

The Company utilizes a PD/LGD model, configured in accordance with the Company’s policies that meet the concepts in the CECL framework, to estimate expected credit losses for mortgage loans as a product of PD, LGD and the exposure at default across various economic scenarios. The PD and LGD are estimated at the loan-level based on loans’ current and forecasted risk characteristics as well as macroeconomic forecasts. The PD is estimated using both macroeconomic conditions as well as individual loan risk characteristics including loan-to-value (“LTV”) ratios, debt service coverage (“DSC”) ratios, seasoning, collateral type, geography, and underlying credit. The LGD is driven primarily by the type and value of collateral, and secondarily by expected liquidation costs and time to recovery.

The model also incorporates the Company’s reasonable and supportable forecasts of the macroeconomic variables deemed to be correlated to the credit risk of its loans. The length of the reasonable and supportable forecast period is reassessed on a quarterly basis and may be adjusted as appropriate over time to be consistent with macroeconomic conditions and the environment as of the reporting date. Reversion to historical loss information is performed for periods beyond the reasonable and supportable forecast period.

The components of amortized cost for mortgage loans on the consolidated balance sheets excludes accrued interest amounts because the Company presents accrued interest receivables within Other assets. Accrued interest receivable on commercial and agricultural mortgage loans at March 31, 2020 and December 31, 2019 was $28 million and $32 million, respectively. No accrued interest was written off for the three months ended March 31, 2020 for commercial and agricultural mortgage loans.

Once mortgage loans are placed on nonaccrual status, the Company reverses accrued interest receivable against interest income. Since the nonaccrual policy results in the timely reversal of accrued interest receivable, the Company does not record an allowance for credit losses on accrued interest receivable.

At March 31, 2020, the Company had no loans for which foreclosure was probable included within the individually assessed mortgage loans, and accordingly had no associated allowance for credit losses.

Allowance for Credit Losses on Mortgage Loans

The change in the allowance for credit losses for commercial mortgage loans and agricultural mortgage loans during the three months ended March 31, 2020 was as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | | | |
|  |  |  |  |
|  | **Three Months Ended March 31,** | | |
|  | **2020** | | |
|  | **(in millions)** | | |
| **Allowance for credit losses on mortgage loans (1):** |  | | |
| **Commercial mortgages:** |  | | |
| Beginning Balance, January 1, | **$** | **(33** | **)** |
| Current-period provision for expected credit losses | **(11** | | **)** |
| Write-offs charged against the allowance | **—** | |  |
| Recoveries of amounts previously written off | **1** | |  |
| Ending Balance, Net change in allowance | $ | (10 | ) |
| Ending Balance, March 31 | **$** | **(43** | **)** |
|  |  | | |

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

|  |  |  |  |
| --- | --- | --- | --- |
|  | | | |
|  |  |  |  |
|  | **Three Months Ended March 31,** | | |
|  | **2020** | | |
|  | **(in millions)** | | |
| **Agricultural mortgages:** |  | | |
| Beginning Balance, January 1, | **$** | **(3** | **)** |
| Current-period provision for expected credit losses | **—** | |  |
| Write-offs charged against the allowance | **—** | |  |
| Recoveries of amounts previously written off | **—** | |  |
| Net change in allowance | — | |  |
| Ending Balance, March 31 | **$** | **(3** | **)** |
|  |  | | |
| **Total allowance for credit losses** | $ | (46 | ) |

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|  |  |
| --- | --- |
|  |  |
| (1) | See Note 2 for discussion of the transition balance. |

The change in the allowance for credit losses is attributable to:

|  |  |
| --- | --- |
|  |  |
| • | increases/decreases in the loan balance due to new originations, maturing mortgages, and loan amortization; |

|  |  |
| --- | --- |
|  |  |
| • | changes in credit quality; and |

|  |  |
| --- | --- |
|  |  |
| • | changes in market assumptions primarily related to COVID-19 driven economic changes. |

Credit Quality Information

The following tables summarize the Company’s mortgage loans segregated by risk rating exposure for the three months ended March 31, 2020.

**LTV Ratios (1)(3)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **At March 31, 2020** | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | **Amortized Cost Basis by Origination Year** | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | **2020** | | |  | **2019** | | |  | **2018** | | |  | **2017** | | |  | **2016** | | |  | **Prior** | | |  | **Total** | | |
|  | **(in millions)** | | | | | | | | | | | | | | | | | | | | | | | | | | |
| **Mortgage loans:** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Commercial: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| 0% - 50% | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **28** |  |  | **$** | **324** |  |  | **$** | **213** |  |  | **$** | **637** |  |  | **$** | **1,202** |  |
| 50% - 70% | **119** | |  |  | **767** | |  |  | **1,003** | |  |  | **1,072** | |  |  | **2,501** | |  |  | **2,046** | |  |  | **7,508** | |  |
| 70% - 90% | **—** | |  |  | **85** | |  |  | **209** | |  |  | **10** | |  |  | **59** | |  |  | **391** | |  |  | **754** | |  |
| 90% plus | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |
| Total commercial | **$** | **119** |  |  | **$** | **852** |  |  | **$** | **1,240** |  |  | **$** | **1,406** |  |  | **$** | **2,773** |  |  | **$** | **3,074** |  |  | **$** | **9,464** |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Agricultural: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| 0% - 50% | **$** | **30** |  |  | **$** | **136** |  |  | **$** | **164** |  |  | **$** | **171** |  |  | **$** | **270** |  |  | **$** | **834** |  |  | **$** | **1,605** |  |
| 50% - 70% | **38** | |  |  | **165** | |  |  | **187** | |  |  | **126** | |  |  | **145** | |  |  | **420** | |  |  | **1,081** | |  |
| 70% - 90% | **—** | |  |  | **—** | |  |  | **3** | |  |  | **—** | |  |  | **—** | |  |  | **16** | |  |  | **19** | |  |
| 90% plus | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |
| Total agricultural | **$** | **68** |  |  | **$** | **301** |  |  | **$** | **354** |  |  | **$** | **297** |  |  | **$** | **415** |  |  | **$** | **1,270** |  |  | **$** | **2,705** |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Total mortgage loans: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| 0% - 50% | **$** | **30** |  |  | **$** | **136** |  |  | **$** | **192** |  |  | **$** | **495** |  |  | **$** | **483** |  |  | **$** | **1,471** |  |  | **$** | **2,807** |  |
| 50% - 70% | **157** | |  |  | **932** | |  |  | **1,190** | |  |  | **1,198** | |  |  | **2,646** | |  |  | **2,466** | |  |  | **8,589** | |  |
| 70% - 90% | **—** | |  |  | **85** | |  |  | **212** | |  |  | **10** | |  |  | **59** | |  |  | **407** | |  |  | **773** | |  |
| 90% plus | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |
| Total mortgage loans | **$** | **187** |  |  | **$** | **1,153** |  |  | **$** | **1,594** |  |  | **$** | **1,703** |  |  | **$** | **3,188** |  |  | **$** | **4,344** |  |  | **$** | **12,169** |  |

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

**Debt Service Coverage Ratios (2)(3)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **At March 31, 2020** | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | **Amortized Cost Basis by Origination Year** | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | **2020** | | |  | **2019** | | |  | **2018** | | |  | **2017** | | |  | **2016** | | |  | **Prior** | | |  | **Total** | | |
|  | **(in millions)** | | | | | | | | | | | | | | | | | | | | | | | | | | |
| **Mortgage loans:** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Commercial: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Greater than 2.0x | **$** | **119** |  |  | **$** | **373** |  |  | **$** | **680** |  |  | **$** | **583** |  |  | **$** | **2,242** |  |  | **$** | **1,340** |  |  | **$** | **5,337** |  |
| 1.8x to 2.0x | **—** | |  |  | **184** | |  |  | **48** | |  |  | **379** | |  |  | **40** | |  |  | **451** | |  |  | **1,102** | |  |
| 1.5x to 1.8x | **—** | |  |  | **242** | |  |  | **223** | |  |  | **332** | |  |  | **491** | |  |  | **577** | |  |  | **1,865** | |  |
| 1.2x to 1.5x | **—** | |  |  | **—** | |  |  | **207** | |  |  | **75** | |  |  | **—** | |  |  | **590** | |  |  | **872** | |  |
| 1.0x to 1.2x | **—** | |  |  | **53** | |  |  | **82** | |  |  | **37** | |  |  | **—** | |  |  | **116** | |  |  | **288** | |  |
| Less than 1.0x | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |
| Total commercial | **$** | **119** |  |  | **$** | **852** |  |  | **$** | **1,240** |  |  | **$** | **1,406** |  |  | **$** | **2,773** |  |  | **$** | **3,074** |  |  | **$** | **9,464** |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Agricultural |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Greater than 2.0x | **$** | **3** |  |  | **$** | **38** |  |  | **$** | **41** |  |  | **$** | **37** |  |  | **$** | **77** |  |  | **$** | **189** |  |  | **$** | **385** |  |
| 1.8x to 2.0x | **7** | |  |  | **30** | |  |  | **15** | |  |  | **17** | |  |  | **22** | |  |  | **102** | |  |  | **193** | |  |
| 1.5x to 1.8x | **26** | |  |  | **39** | |  |  | **47** | |  |  | **49** | |  |  | **62** | |  |  | **249** | |  |  | **472** | |  |
| 1.2x to 1.5x | **12** | |  |  | **127** | |  |  | **150** | |  |  | **121** | |  |  | **174** | |  |  | **413** | |  |  | **997** | |  |
| 1.0x to 1.2x | **17** | |  |  | **57** | |  |  | **92** | |  |  | **72** | |  |  | **61** | |  |  | **276** | |  |  | **575** | |  |
| Less than 1.0x | **3** | |  |  | **10** | |  |  | **9** | |  |  | **1** | |  |  | **19** | |  |  | **41** | |  |  | **83** | |  |
| Total agricultural | **$** | **68** |  |  | **$** | **301** |  |  | **$** | **354** |  |  | **$** | **297** |  |  | **$** | **415** |  |  | **$** | **1,270** |  |  | **$** | **2,705** |  |
| Total mortgage loans |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Greater than 2.0x | **$** | **122** |  |  | **$** | **411** |  |  | **$** | **721** |  |  | **$** | **620** |  |  | **$** | **2,319** |  |  | **$** | **1,529** |  |  | **$** | **5,722** |  |
| 1.8x to 2.0x | **7** | |  |  | **214** | |  |  | **63** | |  |  | **396** | |  |  | **62** | |  |  | **553** | |  |  | **1,295** | |  |
| 1.5x to 1.8x | **26** | |  |  | **281** | |  |  | **270** | |  |  | **381** | |  |  | **553** | |  |  | **826** | |  |  | **2,337** | |  |
| 1.2x to 1.5x | **12** | |  |  | **127** | |  |  | **357** | |  |  | **196** | |  |  | **174** | |  |  | **1,003** | |  |  | **1,869** | |  |
| 1.0x to 1.2x | **17** | |  |  | **110** | |  |  | **174** | |  |  | **109** | |  |  | **61** | |  |  | **392** | |  |  | **863** | |  |
| Less than 1.0x | **3** | |  |  | **10** | |  |  | **9** | |  |  | **1** | |  |  | **19** | |  |  | **41** | |  |  | **83** | |  |
| **Total mortgage loans** | **$** | **187** |  |  | **$** | **1,153** |  |  | **$** | **1,594** |  |  | **$** | **1,703** |  |  | **$** | **3,188** |  |  | **$** | **4,344** |  |  | **$** | **12,169** |  |

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|  |  |
| --- | --- |
|  |  |
| (1) | The LTV ratio is derived from current loan balance divided by the fair value of the property. The fair value of the underlying commercial properties is updated annually. |

|  |  |
| --- | --- |
|  |  |
| (2) | The DSC ratio is calculated using the most recently reported operating income results from property operations divided by annual debt service. |

|  |  |
| --- | --- |
|  |  |
| (3) | Amounts presented at amortized cost basis. |

The following tables provide information relating to the LTV and DSC ratios for commercial and agricultural mortgage loans at March 31, 2020 and December 31, 2019. 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.

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

**Mortgage Loans by LTV and DSC Ratios**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **DSC Ratio (2) (3)** | | | | | | | | | | | | | | | | | | | | | | |  |  | | |
| **LTV Ratio (1) (3):** | **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** | | |  | **Total** | | |
|  | **(in millions)** | | | | | | | | | | | | | | | | | | | | | | | | | | |
| **March 31, 2020:** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Mortgage loans: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Commercial: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| 0% - 50% | **$** | **942** |  |  | **$** | **21** |  |  | **$** | **214** |  |  | **$** | **25** |  |  | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **1,202** |  |
| 50% - 70% | **4,143** | |  |  | **983** | |  |  | **1,437** | |  |  | **704** | |  |  | **241** | |  |  | **—** | |  |  | **7,508** | |  |
| 70% - 90% | **252** | |  |  | **98** | |  |  | **214** | |  |  | **143** | |  |  | **47** | |  |  | **—** | |  |  | **754** | |  |
| 90% plus | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |
| Total commercial | **$** | **5,337** |  |  | **$** | **1,102** |  |  | **$** | **1,865** |  |  | **$** | **872** |  |  | **$** | **288** |  |  | **$** | **—** |  |  | **$** | **9,464** |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Agricultural: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| 0% - 50% | **$** | **304** |  |  | **$** | **110** |  |  | **$** | **252** |  |  | **$** | **558** |  |  | **$** | **333** |  |  | **$** | **48** |  |  | **$** | **1,605** |  |
| 50% - 70% | **81** | |  |  | **83** | |  |  | **220** | |  |  | **420** | |  |  | **242** | |  |  | **35** | |  |  | **1,081** | |  |
| 70% - 90% | **—** | |  |  | **—** | |  |  | **—** | |  |  | **19** | |  |  | **—** | |  |  | **—** | |  |  | **19** | |  |
| 90% plus | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |
| Total agricultural | **$** | **385** |  |  | **$** | **193** |  |  | **$** | **472** |  |  | **$** | **997** |  |  | **$** | **575** |  |  | **$** | **83** |  |  | **$** | **2,705** |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Total mortgage loans: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| 0% - 50% | **$** | **1,246** |  |  | **$** | **131** |  |  | **$** | **466** |  |  | **$** | **583** |  |  | **$** | **333** |  |  | **$** | **48** |  |  | **$** | **2,807** |  |
| 50% - 70% | **4,224** | |  |  | **1,066** | |  |  | **1,657** | |  |  | **1,124** | |  |  | **483** | |  |  | **35** | |  |  | **8,589** | |  |
| 70% - 90% | **252** | |  |  | **98** | |  |  | **214** | |  |  | **162** | |  |  | **47** | |  |  | **—** | |  |  | **773** | |  |
| 90% plus | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |
| Total mortgage loans | **$** | **5,722** |  |  | **$** | **1,295** |  |  | **$** | **2,337** |  |  | **$** | **1,869** |  |  | **$** | **863** |  |  | **$** | **83** |  |  | **$** | **12,169** |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| December 31, 2019: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Mortgage loans: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Commercial: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| 0% - 50% | $ | 903 |  |  | $ | 38 |  |  | $ | 214 |  |  | $ | 25 |  |  | $ | — |  |  | $ | — |  |  | $ | 1,180 |  |
| 50% - 70% | 4,097 | |  |  | 1,195 | |  |  | 1,118 | |  |  | 795 | |  |  | 242 | |  |  | — | |  |  | 7,447 | |  |
| 70% - 90% | 251 | |  |  | 98 | |  |  | 214 | |  |  | 154 | |  |  | 46 | |  |  | — | |  |  | 763 | |  |
| 90% plus | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |
| Total commercial | $ | 5,251 |  |  | $ | 1,331 |  |  | $ | 1,546 |  |  | $ | 974 |  |  | $ | 288 |  |  | $ | — |  |  | $ | 9,390 |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Agricultural: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| 0% - 50% | $ | 322 |  |  | $ | 104 |  |  | $ | 241 |  |  | $ | 545 |  |  | $ | 321 |  |  | $ | 50 |  |  | $ | 1,583 |  |
| 50% - 70% | 82 | |  |  | 87 | |  |  | 236 | |  |  | 426 | |  |  | 251 | |  |  | 33 | |  |  | 1,115 | |  |
| 70% - 90% | — | |  |  | — | |  |  | — | |  |  | 19 | |  |  | — | |  |  | — | |  |  | 19 | |  |
| 90% plus | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |
| Total agricultural | $ | 404 |  |  | $ | 191 |  |  | $ | 477 |  |  | $ | 990 |  |  | $ | 572 |  |  | $ | 83 |  |  | $ | 2,717 |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Total mortgage loans: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| 0% - 50% | $ | 1,225 |  |  | $ | 142 |  |  | $ | 455 |  |  | $ | 570 |  |  | $ | 321 |  |  | $ | 50 |  |  | $ | 2,763 |  |
| 50% - 70% | 4,179 | |  |  | 1,282 | |  |  | 1,354 | |  |  | 1,221 | |  |  | 493 | |  |  | 33 | |  |  | 8,562 | |  |
| 70% - 90% | 251 | |  |  | 98 | |  |  | 214 | |  |  | 173 | |  |  | 46 | |  |  | — | |  |  | 782 | |  |
| 90% plus | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |
| Total mortgage loans | $ | 5,655 |  |  | $ | 1,522 |  |  | $ | 2,023 |  |  | $ | 1,964 |  |  | $ | 860 |  |  | $ | 83 |  |  | $ | 12,107 |  |

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

|  |  |
| --- | --- |
|  |  |
| (1) | The LTV ratio is derived from current loan balance divided by the fair value of the property. The fair value of the underlying commercial properties is updated annually. |

|  |  |
| --- | --- |
|  |  |
| (2) | The DSC ratio is calculated using the most recently reported operating income results from property operations divided by annual debt service. |

|  |  |
| --- | --- |
|  |  |
| (3) | Amounts presented at amortized cost basis. |

Past-Due and Nonaccrual Mortgage Loan Status

The following table provides information relating to the aging analysis of past-due mortgage loans at March 31, 2020 and December 31, 2019, respectively.

**Age Analysis of Past Due Mortgage Loans (1)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Accruing Loans** | | | | | | | | | | | | | | | | | | | | | | |  | **Non-accruing Loans** | | |  | **Total Loans** | | |  | **Non-accruing Loans with No allowance** | | |  | **Interest Income on Non-accruing Loans** | | |
|  | **Past Due** | | | | | | | | | | | | | | |  | **Current** | | |  | **Total** | | |  |
|  | **30-59 Days** | | |  | **60-89 Days** | | |  | **90 Days or More** | | |  | **Total** | | |
|  | **(in millions)** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| **March 31, 2020:** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Mortgage loans: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Commercial | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **9,464** |  |  | **$** | **9,464** |  |  | **$** | **—** |  |  | **$** | **9,464** |  |  | **$** | **—** |  |  | **$** | **—** |  |
| Agricultural | **7** | |  |  | **17** | |  |  | **63** | |  |  | **87** | |  |  | **2,618** | |  |  | **2,705** | |  |  | **—** | |  |  | **2,705** | |  |  | **—** | |  |  | **—** | |  |
| Total | **$** | **7** |  |  | **$** | **17** |  |  | **$** | **63** |  |  | **$** | **87** |  |  | **$** | **12,082** |  |  | **$** | **12,169** |  |  | **$** | **—** |  |  | **$** | **12,169** |  |  | **$** | **—** |  |  | **$** | **—** |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| December 31, 2019: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Mortgage loans: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Commercial | $ | — |  |  | $ | — |  |  | $ | — |  |  | $ | — |  |  | $ | 9,390 |  |  | $ | 9,390 |  |  | $ | — |  |  | $ | 9,390 |  |  | $ | — |  |  | $ | — |  |
| Agricultural | 57 | |  |  | 1 | |  |  | 66 | |  |  | 124 | |  |  | 2,593 | |  |  | 2,717 | |  |  | — | |  |  | 2,717 | |  |  | — | |  |  | — | |  |
| Total | $ | 57 |  |  | $ | 1 |  |  | $ | 66 |  |  | $ | 124 |  |  | $ | 11,983 |  |  | $ | 12,107 |  |  | $ | — |  |  | $ | 12,107 |  |  | $ | — |  |  | $ | — |  |

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(1) Amounts presented at amortized cost basis.

At March 31, 2020 and December 31, 2019, the carrying values of problem mortgage loans that had been classified as non-accrual loans were $0 million and $0 million, respectively.

Trading Securities

At March 31, 2020 and December 31, 2019, respectively, the fair value of the Company’s trading securities was $6.5 billion and $7.0 billion. At March 31, 2020 and December 31, 2019, respectively, trading securities included the General Account’s investment in Separate Accounts which had carrying values of $46 million and $58 million.

Net unrealized and realized gains (losses) on trading 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 securities during the three months ended March 31, 2020 and 2019:

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

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
|  | **(in millions)** | | | | | | |
| Net investment gains (losses) recognized during the period on securities held at the end of the period | **$** | **(186** | **)** |  | $ | 318 |  |
| Net investment gains (losses) recognized on securities sold during the period | **4** | |  |  | (24 | | ) |
| Unrealized and realized gains (losses) on trading securities | **(182** | | **)** |  | 294 | |  |
| Interest and dividend income from trading securities | **51** | |  |  | 92 | |  |
| Net investment income (loss) from trading securities | **$** | **(131** | **)** |  | $ | 386 |  |

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

**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 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 (Conditional Tail Expectation, or “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 and 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 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 reinsurance of the GMIB features is accounted for as a derivative.

The Company has in place an economic hedge program using interest rate swaps and U.S. 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.

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

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 to Hedge Universal Life Products with Secondary Guarantee (“ULSG”) Policy

The Company implemented a hedge program using fixed income total return swaps to mitigate the interest rate exposure in the ULSG policy statutory liability.

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 remaining 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 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.

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.

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.

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

**Derivative Instruments by Category**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **At March 31, 2020** | | | | | | | | | | |  | **Three Months Ended March 31, 2020** | | |
|  |  | | |  | **Fair Value** | | | | | | |  |
|  | **Notional Amount** | | |  | **Derivative Assets** | | |  | **Derivative Liabilities** | | |  | **Net Derivative Gains (Losses) (2)** | | |
|  | **(in millions)** | | | | | | | | | | | | | | |
| **Derivative instruments:** |  | | |  |  | | |  |  | | |  |  | | |
| Freestanding derivatives (1): |  | | |  |  | | |  |  | | |  |  | | |
| Equity contracts: |  | | |  |  | | |  |  | | |  |  | | |
| Futures | **$** | **6,317** |  |  | **$** | **2** |  |  | **$** | **5** |  |  | **$** | **220** |  |
| Swaps | **12,947** | |  |  | **585** | |  |  | **124** | |  |  | **3,778** | |  |
| Options | **30,050** | |  |  | **2,547** | |  |  | **3,086** | |  |  | **(3,851** | | **)** |
| Interest rate contracts: |  | | |  |  | | |  |  | | |  |  | | |
| Swaps | **22,896** | |  |  | **2,475** | |  |  | **343** | |  |  | **3,578** | |  |
| Futures | **26,713** | |  |  | **—** | |  |  | **—** | |  |  | **1,988** | |  |
| Swaptions | **—** | |  |  | **—** | |  |  | **—** | |  |  | **9** | |  |
| Credit contracts: |  | | |  |  | | |  |  | | |  |  | | |
| Credit default swaps | **1,507** | |  |  | **26** | |  |  | **22** | |  |  | **(1** | | **)** |
| Other freestanding contracts: |  | | |  |  | | |  |  | | |  |  | | |
| Foreign currency contracts | **430** | |  |  | **9** | |  |  | **8** | |  |  | **(2** | | **)** |
| Margin | **—** | |  |  | **107** | |  |  | **171** | |  |  | **—** | |  |
| Collateral | **—** | |  |  | **29** | |  |  | **3,757** | |  |  | **—** | |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| Embedded derivatives: |  | | |  |  | | |  |  | | |  |  | | |
| GMIB reinsurance contracts (3) | **—** | |  |  | **2,823** | |  |  | **—** | |  |  | **726** | |  |
| GMxB derivative features liability (4) | **—** | |  |  | **—** | |  |  | **9,727** | |  |  | **(1,198** | | **)** |
| SCS, SIO, MSO and IUL indexed features (5) | **—** | |  |  | **—** | |  |  | **(940** | | **)** |  | **4,154** | |  |
| **Total derivative instruments** | **$** | **100,860** |  |  | **$** | **8,603** |  |  | **$** | **16,303** |  |  |  | |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| **Net derivative gains (losses)** |  | | |  |  | | |  |  | | |  | **$** | **9,401** |  |

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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 GMIB reinsurance contract asset in the consolidated balance sheets. |

|  |  |
| --- | --- |
|  |  |
| (4) | Reported in Future policy benefits and other policyholders’ liabilities in the consolidated balance sheets. |

|  |  |
| --- | --- |
|  |  |
| (5) | Reported in Policyholders’ account balances in the consolidated balance sheets. |

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

**Derivative Instruments by Category**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | At December 31, 2019 | | | | | | | | | | |  | Three Months Ended March 31, 2019 | | |
|  |  | | |  | Fair Value | | | | | | |  |
|  | Notional Amount | | |  | Derivative Assets | | |  | Derivative Liabilities | | |  | Net Derivative  Gains (Losses) (2) | | |
|  | (in millions) | | | | | | | | | | | | | | |
| **Derivative instruments:** |  | | |  |  | | |  |  | | |  |  | | |
| Freestanding derivatives (1): |  | | |  |  | | |  |  | | |  |  | | |
| Equity contracts: |  | | |  |  | | |  |  | | |  |  | | |
| Futures | $ | 4,257 |  |  | $ | 1 |  |  | $ | 1 |  |  | $ | (762 | ) |
| Swaps | 17,156 | |  |  | 9 | |  |  | 281 | |  |  | (985 | | ) |
| Options | 47,861 | |  |  | 5,098 | |  |  | 1,752 | |  |  | 1,111 | |  |
| Interest rate contracts: |  | | |  |  | | |  |  | | |  |  | | |
| Swaps | 23,793 | |  |  | 468 | |  |  | 526 | |  |  | 648 | |  |
| Futures | 20,901 | |  |  | — | |  |  | — | |  |  | 56 | |  |
| Swaptions | 3,201 | |  |  | 16 | |  |  | — | |  |  | — | |  |
| Credit contracts: |  | | |  |  | | |  |  | | |  |  | | |
| Credit default swaps | 1,400 | |  |  | 21 | |  |  | 6 | |  |  | 7 | |  |
| Other freestanding contracts: |  | | |  |  | | |  |  | | |  |  | | |
| Foreign currency contracts | 559 | |  |  | 12 | |  |  | 9 | |  |  | 10 | |  |
| Margin | — | |  |  | 155 | |  |  | — | |  |  | — | |  |
| Collateral | — | |  |  | 74 | |  |  | 3,016 | |  |  | — | |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| Embedded derivatives: |  | | |  |  | | |  |  | | |  |  | | |
| GMIB reinsurance contracts (3) |  | | |  | 2,139 | |  |  | — | |  |  | 18 | |  |
| GMxB derivative features liability (4) | — | |  |  | — | |  |  | 8,432 | |  |  | (408 | | ) |
| SCS, SIO, MSO and IUL indexed features (5) | — | |  |  | — | |  |  | 3,268 | |  |  | (1,325 | | ) |
| Total derivative instruments | $ | 119,128 |  |  | $ | 7,993 |  |  | $ | 17,291 |  |  |  | |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| **Net derivative gains (losses)** |  | | |  |  | | |  |  | | |  | $ | (1,630 | ) |

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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 GMIB reinsurance contract asset in the consolidated balance sheets. |

|  |  |
| --- | --- |
|  |  |
| (4) | Reported in Future policy benefits and other policyholders’ liabilities in the consolidated balance sheets. |

|  |  |
| --- | --- |
|  |  |
| (5) | Reported in Policyholders’ account balances in the consolidated balance sheets. |

Equity-Based and Treasury Futures Contracts Margin

All outstanding equity-based and treasury futures contracts at March 31, 2020 and December 31, 2019 are exchange-traded and net settled daily in cash. At March 31, 2020 and December 31, 2019, respectively, 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 $466 million and $252 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 $651 million and $166 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 $159 million and $60 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

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

an ISDA Master Agreement and related CSA have been executed. At March 31, 2020 and December 31, 2019, respectively, the Company held $3.8 billion and $3.0 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 $29 million and $74 million at March 31, 2020 and December 31, 2019, respectively, in the normal operation of its collateral arrangements.

The following table presents information about the Company’s offsetting of financial assets and liabilities and derivative instruments at March 31, 2020:

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

**At March 31, 2020**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Gross Amount Recognized** | | |  | **Gross Amount Offset in the Balance Sheets** | | |  | **Net Amount Presented in the Balance Sheets** | | |  | **Gross Amount not Offset in the Balance Sheets (3)** | | |  | **Net Amount** | | |
|  | **(in millions)** | | | | | | | | | | | | | | | | | | |
| **Assets:** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Derivative assets (1) | **$** | **5,779** |  |  | **$** | **5,522** |  |  | **$** | **257** |  |  | **$** | **(162** | **)** |  | **$** | **95** |  |
| Other financial assets | **1,855** | |  |  | **—** | |  |  | **1,855** | |  |  | **—** | |  |  | **1,855** | |  |
| Other invested assets | **$** | **7,634** |  |  | **$** | **5,522** |  |  | **$** | **2,112** |  |  | **$** | **(162** | **)** |  | **$** | **1,950** |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| **Liabilities:** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Derivative liabilities (2) | **$** | **7,354** |  |  | **$** | **5,522** |  |  | **$** | **1,832** |  |  | **$** | **—** |  |  | **$** | **1,832** |  |
| Other financial liabilities | **3,884** | |  |  | **—** | |  |  | **3,884** | |  |  | **—** | |  |  | **3,884** | |  |
| Other liabilities | **$** | **11,238** |  |  | **$** | **5,522** |  |  | **$** | **5,716** |  |  | **$** | **—** |  |  | **$** | **5,716** |  |

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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) | Primarily financial instrument sent (held). |

The following table presents information about the Company’s offsetting of financial assets and liabilities and derivative instruments at December 31, 2019:

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

**At December 31, 2019**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Gross Amount Recognized | | |  | Gross Amount Offset in the Balance Sheets | | |  | Net Amount Presented in the Balance Sheets | | |  | Gross Amount not Offset in the Balance Sheets (3) | | |  | Net Amount | | |
|  | (in millions) | | | | | | | | | | | | | | | | | | |
| Assets: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Derivative assets (1) | $ | 5,852 |  |  | $ | 5,466 |  |  | $ | 386 |  |  | $ | (77 | ) |  | $ | 309 |  |
| Other financial instruments | 2,394 | |  |  | — | |  |  | 2,394 | |  |  | — | |  |  | 2,394 | |  |
| Other invested assets | $ | 8,246 |  |  | $ | 5,466 |  |  | $ | 2,780 |  |  | $ | (77 | ) |  | $ | 2,703 |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Liabilities: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Derivative liabilities (2) | $ | 5,512 |  |  | $ | 5,466 |  |  | $ | 46 |  |  | $ | — |  |  | $ | 46 |  |
| Other financial liabilities | 3,924 | |  |  | — | |  |  | 3,924 | |  |  | — | |  |  | 3,924 | |  |
| Other liabilities | $ | 9,436 |  |  | $ | 5,466 |  |  | $ | 3,970 |  |  | $ | — |  |  | $ | 3,970 |  |

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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)     Primarily financial instrument sent (held).

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

**5)    GOODWILL**

Goodwill represents the excess of purchase price over the estimated fair value of identifiable net assets acquired in a business combination. The Company tests goodwill for recoverability each annual reporting period at December 31 and at interim periods if facts or circumstances are indicative of potential impairment.

The carrying value of goodwill from the Company’s Investment Management and Research segment totaled $4.6 billion at both March 31, 2020 and December 31, 2019, resulting primarily from its investment in AB as well as direct strategic acquisitions of AB, including its purchase of Sanford C. Bernstein, Inc.

For purpose of testing this goodwill for impairment, the Company applied a discounted cash flow valuation technique to measure the fair value of the reporting unit, sourcing the underlying cash flows and assumptions from AB’s current business plan projections and adjusting the result to reflect the noncontrolling interest in AB as well as incremental taxes at the Company level as related to the form and structure of its investment in AB. During the first quarter of 2020, the unit price of AB declined significantly in response to the precipitous decline in the financial markets. As such, the Company performed an interim impairment evaluation of goodwill utilizing the discounted cash flow valuation technique and considered the results along with a number of other factors (including current market conditions) and determined that the fair value of the reporting unit exceeded its carrying value at March 31, 2020. As such, no goodwill impairment existed. The Company will continue to monitor and evaluate any events that may indicate an impairment of goodwill.

**6)    CLOSED BLOCK**

As a result of demutualization, the Company’s Closed Block was established in 1992 for the benefit of certain individual participating policies that were in force on that date. Assets, liabilities and earnings of the Closed Block are specifically identified to support its participating policyholders.

Assets allocated to the Closed Block inure solely to the benefit of the Closed Block policyholders and will not revert to the benefit of the Company. No reallocation, transfer, borrowing or lending of assets can be made between the Closed Block and other portions of the Company’s General Account, any of its Separate Accounts or any affiliate of the Company without the approval of the New York State Department of Financial Services (the “NYDFS”). Closed Block assets and liabilities are carried on the same basis as similar assets and liabilities held in the General Account. For more information on the Closed Block, see Note 5 to the Company’s consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2019.

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

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **March 31, 2020** | | |  | December 31, 2019 | | |
|  | **(in millions)** | | | | | | |
| **Closed Block Liabilities:** |  | | |  |  | | |
| Future policy benefits, policyholders’ account balances and other | **$** | **6,404** |  |  | $ | 6,478 |  |
| Policyholder dividend obligation | **—** | |  |  | 2 | |  |
| Other liabilities | **76** | |  |  | 38 | |  |
| Total Closed Block liabilities | **6,480** | |  |  | 6,518 | |  |
|  |  | | |  |  | | |
| **Assets Designated to the Closed Block:** |  | | |  |  | | |
| Fixed maturities available-for-sale, at fair value, net of allowance for credit losses of $0 and $0 (amortized cost of $3,557 and $3,558) | **3,684** | |  |  | 3,754 | |  |
| Mortgage loans on real estate, net of allowance for credit losses of $4 and $0 | **1,742** | |  |  | 1,759 | |  |
| Policy loans | **676** | |  |  | 706 | |  |
| Cash and other invested assets | **112** | |  |  | 82 | |  |
| Other assets | **133** | |  |  | 145 | |  |
| Total assets designated to the Closed Block | **6,347** | |  |  | 6,446 | |  |
|  |  | | |  |  | | |

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

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|  |  |  |  |  |  |  |  |
|  | **March 31, 2020** | | |  | December 31, 2019 | | |
|  | **(in millions)** | | | | | | |
| Excess of Closed Block liabilities over assets designated to the Closed Block | **133** | |  |  | 72 | |  |
| Amounts included in accumulated other comprehensive income (loss): |  | | |  |  | | |
| Net unrealized investment gains (losses), net of policyholders’ dividend obligation: $0 and $(2); and net of income tax: $27 and $41 | **111** | |  |  | 164 | |  |
| **Maximum future earnings to be recognized from Closed Block assets and liabilities** | **$** | **244** |  |  | $ | 236 |  |

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

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
|  | **(in millions)** | | | | | | |
| **Revenues:** |  | | |  |  | | |
| Premiums and other income | **$** | **42** |  |  | $ | 48 |  |
| Net investment income (loss) | **66** | |  |  | 67 | |  |
| Investment gains (losses), net | **—** | |  |  | (1 | | ) |
| Total revenues | **108** | |  |  | 114 | |  |
|  |  | | |  |  | | |
| **Benefits and Other Deductions:** |  | | |  |  | | |
| Policyholders’ benefits and dividends | **103** | |  |  | 121 | |  |
| Other operating costs and expenses | **—** | |  |  | 1 | |  |
| Total benefits and other deductions | **103** | |  |  | 122 | |  |
| Net income (loss), before income taxes | **5** | |  |  | (8 | | ) |
| Income tax (expense) benefit | **—** | |  |  | (1 | | ) |
| **Net income (loss)** | **$** | **5** |  |  | $ | (9 | ) |

**7)    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 without a NLG guarantee rider 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.

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

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

**For the Three Months Ended March 31, 2020 and 2019**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **GMDB** | | | | | | | | | | |  | **GMIB** | | | | | | | | | | |
|  | **Direct** | | |  | **Assumed** | | |  | **Ceded** | | |  | **Direct** | | |  | **Assumed** | | |  | **Ceded** | | |
|  | **(in millions)** | | | | | | | | | | | | | | | | | | | | | | |
| **Balance at January 1, 2020** | **4,784** | |  |  | **76** | |  |  | **(105** | | **)** |  | **4,691** | |  |  | **187** | |  |  | **(2,139** | | **)** |
| Paid guarantee benefits | **(111** | | **)** |  | **(6** | | **)** |  | **5** | |  |  | **(74** | | **)** |  | **(1** | | **)** |  | **20** | |  |
| Other changes in reserve | **379** | |  |  | **2** | |  |  | **(11** | | **)** |  | **1,682** | |  |  | **33** | |  |  | **(704** | | **)** |
| **Balance at March 31, 2020** | **$** | **5,052** |  |  | **$** | **72** |  |  | **$** | **(111** | **)** |  | **$** | **6,299** |  |  | **$** | **219** |  |  | **$** | **(2,823** | **)** |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Balance at January 1, 2019 | 4,659 | |  |  | 82 | |  |  | (113 | | ) |  | 3,743 | |  |  | 184 | |  |  | (1,732 | | ) |
| Paid guarantee benefits | (118 | | ) |  | (6 | | ) |  | 4 | |  |  | (56 | | ) |  | (1 | | ) |  | 21 | |  |
| Other changes in reserve | 129 | |  |  | 1 | |  |  | — | |  |  | 55 | |  |  | (1 | | ) |  | (29 | | ) |
| Balance at March 31, 2019 | $ | 4,670 |  |  | $ | 77 |  |  | $ | (109 | ) |  | $ | 3,742 |  |  | $ | 182 |  |  | $ | (1,740 | ) |

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

The liability for the GMxB derivative features, 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 8.

***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 March 31, 2020 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.

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

**at March 31, 2020**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **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 | **$** | **14,662** |  |  | **$** | **92** |  |  | **$** | **58** |  |  | **$** | **176** |  |  | **$** | **14,988** |  |
| Separate Accounts | **40,733** | |  |  | **7,887** | |  |  | **2,607** | |  |  | **27,713** | |  |  | **78,940** | |  |
| Total Account Values | **$** | **55,395** |  |  | **$** | **7,979** |  |  | **$** | **2,665** |  |  | **$** | **27,889** |  |  | **$** | **93,928** |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Net Amount at Risk, gross | **$** | **715** |  |  | **$** | **877** |  |  | **$** | **2,296** |  |  | **$** | **22,881** |  |  | **$** | **26,769** |  |
| Net Amount at Risk, net of amounts reinsured | **$** | **715** |  |  | **$** | **857** |  |  | **$** | **1,647** |  |  | **$** | **22,881** |  |  | **$** | **26,100** |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Average attained age of policyholders (in years) | **51.1** | |  |  | **67.8** | |  |  | **74.4** | |  |  | **69.6** | |  |  | **55.1** | |  |
| Percentage of policyholders over age 70 | **10.7** | | **%** |  | **46.4** | | **%** |  | **68.7** | | **%** |  | **51.6** | | **%** |  | **19.5** | | **%** |
| Range of contractually specified interest rates | **N/A** | | |  | **N/A** | | |  | **3% - 6%** | |  |  | **3% - 6.5%** | | |  | **3% - 6.5%** | | |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Guarantee Type** | | | | | | | | | | | | | | | | | | |
|  | **Return of Premium** | | |  | **Ratchet** | | |  | **Roll-Up** | | |  | **Combo** | | |  | **Total** | | |
|  | **(in millions, except age and interest rate)** | | | | | | | | | | | | | | | | | | |
| Variable annuity contracts with GMIB features |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Account Values invested in: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| General Account | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **18** |  |  | **$** | **228** |  |  | **$** | **246** |  |
| Separate Accounts | **—** | |  |  | **—** | |  |  | **20,724** | |  |  | **29,476** | |  |  | **50,200** | |  |
| Total Account Values | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **20,742** |  |  | **$** | **29,704** |  |  | **$** | **50,446** |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Net Amount at Risk, gross | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **1,360** |  |  | **$** | **17,568** |  |  | **$** | **18,928** |  |
| Net Amount at Risk, net of amounts reinsured | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **425** |  |  | **$** | **15,774** |  |  | **$** | **16,199** |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Average attained age of policyholders (in years) | **N/A** | | |  | **N/A** | | |  | **68.9** | |  |  | **69.7** | |  |  | **69.6** | |  |
| Weighted average years remaining until annuitization | **N/A** | | |  | **N/A** | | |  | **1.6** | |  |  | **0.3** | |  |  | **0.4** | |  |
| Range of contractually specified interest rates | **N/A** | | |  | **N/A** | | |  | **3% - 6%** | |  |  | **3% - 6.5%** | |  |  | **3% - 6.5%** | |  |

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

**at March 31, 2020**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **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 | **$** | **776** |  |  | **$** | **4,352** |  |  | **$** | **225** |  |  | **$** | **946** |  |  | **$** | **6,299** |  |
| Net Amount at Risk assumed | **$** | **13** |  |  | **$** | **627** |  |  | **$** | **22** |  |  | **$** | **263** |  |  | **$** | **925** |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Average attained age of policyholders (in years) | **68** | |  |  | **73** | |  |  | **78** | |  |  | **76** | |  |  | **73** | |  |
| Percentage of policyholders over age 70 | **46.3** | | **%** |  | **65.2** | | **%** |  | **80.7** | | **%** |  | **75.8** | | **%** |  | **65.0** | | **%** |
| 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 | **$** | **744** |  |  | **$** | **37** |  |  | **$** | **190** |  |  | **$** | **956** |  |  | **$** | **1,927** |  |
| Net Amount at Risk assumed | **$** | **2** |  |  | **$** | **3** |  |  | **$** | **46** |  |  | **$** | **445** |  |  | **$** | **496** |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Average attained age of policyholders (in years) | **72** | |  |  | **74** | |  |  | **72** | |  |  | **69** | |  |  | **71** | |  |
| Percentage of policyholders over age 70 | **65.1** | | **%** |  | **62.8** | | **%** |  | **61.5** | | **%** |  | **53.8** | | **%** |  | **59.1** | | **%** |
| 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” in Note 11 to the Company’s consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2019.

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

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

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**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
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|  | **March 31, 2020** | | | | | | |  | December 31, 2019 | | | | | | |
| **Mutual Fund Type** | **GMDB** | | |  | **GMIB** | | |  | GMDB | | |  | GMIB | | |
|  | **(in millions)** | | | | | | | | | | | | | | |
| Equity | **$** | **32,913** |  |  | **$** | **13,765** |  |  | $ | 42,489 |  |  | $ | 17,941 |  |
| Fixed income | **5,151** | |  |  | **2,680** | |  |  | 5,263 | |  |  | 2,699 | |  |
| Balanced | **39,965** | |  |  | **33,483** | |  |  | 45,871 | |  |  | 38,445 | |  |
| Other | **911** | |  |  | **272** | |  |  | 865 | |  |  | 263 | |  |
| Total | **$** | **78,940** |  |  | **$** | **50,200** |  |  | $ | 94,488 |  |  | $ | 59,348 |  |

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 Future policy benefits and other policyholders’ liabilities in the consolidated balance sheets, is summarized in the table below.

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|  |  |  |  |  |  |  |  |
|  | **Direct Liability (1)** | | | | | | |
|  | **Three Months Ended March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
|  | **(in millions)** | | | | | | |
| Balance at January 1, (2) | **897** | |  |  | 812 | |  |
| Paid guarantee benefits | **(13** | | **)** |  | (7 | | ) |
| Other changes in reserves | **41** | |  |  | 20 | |  |
| Balance at March 31, | **$** | **925** |  |  | $ | 825 |  |

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

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| (2) | The beginning balance for March 31, 2020 was reduced by $22 million to reflect the balance transferred to Assets held-for-sale at December 31, 2019. |

**8)    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:

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

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| 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. |

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|  |  |
| 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. |

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| 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 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

Assets and liabilities measured at fair value on a recurring basis are summarized below. At March 31, 2020 and December 31, 2019, 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.

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

**Fair Value Measurements at March 31, 2020 (1)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
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|  | **Level 1** | | |  | **Level 2** | | |  | **Level 3** | | |  | **Total** | | |
|  | **(in millions)** | | | | | | | | | | | | | | |
| **Assets** |  | | |  |  | | |  |  | | |  |  | | |
| Investments |  | | |  |  | | |  |  | | |  |  | | |
| Fixed maturities, AFS: |  | | |  |  | | |  |  | | |  |  | | |
| Corporate (2) | **$** | **—** |  |  | **$** | **47,137** |  |  | **$** | **1,185** |  |  | **$** | **48,322** |  |
| U.S. Treasury, government and agency | **—** | |  |  | **18,633** | |  |  | **—** | |  |  | **18,633** | |  |
| States and political subdivisions | **—** | |  |  | **689** | |  |  | **36** | |  |  | **725** | |  |
| Foreign governments | **—** | |  |  | **498** | |  |  | **—** | |  |  | **498** | |  |
| Residential mortgage-backed (3) | **—** | |  |  | **184** | |  |  | **—** | |  |  | **184** | |  |
| Asset-backed (4) | **—** | |  |  | **1,356** | |  |  | **40** | |  |  | **1,396** | |  |
| Commercial mortgage-backed | **—** | |  |  | **39** | |  |  | **—** | |  |  | **39** | |  |
| Redeemable preferred stock | **252** | |  |  | **272** | |  |  | **—** | |  |  | **524** | |  |
| Total fixed maturities, AFS | **252** | |  |  | **68,808** | |  |  | **1,261** | |  |  | **70,321** | |  |
| Other equity investments | **12** | |  |  | **—** | |  |  | **87** | |  |  | **99** | |  |
| Trading securities | **438** | |  |  | **6,059** | |  |  | **37** | |  |  | **6,534** | |  |
| Other invested assets: |  | | |  |  | | |  |  | | |  |  | |  |
| Short-term investments | **—** | |  |  | **142** | |  |  | **—** | |  |  | **142** | |  |
| Assets of consolidated VIEs/VOEs | **98** | |  |  | **365** | |  |  | **16** | |  |  | **479** | |  |
| Swaps | **—** | |  |  | **2,594** | |  |  | **—** | |  |  | **2,594** | |  |
| Credit default swaps | **—** | |  |  | **4** | |  |  | **—** | |  |  | **4** | |  |
| Futures | **(3** | | **)** |  | **—** | |  |  | **—** | |  |  | **(3** | | **)** |
| Options | **—** | |  |  | **(539** | | **)** |  | **—** | |  |  | **(539** | | **)** |
| Swaptions | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |
| Total other invested assets | **95** | |  |  | **2,566** | |  |  | **16** | |  |  | **2,677** | |  |
| Cash equivalents | **9,026** | |  |  | **—** | |  |  | **—** | |  |  | **9,026** | |  |
| Segregated securities | **—** | |  |  | **2,013** | |  |  | **—** | |  |  | **2,013** | |  |
| GMIB reinsurance contracts asset | **—** | |  |  | **—** | |  |  | **2,823** | |  |  | **2,823** | |  |
| Separate Accounts assets (5) | **102,853** | |  |  | **2,632** | |  |  | **—** | |  |  | **105,485** | |  |
| Total Assets | **$** | **112,676** |  |  | **$** | **82,078** |  |  | **$** | **4,224** |  |  | **$** | **198,978** |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| **Liabilities** |  | | |  |  | | |  |  | | |  |  | | |
| GMxB derivative features’ liability | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **9,727** |  |  | **$** | **9,727** |  |
| SCS, SIO, MSO and IUL indexed features’ liability | **—** | |  |  | **(940** | | **)** |  | **—** | |  |  | **(940** | | **)** |
| Liabilities of consolidated VIEs and VOEs | **1** | |  |  | **19** | |  |  | **—** | |  |  | **20** | |  |
| Contingent payment arrangements | **—** | |  |  | **—** | |  |  | **24** | |  |  | **24** | |  |
| Total Liabilities | **$** | **1** |  |  | **$** | **(921** | **)** |  | **$** | **9,751** |  |  | **$** | **8,831** |  |

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| (1) | Excludes amounts reclassified as Held-for-Sale. |

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| (2) | Corporate fixed maturities includes both public and private issues. |

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| (3) | Includes publicly traded agency pass-through securities and collateralized obligations. |

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| (4) | Includes credit-tranched securities collateralized by sub-prime mortgages and other asset types and credit tenant loans. |

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| (5) | Separate Accounts assets included in the fair value hierarchy exclude investments in entities that calculate NAV per share (or its equivalent) as a practical expedient. Such investments excluded from the fair value hierarchy include investments in real estate and commercial mortgages. At March 31, 2020, the fair value of such investments was $361 million. |

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

**Fair Value Measurements at December 31, 2019 (1)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
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|  | Level 1 | | |  | Level 2 | | |  | Level 3 | | |  | Total | | |
|  | (in millions) | | | | | | | | | | | | | | |
| Assets |  | | |  |  | | |  |  | | |  |  | | |
| Investments |  | | |  |  | | |  |  | | |  |  | | |
| Fixed maturities, AFS: |  | | |  |  | | |  |  | | |  |  | | |
| Corporate (2) | $ | — |  |  | $ | 46,942 |  |  | $ | 1,257 |  |  | $ | 48,199 |  |
| U.S. Treasury, government and agency | — | |  |  | 15,394 | |  |  | — | |  |  | 15,394 | |  |
| States and political subdivisions | — | |  |  | 666 | |  |  | 39 | |  |  | 705 | |  |
| Foreign governments | — | |  |  | 492 | |  |  | — | |  |  | 492 | |  |
| Residential mortgage-backed (3) | — | |  |  | 191 | |  |  | — | |  |  | 191 | |  |
| Asset-backed (4) | — | |  |  | 749 | |  |  | 100 | |  |  | 849 | |  |
| Commercial mortgage-backed (3) | — | |  |  | — | |  |  | — | |  |  | — | |  |
| Redeemable preferred stock | 239 | |  |  | 274 | |  |  | — | |  |  | 513 | |  |
| Total fixed maturities, AFS | 239 | |  |  | 64,708 | |  |  | 1,396 | |  |  | 66,343 | |  |
| Other equity investments | 13 | |  |  | — | |  |  | 97 | |  |  | 110 | |  |
| Trading securities | 500 | |  |  | 6,495 | |  |  | 36 | |  |  | 7,031 | |  |
| Other invested assets: |  | | |  |  | | |  |  | | |  |  | |  |
| Short-term investments | — | |  |  | 490 | |  |  | — | |  |  | 490 | |  |
| Assets of consolidated VIEs/VOEs | 132 | |  |  | 457 | |  |  | 17 | |  |  | 606 | |  |
| Swaps | — | |  |  | (327 | | ) |  | — | |  |  | (327 | | ) |
| Credit default swaps | — | |  |  | 15 | |  |  | — | |  |  | 15 | |  |
| Options | — | |  |  | 3,346 | |  |  | — | |  |  | 3,346 | |  |
| Swaptions | — | |  |  | 16 | |  |  | — | |  |  | 16 | |  |
| Total other invested assets | 132 | |  |  | 3,997 | |  |  | 17 | |  |  | 4,146 | |  |
| Cash equivalents | 3,497 | |  |  | — | |  |  | — | |  |  | 3,497 | |  |
| Segregated securities | — | |  |  | 1,095 | |  |  | — | |  |  | 1,095 | |  |
| GMIB reinsurance contracts asset | — | |  |  | — | |  |  | 2,139 | |  |  | 2,139 | |  |
| Separate Accounts assets (5) | 123,432 | |  |  | 2,892 | |  |  | — | |  |  | 126,324 | |  |
| Total Assets | $ | 127,813 |  |  | $ | 79,187 |  |  | $ | 3,685 |  |  | $ | 210,685 |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| Liabilities |  | | |  |  | | |  |  | | |  |  | | |
| GMxB derivative features’ liability | $ | — |  |  | $ | — |  |  | $ | 8,432 |  |  | $ | 8,432 |  |
| SCS, SIO, MSO and IUL indexed features’ liability | — | |  |  | 3,268 | |  |  | — | |  |  | 3,268 | |  |
| Liabilities of consolidated VIEs and VOEs | 1 | |  |  | 9 | |  |  | — | |  |  | 10 | |  |
| Contingent payment arrangements | — | |  |  | — | |  |  | 23 | |  |  | 23 | |  |
| Total Liabilities | $ | 1 |  |  | $ | 3,277 |  |  | $ | 8,455 |  |  | $ | 11,733 |  |

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| (1) | Excludes amounts reclassified as Held-for-Sale. |

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| (2) | Corporate fixed maturities includes both public and private issues. |

|  |  |
| --- | --- |
|  |  |
| (3) | Includes publicly traded agency pass-through securities and collateralized obligations. |

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| --- | --- |
|  |  |
| (4) | Includes credit-tranched securities collateralized by sub-prime mortgages and other asset types and credit tenant loans. |

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|  |  |
| (5) | Separate Accounts assets included in the fair value hierarchy exclude investments in entities that calculate NAV per share (or its equivalent) as a practical expedient. Such investments excluded from the fair value hierarchy include investments in real estate and commercial mortgages. At December 31, 2019, the fair value of such investments was $356 million. |

***Public Fixed Maturities***

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,

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

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.

***Private Fixed Maturities***

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.

***Freestanding Derivative Positions***

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.

Level Classifications of the Company’s Financial Instruments

***Financial Instruments Classified as Level 1***

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.

***Financial Instruments Classified as Level 2***

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 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.

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

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.

***Financial Instruments Classified as Level 3***

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, 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 $381 million and $110 million at March 31, 2020 and December 31, 2019, respectively, to recognize incremental counterparty non-performance risk and reduced the fair value of its GMIB reinsurance contract liabilities by $74 million and $25 million at March 31, 2020 and December 31, 2019, 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.

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

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.

Transfers of Financial Instruments Between Levels 2 and 3

During the three months ended March 31, 2020, AFS fixed maturities with fair values of $126 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 $0 million were transferred from Level 2 into the Level 3 classification. These transfers in the aggregate represent approximately 0.6% of total equity at March 31, 2020.

During the three months ended March 31, 2019, AFS fixed maturities with fair values of $69 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 $17 million were transferred from Level 2 into the Level 3 classification. These transfers in the aggregate represent approximately 0.6% of total equity at March 31, 2019.

The tables below present reconciliations for all Level 3 assets and liabilities at March 31, 2020 and 2019, respectively:

**Level 3 Instruments - Fair Value Measurements**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Corporate** | | |  | **State and Political Subdivisions** | | |  | **Asset- backed** | | |
|  | **(in millions)** | | | | | | | | | | |
| **Balance, January 1, 2020** | **$** | **1,257** |  |  | **$** | **39** |  |  | **$** | **100** |  |
| Total gains and (losses), realized and unrealized, included in: |  | | |  |  | | |  |  | | |
| Net income (loss) as: |  | | |  |  | | |  |  | | |
| Net investment income (loss) | **1** | |  |  | **—** | |  |  | **—** | |  |
| Investment gains (losses), net | **(2** | | **)** |  | **—** | |  |  | **—** | |  |
| Subtotal | **(1** | | **)** |  | **—** | |  |  | **—** | |  |
| Other comprehensive income (loss) | **(61** | | **)** |  | **(3** | | **)** |  | **(8** | | **)** |
| Purchases | **61** | |  |  | **—** | |  |  | **48** | |  |
| Sales | **(45** | | **)** |  | **—** | |  |  | **—** | |  |
| Transfers into Level 3 (1) | **—** | |  |  | **—** | |  |  | **—** | |  |
| Transfers out of Level 3 (1) | **(26** | | **)** |  | **—** | |  |  | **(100** | | **)** |
| **Balance, March 31, 2020** | **$** | **1,185** |  |  | **$** | **36** |  |  | **$** | **40** |  |
|  |  | | |  |  | | |  |  | | |
| Balance, January 1, 2019 | $ | 1,186 |  |  | $ | 39 |  |  | $ | 519 |  |
| Total gains and (losses), realized and unrealized, included in: |  | | |  |  | | |  |  | | |
| Net income (loss) as: |  | | |  |  | | |  |  | | |
| Net investment income (loss) | 1 | |  |  | — | |  |  | — | |  |
| Investment gains (losses), net | — | |  |  | — | |  |  | — | |  |
| Subtotal | 1 | |  |  | — | |  |  | — | |  |
| Other comprehensive income (loss) | 9 | |  |  | 1 | |  |  | 4 | |  |
| Purchases | 70 | |  |  | — | |  |  | 11 | |  |
| Sales | (34 | | ) |  | — | |  |  | — | |  |
| Transfers into Level 3 (1) | 17 | |  |  | — | |  |  | — | |  |
| Transfers out of Level 3 (1) | (69 | | ) |  | — | |  |  | — | |  |
| Balance, March 31, 2019 | $ | 1,180 |  |  | $ | 40 |  |  | $ | 534 |  |

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

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Other Equity Investments** | | |  | **GMIB Reinsurance**  **Contract Asset** | | |  | **Separate Accounts Assets** | | |  | **GMxB Derivative Features Liability** | | |  | **Contingent Payment Arrangement** | | |
|  | **(in millions)** | | | | | | | | | | | | | | | | | | |
| **Balance, January 1, 2020** | **$** | **150** |  |  | **$** | **2,139** |  |  | **$** | **—** |  |  | **$** | **(8,432** | **)** |  | **$** | **(23** | **)** |
| Realized and unrealized gains (losses), included in Net income (loss) as: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Investment gains (losses), net | **7** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |
| Net derivative gains (losses), excluding non-performance risk | **—** | |  |  | **955** | |  |  | **—** | |  |  | **(3,884** | | **)** |  | **—** | |  |
| Non-performance risk (1) | **—** | |  |  | **(229** | | **)** |  | **—** | |  |  | **2,686** | |  |  | **—** | |  |
| Total realized and unrealized gains (losses) | **7** | |  |  | **726** | |  |  | **—** | |  |  | **(1,198** | | **)** |  | **—** | |  |
| Other comprehensive income (loss) | **(7** | | **)** |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |
| Purchases (2) | **2** | |  |  | **10** | |  |  | **—** | |  |  | **(111** | | **)** |  | **—** | |  |
| Sales (3) | **(11** | | **)** |  | **(20** | | **)** |  | **—** | |  |  | **14** | |  |  | **—** | |  |
| Settlements (4) | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |
| Change in estimate (5) | **—** | |  |  | **(32** | | **)** |  | **—** | |  |  | **—** | |  |  | **—** | |  |
| Activity related to consolidated VIEs/VOEs | **(1** | | **)** |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **(1** | | **)** |
| Transfers into Level 3 (6) | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |
| Transfers out of Level 3 (6) | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |
| **Balance, March 31, 2020** | **$** | **140** |  |  | **$** | **2,823** |  |  | **$** | **—** |  |  | **$** | **(9,727** | **)** |  | **$** | **(24** | **)** |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Balance, January 1, 2019 | $ | 165 |  |  | $ | 1,732 |  |  | $ | 21 |  |  | $ | (5,614 | ) |  | $ | (7 | ) |
| Realized and unrealized gains (losses), included in Net income (loss) as: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Investment gains (losses), net | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |
| Net derivative gains (losses), excluding non-performance risk | — | |  |  | (11 | | ) |  | — | |  |  | 63 | |  |  | — | |  |
| Non-performance risk (1) | — | |  |  | 29 | |  |  | — | |  |  | (470 | | ) |  | — | |  |
| Total realized and unrealized gains (losses) | — | |  |  | 18 | |  |  | — | |  |  | (407 | | ) |  | — | |  |
| Other comprehensive income (loss) | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |
| Purchases (2) | 2 | |  |  | 11 | |  |  | 4 | |  |  | (111 | | ) |  | — | |  |
| Sales (3) | — | |  |  | (21 | | ) |  | — | |  |  | 6 | |  |  | — | |  |
| Settlements (4) | — | |  |  | — | |  |  | (1 | | ) |  | — | |  |  | — | |  |
| Change in estimate | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |
| Activity related to consolidated VIEs/VOEs | (1 | | ) |  | — | |  |  | — | |  |  | — | |  |  | — | |  |
| Transfers into Level 3 (6) | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |
| Transfers out of Level 3 (6) | (29 | | ) |  | — | |  |  | (1 | | ) |  | — | |  |  | — | |  |
| Balance, March 31, 2019 | $ | 137 |  |  | $ | 1,740 |  |  | $ | 23 |  |  | $ | (6,126 | ) |  | $ | (7 | ) |

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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. |

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

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

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| --- | --- |
|  |  |
| (5) | For the GMIB reinsurance contract asset, represents a transfer from amounts due from reinsurers. |

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| --- | --- |
|  |  |
| (6) | 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 three months ended March 31, 2020 and 2019 by category for Level 3 assets and liabilities still held at March 31, 2020 and 2019, respectively.

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

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

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Net Income (Loss)** | | |  |  | | |
|  | **Net Derivative Gains (Losses)** | | |  | **OCI** | | |
|  | **(in millions)** | | | | | | |
| **Held at March 31, 2020:** |  | | |  |  | | |
| Change in unrealized gains (losses): |  | | |  |  | | |
| Fixed maturities, AFS |  | | |  |  | | |
| Corporate | **$** | **—** |  |  | **$** | **(61** | **)** |
| State and political subdivisions | **—** | |  |  | **(2** | | **)** |
| Asset-backed | **—** | |  |  | **(8** | | **)** |
| Total fixed maturities, AFS | — | |  |  | (71 | | ) |
| GMIB reinsurance contracts | **726** | |  |  | **—** | |  |
| GMxB derivative features liability | **(1,198** | | **)** |  | **—** | |  |
| Total | **$** | **(472** | **)** |  | **$** | **(71** | **)** |
|  |  | | |  |  | | |
| Held at March 31, 2019: |  | | |  |  | | |
| Change in unrealized gains (losses): |  | | |  |  | | |
| Fixed maturities, AFS |  | | |  |  | | |
| Corporate | $ | — |  |  | $ | 9 |  |
| State and political subdivisions | — | |  |  | 1 | |  |
| Asset-backed | — | |  |  | 4 | |  |
| Total fixed maturities, AFS | — | |  |  | 14 | |  |
| GMIB reinsurance contracts | 18 | |  |  | — | |  |
| GMxB derivative features liability | (408 | | ) |  | — | |  |
| Total | $ | (390 | ) |  | $ | 14 |  |

Quantitative and Qualitative Information about Level 3 Fair Value Measurements

The following tables disclose quantitative information about Level 3 fair value measurements by category for assets and liabilities at March 31, 2020 and December 31, 2019, respectively.

**Quantitative Information about Level 3 Fair Value Measurements at March 31, 2020**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Fair**  **Value** | | |  | **Valuation**  **Technique** |  | **Significant**  **Unobservable Input** |  | **Range** |  | **Weighted Average (2)** |
|  | **(in millions)** | | | | | | | | |  |  |
| **Assets:** |  | | |  |  |  |  |  |  |  |  |
| Investments: |  | | |  |  |  |  |  |  |  |  |
| Fixed maturities, AFS: |  | | |  |  |  |  |  |  |  |  |
| Corporate | **$** | **63** |  |  | Matrix pricing model |  | Spread over Benchmark |  | **15 - 580 bps** |  | **264 bps** |
|  | **1,034** | |  |  | Market comparable  companies |  | EBITDA multiples Discount rate  Cash flow multiples |  | **3.2x - 31.5x 6.0% - 25.2% 0.8x - 25.8x** |  | **14.0x 10.1% 11.1x** |
| Other equity investments | **37** | |  |  | Discounted cash flow |  | Earnings multiple Discount factor Discount years |  | **8.0x 10.0% 11** |  |  |
| GMIB reinsurance contract asset | **2,823** | |  |  | Discounted cash flow |  | Non-performance risk Lapse rates Withdrawal rates Utilization rates Volatility rates - Equity Mortality rates (1): Ages 0 - 40 Ages 41 - 60 Ages 61 - 115 |  | **144 - 293 bps 0.8% - 10% 0.0% - 8.0% 0.0% - 49.0% 20.0% - 37.0%  0.01% - 0.18% 0.07% - 0.54% 0.42% - 42.20%** |  | **233 bps 1.56% 1.19% 6.59% 27%  All Ages 2.71%** |

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Fair**  **Value** | | |  | **Valuation**  **Technique** |  | **Significant**  **Unobservable Input** |  | **Range** |  | **Weighted Average (2)** |
| **Liabilities:** |  | | |  |  |  |  |  |  |  |  |
| GMIBNLG | **9,308** | |  |  | Discounted cash flow |  | Non-performance risk Lapse rates Withdrawal rates Annuitization Mortality rates (1): Ages 0 - 40 Ages 41 - 60 Ages 61 - 115 |  | **304 bps 0.8% - 19.9% 0.3% - 11.0% 0.0% - 100%  0.01% - 0.19% 0.06% - 0.53% 0.41% - 41.39%** |  | **2.75% 1.21% 6.46%  All Ages 1.34%** |
| Assumed GMIB Reinsurance Contracts | **218** | |  |  | Discounted cash flow |  | Non-performance risk  Lapse rates Withdrawal rates (Age 0 - 85) Withdrawal rates (Age 86+) Utilization rates Volatility rates - Equity |  | **201 - 419 bps 1.1% - 11.1% 0.6% - 22.2% 1.1% - 100.0% 0.0% - 30.0% 20.0% - 37.0%** |  | **357 bps 1.56% All Ages 1.19%  6.59% 27%** |
| GWBL/GMWB | **146** | |  |  | Discounted cash flow |  | Non-performance risk Lapse rates Withdrawal rates Utilization rates  Volatility rates - Equity |  | **304 bps 0.8% - 10.0% 0.0% - 7.0% 100% after starting 20.0% - 37.0%** |  | **1.75% 1.19%   27%** |
| GIB | **38** | |  |  | Discounted cash flow |  | Non-performance risk Lapse rates Withdrawal rates Utilization rates Volatility rates - Equity |  | **304 bps 1.2% - 19.9% 0.0% - 8.0% 0.0% - 100.0% 20.0% - 37.0%** |  | **1.75% 1.19% 6.59% 27%** |
| GMAB | **17** | |  |  | Discounted cash flow |  | Non-performance risk Lapse rates Volatility rates - Equity |  | **304 bps 1.0% - 10.0% 20.0% - 37.0%** |  | **1.75% 27%** |

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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. |

|  |  |
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|  |  |
| (2) | For Lapses, Withdrawals, and Utilizations the rates were weighted by counts, for Mortality weighted average rates are shown for all ages combined and for Withdrawals the weighted averages were based on an estimated split of partial withdrawal and dollar-for-dollar withdrawals. |

**Quantitative Information about Level 3 Fair Value Measurements at December 31, 2019**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | Fair Value | | |  | Valuation Technique |  | Significant Unobservable Input |  | Range |  | Weighted Average |
|  | (in millions) | | | | | | | | |  |  |
| Assets: |  | | |  |  |  |  |  |  |  |  |
| Investments: |  | | |  |  |  |  |  |  |  |  |
| Fixed maturities, AFS: |  | | |  |  |  |  |  |  |  |  |
| Corporate | $ | 57 |  |  | Matrix pricing model |  | Spread over benchmark |  | 65 - 580 bps |  | 184 bps |
|  | 1,025 | |  |  | Market comparable companies |  | EBITDA multiples Discount rate Cash flow multiples |  | 3.3x - 56.7x 3.9% - 16.5% 0.8x - 48.1x |  | 14.3x 10.0% 10.7x |
| Other equity investments | 36 | |  |  | Discounted cash flow |  | Earnings multiple Discounts factor Discount years |  | 8.0x 10.0% 11 |  |  |
| GMIB reinsurance contract asset | 2,139 | |  |  | Discounted cash flow |  | Non-performance risk Lapse rates Withdrawal rates Utilization rates Volatility rates - Equity Mortality rates (1): Ages 0 - 40  Ages 41 - 60  Ages 60 - 115 |  | 55 - 109 bps 0.8% - 10% 0.0% - 8.0% 0.0% - 49.0% 9.0% - 30.0%  0.01% - 0.18% 0.07% - 0.54% 0.42% - 42.20% |  |  |

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | Fair Value | | |  | Valuation Technique |  | Significant Unobservable Input |  | Range |  | Weighted Average |
| Liabilities: |  | | |  |  |  |  |  |  |  |  |
| GMIBNLG | 8,128 | |  |  | Discounted cash flow |  | Non-performance risk Lapse rates Withdrawal rates Annuitization rates Mortality rates (1): Ages 0 - 40  Ages 41 - 60  Ages 60 - 115 |  | 124 bps 0.8% - 19.9% 0.3% - 11.0% 0.0% - 100%  0.01% - 0.19% 0.06% - 0.53% 0.41% - 41.39% |  |  |
| Assumed GMIB Reinsurance Contracts | 186 | |  |  | Discounted cash flow |  | Non-performance risk Lapse rates Withdrawal rates (Age 0 - 85) Withdrawal rates (Age 86+) Utilization rates Volatility rates - Equity |  | 61 - 141 bps 1.1% - 11.1% 0.6% - 22.2% 1.1% - 100.0% 0.0% - 30.0% 9.0% - 30.0% |  |  |
| GWBL/GMWB | 109 | |  |  | Discounted cash flow |  | Non-performance risk Lapse rates Withdrawal rates Utilization rates  Volatility rates - Equity |  | 124 bps 0.8% - 10.0% 0.0% - 7.0% 100% after starting 9.0% - 30.0% |  |  |
| GIB | 5 | |  |  | Discounted cash flow |  | Non-performance risk Lapse rates Withdrawal rates Utilization rates Volatility rates - Equity |  | 124 bps 1.2% - 19.9% 0.0% - 8.0% 0.0% - 100.0% 9.0% - 30.0% |  |  |
| GMAB | 4 | |  |  | Discounted cash flow |  | Lapse rates Volatility rates - Equity |  | 1.0% - 10.0% 9.0% - 30.0% |  |  |

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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. |

***Level 3 Financial Instruments for which Quantitative Inputs are Not Available***

Certain Privately Placed Debt Securities with Limited Trading Activity

Excluded from the tables above at March 31, 2020 and December 31, 2019, respectively, are approximately $267 million and $428 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.

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| --- | --- |
|  |  |
| • | 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 March 31, 2020 and December 31, 2019, 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. |

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

|  |  |
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|  |  |
| • | 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 March 31, 2020 and December 31, 2019, 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 pricing result. Significant increases (decreases) in spreads would have resulted in significantly lower (higher) fair value measurements. |

Other Equity Investments

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.

GMIB Reinsurance Contract Asset and GMxB Derivative Features Liability

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.

AB Contingent Consideration Payable

During 2019, AB recorded a $17 million contingent consideration payable for a 2019 acquisition based on projected fee revenues over a five-year measurement period. The liability was valued using expected revenue growth rates ranging from 0.7% to 2.5% 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. Additionally, AB recorded a $3 million change in estimate for the contingent consideration payable relating to a 2016 acquisition (the “2016 Acquisition”). The liability relating to this 2016 Acquisition was valued using a revised revenue growth rate of 50.0% over the remaining measurement periods and a 3.0% discount rate.

As of March 31, 2020 and December 31, 2019, acquisition-related contingent liabilities with a fair value of $24 million and $23 million, respectively, remain relating to the 2019 and 2016 Acquisitions.

Carrying Value of Financial Instruments Not Otherwise Disclosed in Note 3 and Note 4

The carrying values and fair values at March 31, 2020 and December 31, 2019 for financial instruments not otherwise disclosed in Note 3 and Note 4 are presented in the table below.

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Carrying Value** | | |  | **Fair Value** | | | | | | | | | | | | | | |
|  | **Level 1** | | |  | **Level 2** | | |  | **Level 3** | | |  | **Total** | | |
|  | **(in millions)** | | | | | | | | | | | | | | | | | | |
| **March 31, 2020:** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Mortgage loans on real estate | **$** | **12,123** |  |  | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **12,134** |  |  | **$** | **12,134** |  |
| Policy loans (1) | **$** | **3,720** |  |  | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **4,686** |  |  | **$** | **4,686** |  |
| Policyholders’ liabilities: Investment contracts (1) | **$** | **2,089** |  |  | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **2,201** |  |  | **$** | **2,201** |  |
| FHLBNY funding agreements | **$** | **6,759** |  |  | **$** | **—** |  |  | **$** | **6,835** |  |  | **$** | **—** |  |  | **$** | **6,835** |  |
| Short-term and long-term debt | **$** | **4,217** |  |  | **$** | **—** |  |  | **$** | **4,201** |  |  | **$** | **—** |  |  | **$** | **4,201** |  |
| Separate Accounts liabilities | **$** | **7,563** |  |  | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **7,563** |  |  | **$** | **7,563** |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| December 31, 2019: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Mortgage loans on real estate | $ | 12,107 |  |  | $ | — |  |  | $ | — |  |  | $ | 12,334 |  |  | $ | 12,334 |  |
| Policy loans (1) | $ | 3,735 |  |  | $ | — |  |  | $ | — |  |  | $ | 4,707 |  |  | $ | 4,707 |  |
| Policyholders’ liabilities: Investment contracts (1) | $ | 2,056 |  |  | $ | — |  |  | $ | — |  |  | $ | 2,167 |  |  | $ | 2,167 |  |
| FHLBNY funding agreements | $ | 6,909 |  |  | $ | — |  |  | $ | 6,957 |  |  | $ | — |  |  | $ | 6,957 |  |
| Short-term and long-term debt | $ | 4,111 |  |  | $ | — |  |  | $ | 4,476 |  |  | $ | — |  |  | $ | 4,476 |  |
| Separate Accounts liabilities | $ | 9,041 |  |  | $ | — |  |  | $ | — |  |  | $ | 9,041 |  |  | $ | 9,041 |  |

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| --- | --- |
|  |  |
| (1) | Excludes amounts reclassified as Held-for-Sale. |

***Mortgage Loans on Real Estate***

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.

***Policy Loans***

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.

***Short-term and Long-term Debt***

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 long-term debt are determined by Bloomberg’s evaluated pricing service, which uses direct observations or observed comparables.

***FHLB Funding Agreements***

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.

***Policyholder Liabilities - Investment Contracts and Separate Accounts Liabilities***

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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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

Financial Instruments Exempt from Fair Value Disclosure or Otherwise Not Required to be Disclosed

***Exempt from Fair Value Disclosure Requirements***

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.

***Otherwise Not Required to be Included in the Table Above***

The Company’s investment in Corporate Owned Life Insurance (“COLI”) policies are recorded at their cash surrender value and are therefore not required to be included in the table above. See Note 2 to the Company’s consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2019 for further description of the Company’s accounting policy related to its investment in COLI policies.

**9)    EMPLOYEE BENEFIT PLANS**

Pension Plans

***Holdings and Equitable Life Retirement Plans***

Holdings sponsors the MONY Life Retirement Income Security Plan for Employees and 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. These pension plans are non-contributory, and their benefits are generally based on a cash balance formula and/or, for certain participants, years of service and average earnings over a specified period. Holdings and Equitable Life also sponsor certain nonqualified defined benefit plans, including the AXA Equitable Excess Retirement Plan, that provide retirement benefits in excess of the amount permitted under the tax law for the qualified plans. Holdings has assumed primary liability for both plans. Equitable Life remains secondarily liable for its obligations under the AXA Equitable Life QP and would recognize such liability in the event Holdings does not perform.

***AB Retirement Plans***

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

***Net Periodic Pension Expense***

Components of net periodic pension expense for the Company’s qualified and non-qualified plans were as follows:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
|  | **(in millions)** | | | | | | |
| Service cost | **$** | **2** |  |  | $ | 2 |  |
| Interest cost | **16** | |  |  | 22 | |  |
| Expected return on assets | **(37** | | **)** |  | (38 | | ) |
| Actuarial (gain) loss | **—** | |  |  | — | |  |
| Net amortization | **22** | |  |  | 20 | |  |
| Net periodic pension expense | **$** | **3** |  |  | $ | 6 |  |

**10)    INCOME TAXES**

Income tax expense for the three months ended March 31, 2020 and 2019 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.

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

**11)    RELATED PARTY TRANSACTIONS**

The Company did not enter into any new significant transactions with related parties during the three months ended March 31, 2020.

**12)    EQUITY**

Dividends to Shareholders

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

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
| Dividends declared per share of common stock | **$** | **0.15** |  |  | $ | 0.13 |  |
| Dividends declared per depositary share (1) | **$** | **0.39** |  |  | $ | — |  |

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|  |  |
| (1) | Represents a 1/1,000th interest in a share of preferred stock. |

Share Repurchase

On November 6, 2019, Holdings’ Board of Directors authorized a $400 million share repurchase program with an expiration date of December 31, 2020. On February 26, 2020, Holdings’ Board of Directors authorized an increase of $600 million to the capacity of this program as well as the extension of the term of the program until March 31, 2021. Under this program, Holdings may, from time to time through March 31, 2021, purchase up to $1.0 billion of its common stock but it is not obligated to purchase any particular number of shares. Repurchases may be effected in the open market, through derivative, accelerated repurchase and other negotiated transactions and through prearranged trading plans complying with Rule 10b5-1(c) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

During the quarter ended March 31, 2020, the Holdings repurchased 13.7 million shares of its common stock in the open market. As of March 31, 2020, Holdings had capacity of approximately $395 million remaining in its stock repurchase program.

Accumulated Other Comprehensive Income (Loss)

AOCI represents cumulative gains (losses) on items that are not reflected in Net income (loss). The balances as of March 31, 2020 and 2019 follow:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
|  | **(in millions)** | | | | | | |
| Unrealized gains (losses) on investments | **$** | **3,272** |  |  | $ | 430 |  |
| Defined benefit pension plans | **(955** | | **)** |  | (919 | | ) |
| Foreign currency translation adjustments | **(78** | | **)** |  | (63 | | ) |
| Total accumulated other comprehensive income (loss) | **2,239** | |  |  | (552 | | ) |
| Less: Accumulated other comprehensive income (loss) attributable to noncontrolling interest | **(50** | | **)** |  | (39 | | ) |
| Accumulated other comprehensive income (loss) attributable to Holdings | **$** | **2,289** |  |  | $ | (513 | ) |

The components of OCI, net of taxes for the three months ended March 31, 2020 and 2019 follow:

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
|  | **(in millions)** | | | | | | |
| Change in net unrealized gains (losses) on investments: |  | | |  |  | | |
| Net unrealized gains (losses) arising during the period | **$** | **1,513** |  |  | $ | 1,342 |  |
| (Gains) losses reclassified into net income (loss) during the period (1) | **(47** | | **)** |  | 9 | |  |
| Net unrealized gains (losses) on investments | **1,466** | |  |  | 1,351 | |  |
| Adjustments for policyholders’ liabilities, DAC, insurance liability loss recognition and other | **(32** | | **)** |  | (517 | | ) |
| Change in unrealized gains (losses), net of adjustments (net of deferred income tax expense (benefit) of $382 and $218) | **1,434** | |  |  | 834 | |  |
| Change in defined benefit plans: |  | | |  |  | | |
| Reclassification to Net income (loss) of amortization of net prior service credit included in net periodic cost | **28** | |  |  | 49 | |  |
| Change in defined benefit plans (net of deferred income tax expense (benefit) of $7 and $12) | **28** | |  |  | 49 | |  |
| Foreign currency translation adjustments: |  | | |  |  | | |
| Foreign currency translation gains (losses) arising during the period | **(21** | | **)** |  | (1 | | ) |
| (Gains) losses reclassified into net income (loss) during the period | **—** | |  |  | — | |  |
| Foreign currency translation adjustment | **(21** | | **)** |  | (1 | | ) |
| Total other comprehensive income (loss), net of income taxes | **1,441** | |  |  | 882 | |  |
| Less: Other comprehensive income (loss) attributable to noncontrolling interest | **(8** | | **)** |  | (1 | | ) |
| Other comprehensive income (loss) attributable to Holdings | **$** | **1,449** |  |  | $ | 883 |  |

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|  |  |
| --- | --- |
|  |  |
| (1) | See “Reclassification adjustments” in Note 3. Reclassification amounts presented net of income tax expense (benefit) of $(12) million and $2 million for the three months ended March 31, 2020 and 2019, respectively |

Investment gains and losses reclassified from AOCI to Net income (loss) primarily consist of realized gains (losses) on sales and credit losses 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 amortization of net (gains) losses and net prior service cost (credit) recognized as a component of net periodic cost and reported in Compensation and benefits 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 are presented in the table that follows:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
|  | **(in millions)** | | | | | | |
| **Balance, beginning of period** | **$** | **365** |  |  | $ | 38 |  |
| Net earnings (loss) attributable to redeemable noncontrolling interests | **(30** | | **)** |  | 12 | |  |
| Purchase/change of redeemable noncontrolling interests | **(78** | | **)** |  | 157 | |  |
| **Balance, end of period** | **$** | **257** |  |  | $ | 207 |  |

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

**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 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, 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 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, 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 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 March 31, 2020, 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 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 Equitable Life implemented the volatility management strategy in violation of applicable law. Plaintiff seeks an award of damages individually and on a classwide basis, and costs and disbursements, including attorneys’ fees, expert witness fees and other costs. In November 2015, the Connecticut Federal District Court transferred this action to the United States District Court for the Southern District of New York.

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

In March 2017, the Southern District of New York granted 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 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 Equitable Life’s COI rate increase. In early 2016, 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 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 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 Equitable Life in New York state court. Equitable Life is vigorously defending each of these matters.

***Pre-Capitalized Trust Securities (“P-Caps”)***

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).

Obligations under Funding Agreements

***Federal Home Loan Bank of New York***

As a member of the FHLBNY, 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 Equitable Life to pledge qualified mortgage-backed assets and/or government securities as collateral. Equitable Life issues short-term funding agreements to the FHLBNY and uses the funds for asset, liability, and cash management purposes. Equitable Life issues long-term funding agreements to the FHLBNY and uses the funds for spread lending purposes.

Entering into FHLBNY membership, borrowings and funding agreements requires the ownership of FHLBNY stock and the pledge of assets as collateral. Equitable Life has purchased FHLBNY stock of $315 million and pledged collateral with a carrying value of $9.8 billion, as of March 31, 2020.

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

Funding agreements are reported in Policyholders’ account balances in the consolidated balance sheets. For other instruments used for asset/liability and cash management purposes, see “Derivative and offsetting assets and liabilities” included in Note 4. The table below summarizes the Company’s activity of funding agreements with the FHLBNY.

**Change in FHLBNY Funding Agreements during the Three Months Ended March 31, 2020**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Outstanding Balance at December 31, 2019** | | |  | **Issued During the Period** | | |  | **Repaid During the Period** | | |  | **Long-term Agreements Maturing Within One Year** | | |  | **Outstanding Balance at March 31, 2020** | | |
|  | **(in millions)** | | | | | | | | | | | | | | | | | | |
| Short-term funding agreements: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Due in one year or less | $ | 4,608 |  |  | **$** | **11,750** |  |  | **$** | **11,900** |  |  | **$** | **174** |  |  | **$** | **4,632** |  |
| Long-term funding agreements: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Due in years two through five | 1,646 | |  |  | **—** | |  |  | **—** | |  |  | **(174** | | **)** |  | **1,472** | |  |
| Due in more than five years | 646 | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **646** | |  |
| Total long-term funding agreements | 2,292 | |  |  | **—** | |  |  | **—** | |  |  | **(174** | | **)** |  | **2,119** | |  |
| Total funding agreements (1) | $ | 6,900 |  |  | **$** | **11,750** |  |  | **$** | **11,900** |  |  | **$** | **—** |  |  | **$** | **6,750** |  |

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| (1) | The $9 million and $9 million difference between the funding agreements carrying value shown in fair value table for March 31, 2020 and December 31, 2019, respectively, reflects the remaining amortization of a hedge implemented and closed, which locked in the funding agreements borrowing rates. |

Guarantees and Other Commitments

The Company provides certain guarantees or commitments to affiliates and others. At March 31, 2020, these arrangements include commitments by the Company to provide equity financing of $1.1 billion (including $220 million with affiliates) to certain limited partnerships and real estate joint ventures under certain conditions. Management believes the Company will not incur material losses as a result of these commitments.

The Company is the obligor under certain structured settlement agreements it had entered into with unaffiliated insurance companies and beneficiaries. To satisfy its obligations under these agreements, the Company owns single premium annuities issued by previously wholly-owned life insurance subsidiaries. The Company has directed payment under these annuities to be made directly to the beneficiaries under the structured settlement agreements. A contingent liability exists with respect to these agreements should the previously wholly-owned subsidiaries be unable to meet their obligations. Management believes the need for the Company to satisfy those obligations is remote.

Holdings had $426 million of commitments under existing mortgage loan agreements at March 31, 2020.

**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:

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| • | 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. |

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| • | 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. |

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| --- | --- |
|  |  |
| • | 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. |

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

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| --- | --- |
|  |  |
| • | 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.

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: (i) certain changes in the fair value of the derivatives and other securities we use to hedge these features; (ii) the effect of benefit ratio unlock adjustments related to extraordinary economic conditions or events such as COVID-19; and (iii) 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 credit loss impairments of securities/investments, sales or disposals of securities/investments, realized capital gains/losses and valuation allowances; |

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| --- | --- |
|  |  |
| • | 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, separation costs and impacts related to COVID-19; 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 permanent differences due to the Tax Reform Act. |

Revenues derived from any customer did not exceed 10% of revenues for the three months ended March 31, 2020 and 2019.

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 months ended March 31, 2020 and 2019, respectively:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
|  | **(in millions)** | | | | | | |
| Net income (loss) attributable to Holdings | **$** | **5,410** |  |  | $ | (775 | ) |
| Adjustments related to: |  | | |  |  | | |
| Variable annuity product features (1) | **(6,861** | | **)** |  | 1,540 | |  |
| Investment (gains) losses | **(4** | | **)** |  | 11 | |  |
| Net actuarial (gains) losses related to pension and other postretirement benefit obligations | **27** | |  |  | 24 | |  |
| Other adjustments (2) (3) | **634** | |  |  | 40 | |  |
| Income tax expense (benefit) related to above adjustments (4) | **1,303** | |  |  | (337 | | ) |
| Non-recurring tax items | **6** | |  |  | 6 | |  |
| Non-GAAP Operating Earnings | **$** | **515** |  |  | $ | 509 |  |
|  |  | | |  |  | | |

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
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|  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
|  | **(in millions)** | | | | | | |
| Operating earnings (loss) by segment: |  | | |  |  | | |
| Individual Retirement | **$** | **372** |  |  | $ | 370 |  |
| Group Retirement | **$** | **106** |  |  | $ | 81 |  |
| Investment Management and Research | **$** | **95** |  |  | $ | 77 |  |
| Protection Solutions | **$** | **38** |  |  | $ | 49 |  |
| Corporate and Other (5) | **$** | **(96** | **)** |  | $ | (68 | ) |

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|  |  |
| (1) | Includes COVID Impact on Variable annuity product features due to assumption update of $1.5 billion and other COVID-19 related impacts of $35 million three months ended March 31, 2020. |

|  |  |
| --- | --- |
|  |  |
| (2) | Includes assumption updates due to COVID-19 of $1.0 billion and other COVID-19 related impacts of $51 million three months ended March 31, 2020. |

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| --- | --- |
|  |  |
| (3) | Include separation costs of $32 million and $24 million for the three months ended March 31, 2020 and 2019, respectively. |

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|  |  |
| (4) | Includes income taxes of $(534) million for the above COVID-19 items for the three months ended March 31, 2020. |

|  |  |
| --- | --- |
|  |  |
| (5) | Includes interest expense and financing fees of $56 million and $52 million for the three months ended March 31, 2020 and 2019, 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, which includes credit loss impairments of securities/investments, sales or disposals of securities/investments, realized capital gains/losses and valuation allowances; |

|  |  |
| --- | --- |
|  |  |
| • | 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 months ended March 31, 2020 and 2019.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
|  | **(in millions)** | | | | | | |
| Segment revenues: |  | | |  |  | | |
| Individual Retirement (1) | **$** | **1,481** |  |  | $ | 1,007 |  |
| Group Retirement (1) | **282** | |  |  | 251 | |  |
| Investment Management and Research (2) | **907** | |  |  | 780 | |  |
| Protection Solutions (1) | **859** | |  |  | 831 | |  |
| Corporate and Other (1) | **299** | |  |  | 312 | |  |
| Adjustments related to: |  | | |  |  | | |
| Variable annuity product features | **8,339** | |  |  | (1,478 | | ) |
| Investment gains (losses), net | **4** | |  |  | (11 | | ) |
| Other adjustments to segment revenues (3) | **422** | |  |  | 22 | |  |
| Total revenues | **$** | **12,593** |  |  | $ | 1,714 |  |

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|  |  |
| --- | --- |
|  |  |
| (1) | Includes investment expenses charged by AB of $18 million and $18 million for the three months ended March 31, 2020 and 2019, respectively, for services provided to the Company. |

|  |  |
| --- | --- |
|  |  |
| (2) | Inter-segment investment management and other fees of $27 million and $25 million for the three months ended March 31, 2020 and 2019, respectively, are included in segment revenues of the Investment Management and Research segment. |

|  |  |
| --- | --- |
|  |  |
| (3) | Includes assumption updates due to COVID-19 of $46 million and other COVID-19 related impacts of $(51) million for the three months ended March 31, 2020. |

The table below presents Total assets by segment as of March 31, 2020 and December 31, 2019:

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

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| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **March 31, 2020** | | |  | December 31, 2019 | | |
|  | **(in millions)** | | | | | | |
| Total assets by segment: |  | | |  |  | | |
| Individual Retirement | **$** | **117,299** |  |  | $ | 123,626 |  |
| Group Retirement | **41,194** | |  |  | 43,588 | |  |
| Investment Management and Research | **11,915** | |  |  | 10,170 | |  |
| Protection Solutions | **45,266** | |  |  | 46,886 | |  |
| Corporate and Other | **25,107** | |  |  | 25,600 | |  |
| Total assets | **$** | **240,781** |  |  | $ | 249,870 |  |

**16)    EARNINGS PER COMMON SHARE**

Earnings per common share — basic is calculated by dividing Net income (loss) attributable to Holdings’ common shareholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share is calculated by dividing the Net income (loss) available to Holdings’ common shareholders by the weighted-average number of common shares outstanding for the period plus the shares representing the dilutive effect of share-based awards. The following table presents the weighted-average shares outstanding and Earnings per common share — basic and diluted:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
|  | **(in millions)** | | | | | | |
| Weighted-average common shares outstanding: |  | | |  |  | | |
| Weighted-average common shares outstanding — basic | **461.0** | |  |  | 518.0 | |  |
| Effect of dilutive potential common shares: |  | | |  |  | | |
| Employee share awards (1) | **2.5** | |  |  | — | |  |
| Weighted-average common shares outstanding — diluted (2) | **463.5** | |  |  | 518.0 | |  |
|  |  | | |  |  | | |
| Net income (loss): |  | | |  |  | | |
| Net income (loss) | **$** | **5,447** |  |  | $ | (709 | ) |
| Less: Net income (loss) attributable to the noncontrolling interest | **37** | |  |  | 66 | |  |
| Net income (loss) attributable to Holdings | **5,410** | |  |  | (775 | | ) |
| Less: Preferred stock dividends | **13** | |  |  | — | |  |
| Net income (loss) available to Holdings’ common shareholders | **5,397** | |  |  | (775 | | ) |
|  |  | | |  |  | | |
| Earnings per common share: |  | | |  |  | | |
| Basic | **$** | **11.71** |  |  | $ | (1.50 | ) |
| Diluted | **$** | **11.65** |  |  | $ | (1.50 | ) |

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

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|  |  |
| (2) | Due to net loss for the three months ended March 31, 2019, approximately 1 million more shares were excluded from the diluted earnings per common share calculation than would have been excluded as being anti-dilutive under the treasury stock method. |

For the three months ended March 31, 2020 and 2019, 6.0 million and 5.3 million outstanding stock awards, respectively, were not included in the computation of diluted earnings per share because their effect was anti-dilutive.

**17)     HELD-FOR-SALE:**

Assets and liabilities related to the business classified as held-for-sale are separately reported in the Consolidated Balance Sheets beginning in the period in which the business is classified as held-for-sale.

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

***U.S. Financial Life Insurance Company and MONY Life Insurance Company of the Americas, Ltd***

On December 10, 2019, Holdings entered into a definitive agreement to sell U.S. Financial Life Insurance Company (“USFL”) and MONY Life Insurance Company of the Americas, Ltd (“MLICA”), indirect wholly-owned subsidiaries of Holdings. As a result of the agreement, an estimated impairment of $105 million, net of income tax, was recorded during the quarter ended December 31, 2019 and was included in Investment gains (losses), net in the consolidated statements of income (loss). During the quarter ended March 31, 2020, the Company recorded an additional impairment of $39 million, net of income tax.

At March 31, 2020 and December 31, 2019, respectively, USFL and MLICA had total assets of $843 million and $962 million which is reported in Assets held-for-sale and $679 million and $724 million of total liabilities reported in Liabilities held-for-sale. The assets held-for-sale are reported in the Protection Solutions segment.

The transaction closed on April 1, 2020. See Note 18 for further detail of the sale.

The following table summarizes the components of assets and liabilities held-for-sale on the consolidated balance sheets at March 31, 2020 and December 31, 2019:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **March 31, 2020** | | |  | December 31, 2019 | | |
|  | **(in millions)** | | | | | | |
| **Assets:** |  | | |  |  | | |
| Fixed maturity securities | **$** | **860** |  |  | $ | 896 |  |
| Trading securities, at fair value | **14** | |  |  | 17 | |  |
| Policy loans | **20** | |  |  | 19 | |  |
| Cash and cash equivalents | **41** | |  |  | 65 | |  |
| Amounts due from reinsurers | **41** | |  |  | 43 | |  |
| Deferred policy acquisition costs | **31** | |  |  | 31 | |  |
| Other assets | **18** | |  |  | 24 | |  |
| Assets held-for-sale | **1,025** | |  |  | 1,095 | |  |
| Less: Loss accrual | **(182** | | **)** |  | (133 | | ) |
| **Total assets held-for-sale** | **$** | **843** |  |  | $ | 962 |  |
|  |  | | |  |  | | |
| **Liabilities:** |  | | |  |  | | |
| Policyholders’ account balances | **$** | **279** |  |  | $ | 286 |  |
| Future policy benefits and other policyholders’ liabilities | **398** | |  |  | 421 | |  |
| Amounts due to reinsurers | **(2** | | **)** |  | 6 | |  |
| Other liabilities | **4** | |  |  | 11 | |  |
| **Total liabilities held-for-sale** | **$** | **679** |  |  | $ | 724 |  |

**18)     SUBSEQUENT EVENTS**

U.S. Financial Life Insurance Company and MONY Life Insurance Company of the Americas, Ltd

On December 10, 2019, Holdings entered into a definitive agreement to sell USFL and MLICA. Accordingly, the assets and liabilities of USFL and MLICA were reported as “held-for-sale” in the Company’s consolidated balance sheets as of March 31, 2020 and December 31, 2019. In addition, the Company recognized an impairment loss in Investment gains (losses), net in the consolidated statements of income (loss) of $39 million and $105 million, net of income tax, during the quarters ended March 31, 2020 and December 31, 2019, respectively, as further described in Note 17. This transaction closed on April 1, 2020.

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**EQUITABLE HOLDINGS, INC.**

**Notes to Consolidated Financial Statements (Unaudited), Continued**

COVID-19 Pandemic

The Company has evaluated the effects of events subsequent to March 31, 2020, and through the date of the filing of these unaudited consolidated financial statements with the Securities and Exchange Commission. Subsequent to March 31, 2020, equity and financial markets have experienced significant volatility and interest rates have continued to decline due to the COVID-19 pandemic. The Company is currently unable to determine the extent of the impact of the pandemic to its operations and financial condition.

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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*](#sD52387E7F2525406A10DEEAC1A52DCE5)*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*](https://www.sec.gov/Archives/edgar/data/1333986/000133398620000015/eqh201910-k.htm)*for the year ended December 31, 2019 (“2019 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*](#sf7d3fb1ae7f54f0b9593fed10563716d)*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.

***COVID-19 Impact***

During the latter part of the first quarter of 2020, the COVID-19 pandemic negatively impacted the U.S. and global economies, created significant volatility and disruption in the capital markets, lowered equity market valuations, dramatically increased unemployment levels and fueled concerns that it will lead to a global recession. In addition, the pandemic resulted in the temporary closures of many businesses and schools and the institution of social distancing and sheltering in place requirements in many states and local communities. The effects from the pandemic have continued into May 2020 and are likely to persist for months to come. Governments around the world have responded to COVID-19 with economic stimulus measures, including a $2 trillion emergency relief bill passed in the U.S. These measures are intended to steady businesses and consumers until economic activity and financial markets meaningfully recover. The timing and magnitude of any such recovery, however, remains uncertain.

As a financial services company, factors such as the volatility and strength of equity markets, interest rates, consumer spending, and government debt and spending all affect the business and economic environment and, ultimately, the amount and profitability of our business. During the current economic downturn, the demand for our products and services and our investment returns could be materially and adversely affected. Action taken by state insurance departments, including the NYDFS, to require insurers to offer flexible premium payment plans, relax payment dates, waive late fees and penalties in order to avoid canceling or non-renewing polices may negatively affect our results of operations. Additionally, the profitability of many of our retirement, protection and investment products depends in part on the value of the AUM supporting them, which may decline substantially depending on any of the foregoing conditions. While our results for the first quarter of 2020 were strong, the ongoing economic impact and the potential for continued volatility and declines in the capital markets could have a significant adverse effect on our business, results of operations and financial condition, particularly if economic activity and financial markets do not recover or recover slowly.

While the COVID-19 pandemic significantly affected the capital markets and economy, we believe the actions we have previously taken help assure that our economic balance sheet is protected from interest rate and equity declines. These actions include redesigning our product portfolio to concentrate on offering less capital intensive products and implementing a hedging strategy that manages and protects against the economic risks associated with our in-force GMxB products. In addition to our hedging strategy, we employ various other methods to manage the risks of our in-force variable annuity products, including asset-liability matching, volatility management tools within the Separate Accounts and an active in-force management program,

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including buyout offers for certain products. Our General Account was impacted both from declining interest rates, which had a positive effect on fair value, and sharply increased credit spreads, which had a negative impact on fair value. Due to the General Account’s exposure to U.S. government bonds and credit quality of the portfolio, we feel that our balance sheet is well positioned to withstand the extreme volatility in the equity market.

In light of the unprecedented decline in long-term interest rates in the quarter, we updated our long-term GAAP interest rate assumption to grade from current rates over 10-years to the 5-year historical average (currently 2.25%). This change resulted in an unfavorable impact to net income of $(2.5) billion and no impact to Non-GAAP Operating Earnings. For additional information, see “—Significant Factors Impacting Our Results—Assumption Updates and Model Changes.”

Operationally, we acted quickly and implemented our risk management and contingency plans as the COVID-19 pandemic evolved during the quarter. For example, among other things, we implemented travel restrictions, imposed self-quarantine requirements for employees and advisors who were exposed to someone who tested positive or had traveled to certain countries with active COVID-19 outbreaks and, finally, we temporarily closed our corporate locations and advisor branch offices. As a result, most of our employee and advisors are working remotely with only a few operationally critical employees working at certain of our facilities for business continuity purposes. The remote working arrangement has detracted from the ability of our advisors to sell our products in the normal course and, as a result, the demand for our products and services has been impacted and going forward could decline significantly as the pandemic persists. We are also mindful that an extended period of remote work arrangements could strain our business continuity plans, introduce additional operational risk, including cybersecurity and privacy risks, and impair our ability to effectively manage our business.

While the COVID-19 pandemic has negatively impacted aspects of our business in the first quarter of 2020, the extent and nature of its impact is highly uncertain. For additional information regarding the potential impacts of the COVID-19 pandemic, see “Risk Factors—The novel coronavirus (COVID-19) pandemic has adversely impacted our business, and the ultimate effect on our business, results of operations and financial condition will depend on future developments that are highly uncertain, including the scope and duration of the pandemic and actions taken by governmental authorities in response to the pandemic.”

***Revenues***

Our revenues come from three principal sources:

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

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

|  |  |
| --- | --- |
|  |  |
| • | 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:

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

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

|  |  |
| --- | --- |
|  |  |
| • | 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

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benefit base. Sales commissions and compensation paid to intermediaries and advisors vary in relation to premium and fee 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***

Our actuaries oversee the valuation of the product liabilities and assets and review the underlying inputs and assumptions. We comprehensively review the actuarial assumptions underlying these valuations and update assumptions during the third quarter of each year. 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. Changes in assumptions can result in a significant change to the carrying value of product liabilities and assets and, consequently, the impact could be material to earnings in the period of the change.

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.

For further details of our accounting policies and related judgments pertaining to assumption updates, see Note 2  to the notes to the Company’s consolidated financial statements and “-Summary of Critical Accounting Estimates -Liability for Future Policy Benefits” included in the 2019 Form 10-K..

***Assumption Updates and Model Changes***

We conduct our annual review of our assumptions and models during the third quarter of each year. However, we update our assumptions as needed in the event we become aware of economic conditions or events that could change require a change in our assumptions that we believe may have a significant impact to the carrying value of product liabilities and assets and consequently materially impact our earnings in the period of the change.

Due to the extraordinary economic conditions driven by the COVID-19 pandemic in the first quarter of 2020, we updated our interest rate assumption to grade from the current spot interest rate to an ultimate five-year historical average over a 10-year period. As such, the 10-year U.S. Treasury yield grades from the current level to an ultimate 5-year average of 2.25%.

The low interest rates environment and subsequent update to the interest rate assumption caused a loss recognition event for our life interest-sensitive products, as well as to certain run-off business included in Corporate and Other. This loss recognition event caused an acceleration of DAC amortization on our life interest-sensitive products and an increase in the premium deficiency reserve on the run-off business in the first quarter of 2020.

*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 update during the three months ended March 31, 2020 to our Income (loss) from continuing operations, before income taxes and Net income (loss):

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|  | **Three Months Ended March 31, 2020** | | |
|  | **(in millions)** | | |
| Impact of assumption updates on Net income (loss): |  | | |
| Variable annuity product features related assumption update | $ | (1,468 | ) |
| Assumption updates for other business | (988 | | ) |
| Impact of assumption updates on Income (loss) from continuing operations, before income tax | (2,456 | | ) |
| Income tax (expense) benefit on assumption update | 516 | |  |
| Net income (loss) impact of assumption update | $ | (1,940 | ) |

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*2020 Assumption Update*

The impact of the economic assumption update in the first quarter of 2020 was a decrease of $2.5 billion to Income (loss) from continuing operations, before income taxes and a decrease to Net income (loss) of $1.9 billion.

The net impact of this assumption update on Income (loss) from continuing operations, before income taxes of $2.5 billion consisted of an increase in Policyholders’ benefits of $1.4 billion, an increase in the Amortization of DAC of $1.1 billion, an increase in Policy charges and fee income of $46 million and a decrease in Interest credited to policyholders’ account balances of $6 million.

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

The unprecedented and rapid spread of COVID-19 and the related restrictions and social distancing measures implemented throughout the world have caused severe, lasting turmoil in the financial markets during the first quarter of 2020.

The Company’s accounting policy governing its Non-GAAP Operating Earnings measure permits adjustments to Non-GAAP Operating Earnings if certain criteria are met, which include if the proposed adjustment relates to a non-recurring event or transaction. Management concluded that all impacts on the Company from the COVID-19 pandemic and its effects on the economy meet the indicators of a non-recurring event. Therefore, management has determined that the items set forth in the table below should be included as adjustments to the Non-GAAP Operating Earnings measure so that investors can more clearly see the delineation between the operating results of the Company’s core operations and the impact of the items specific to the current COVID-19 pandemic crisis. Management expects to continue to treat these items as adjustments to Non-GAAP Operating Earnings in the future.

The table below presents the impact of COVID-19 related impacts on Income (loss) from continuing operations, before income taxes during the first quarter of 2020 by segment and Corporate and Other, and the COVID-19-related adjustments included in the reconciliation of Net Income (loss) attributable to Holdings to Non-GAAP Operating Earnings:

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|  | **Three Months Ended March 31, 2020** | | | | | | | | | | |
|  | **COVID-19 Impacts** | | | | | | | | | | |
|  | **Interest Rate Assumption Update** | | |  | **Impacts other than Interest Rate Assumption Update (1)** | | |  | **Total** | | |
|  | **(in millions)** | | | | | | | | | | |
| Net income (loss) from continuing operations, before income taxes by Segment and Corporate and Other: |  | | |  |  | | |  |  | | |
| Individual Retirement | **$** | **(1,417** | **)** |  | **$** | **(44** | **)** |  | **$** | **(1,461** | **)** |
| Group Retirement | **(51** | | **)** |  | **3** | |  |  | **(48** | | **)** |
| Protection Solutions | **(955** | | **)** |  | **(32** | | **)** |  | **(987** | | **)** |
| Corporate and Other | **(33** | | **)** |  | **(13** | | **)** |  | **(46** | | **)** |
| Net income (loss) from continuing operations, before income taxes | **$** | **(2,456** | **)** |  | **$** | **(86** | **)** |  | **$** | **(2,542** | **)** |
|  |  | | |  |  | | |  |  | | |
| COVID-19-related adjustments included in Reconciliation of Net income (loss) attributable to Holdings to Non-GAAP Operating Earnings: |  | | |  |  | | |  |  | | |
| Variable annuities product features | **(1,468** | | **)** |  | **(35** | | **)** |  | **(1,503** | | **)** |
| Assumption update for other business | **(988** | | **)** |  | **(51** | | **)** |  | **(1,039** | | **)** |
| Net income (loss) from continuing operations, before income taxes | **$** | **(2,456** | **)** |  | **$** | **(86** | **)** |  | **$** | **(2,542** | **)** |

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(1) Includes adjustments to Non-GAAP Operating Earnings primarily due to non-variable annuity hedging impacts resulting from unprecedented volatility in equity markets.

Adjustments related to Individual Retirement and Group Retirement segments are included in the “Variable annuities product features” in the reconciliation of Net income (loss) attributable to Holdings to Non-GAAP Operating Earnings. All other adjustments are included in “Other”. This impact has been more than offset by hedging gains.

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**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***

Although the first quarter started strong, uncertainties were prevalent at the end of the quarter, as the capital markets reacted to the COVID-19 pandemic. As the pandemic evolved during the latter part of the quarter, equity markets experienced significant volatility and declines, interest rates dropped to historical lows and many state and local governments ordered non-essential businesses to close and residents to shelter in place at home. This resulted in an unprecedented slow-down in economic activity, a related dramatic increase in unemployment and fears of a global recession. 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 continue to 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 from which we derive our fee income. 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.

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 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. In addition, Holdings and its insurance subsidiaries are subject to regulation under the insurance holding company laws of various U.S. jurisdictions. Furthermore, 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 2019

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Form 10-K. Regulations recently adopted or currently under review can potentially impact our statutory reserve, capital requirements and profitability of the industry and result in increased regulation and oversight for the industry.

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| • | *COVID-19 Impact*. In March 2020, in connection with the COVID-19 pandemic, many U.S. state insurance regulators began issuing bulletins, directives and guidance encouraging, requesting or directing licensed life insurance companies to implement life insurance policy measures such as: providing grace periods to policyholders for the payment of insurance premiums and forbearing on the cancellation or non-renewal of life insurance policies due to non-payment of premium. In addition, some states’ governors have issued emergency orders and state insurance commissioners have promulgated emergency regulations requiring such actions. For example, the NYDFS, which is the domiciliary regulator of our principal insurance subsidiary, Equitable Life, promulgated a consolidated emergency regulation on March 30, 2020 requiring insurance company actions with respect to many lines of insurance. Among other requirements, the NYDFS’ Emergency Insurance Regulation 216 provides that where a policyholder can demonstrate financial hardship as a result of the COVID-19 pandemic, insurers authorized to write life insurance or annuities in the state must, with respect to group life insurance policies, extend grace periods for the payment of premiums and fees to 90 days. With respect to any life insurance policy or annuity contracts where the policyholder can demonstrate financial hardship as a result of the COVID-19 pandemic, New York licensed insurers are prohibited from imposing any late fees or reporting such policyholder to a credit reporting agency or debt collection agency in the event of a policyholder’s failure to timely pay premium and must permit policyholders who did not make a premium payment due to financial hardship as a result of the COVID-19 pandemic to pay the premium over a 12-month period. In connection with the NYDFS’ emergency measure, an insurer shall accept a policyholder’s written attestation as proof of financial hardship as a result of the COVID-19 pandemic. |

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| *•* | *Variable Annuity Capital Standards*. 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 became operational in January 2020. 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 adopted the NAIC reserve and capital framework for the year ended December 31, 2019. |

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| • | On February 26, 2020 the NYDFS adopted amendments to Regulation 213 that differ from the NAIC variable annuity reserve and capital framework. These amendments will not materially affect the Company’s GAAP financial condition, results of operations or stockholders’ equity.  However,  Regulation 213, as amended, absent management action, will require our principal insurance subsidiary, Equitable Life, to carry statutory basis reserves for its variable annuity contract obligations equal to the greater of those required under (i) the NAIC standard or (ii) a revised version of the NYDFS requirement in effect prior to the adoption of the amendment for contracts issued prior to January 1, 2020, and for policies issued after that date a new standard that we believe is more conservative than the NAIC standard.  Absent management action, we believe that the adoption of the amendments will materially increase the statutory basis reserves that Equitable Life will be required to carry and, will materially and adversely affect the capacity of Equitable Life to distribute dividends to the Company beyond 2020.  As a holding company, we rely on dividends and other payments from our subsidiaries and, accordingly, any material limitation on Equitable Life’s dividend capacity could materially affect our ability to return capital to stockholders through dividends and stock repurchases.  The Company is considering management actions to mitigate the impact of Regulation 213. These actions could include seeking further amendment of Regulation 213 or exemptive relief therefrom to make the regulation’s application to Equitable Life more consistent with the NAIC reserve and capital framework, as well as changing our underwriting practices to emphasize issuing variable annuity products out of subsidiaries which are not domiciled in New York, increasing the use of reinsurance and other corporate transactions intended to reduce the impact of the regulation.  There can be no assurance that any management action individually or collectively will fully mitigate the impact of Regulation 213. 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 DOL announced that it plans to issue revised fiduciary investment advice regulations. At this time, we cannot predict when those regulations will be issued, what form they may take or their potential impact |

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on us. In addition, the NAIC as well as state regulators either have adopted or 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 has amended its Suitability in Annuity Transactions Model Regulation to apply to a best interest of the consumer standard on insurance producers’ annuity recommendations and to require that insurers supervise such recommendations, 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 took effect on February 1, 2020 for life insurance sales and is applicable to sales of life insurance and annuity products in New York. We have developed our compliance framework for Regulation 187 with respect to annuity sales as well as our life insurance business. In addition, state regulators and legislatures in Nevada, New Jersey, Maryland and Massachusetts 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. Massachusetts has adopted such a regulation applying a fiduciary duty standard to broker-dealers and their agents, but it does not apply to insurance product sales, including variable annuities. 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 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 seven 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. Former Rep. Barney Frank, D-Mass, and former Sen. Chris Dodd, D-Conn, recently submitted an amicus brief supporting a lawsuit initiated by XY Planning Network against the SEC with respect to Regulation Best Interest, arguing that the regulation violates the rule-making mandate in the Dodd-Frank Act and, as a result, should be struck down. We are monitoring these developments and evaluating the potential effect they may have on our business. In addition, FINRA is also currently focusing on how broker-dealers identify and manage conflicts of interest. |

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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 2021 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 Commodity Futures Trading Commission of final margin requirements for OTC derivatives. Also, the SEC has finalized and adopted the final set of rules related to security-based swaps, which triggers the compliance date for security-based swap entities registration and compliance with previously adopted rules regarding margin, capital, segregation, recordkeeping and reporting and business conduct for security-based swaps. The rules became effective on April 6, 2020. The compliance date for registration of (i) security-based swap dealers that incur a registration obligation as a result of meeting certain thresholds to be set by the SEC on August 6, 2021 will be November 1, 2021 and (ii) major security-based swap participants that incur a registration obligation as a result of security-based swap activities in their quarter ending September 30, 2021 will be December 1, 2021. We continue to monitor developments and are evaluating the potential effect these rules might have on our business. |

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***Impact of the SECURE Act***

On December 20, 2019, President Trump signed into law the Setting Every Community Up for Retirement Enhancement Act of 2019 (the “SECURE Act”). The SECURE Act contains a number of provisions that affect the administration and operation of defined contribution plans such as 401(k) and 403(b) plans and IRAs, including provisions that encourage additional retirement savings and lifetime income options, promote the adoption of retirement plans by small employers, provide lifetime income portability, and accelerate the distribution of retirement benefits of deceased retirees. Many provisions of the SECURE Act become effective for plan years beginning after December 31, 2019. At this time, we cannot predict the impact the SECURE Act will have on our business, financial condition or results of operations.

***Impact of the CARES Act***

The Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was signed into law on March 27, 2020. Several tax provisions were included as part of a broad economic relief package. These include the temporary allowance of Net Operating Loss carrybacks and the acceleration of Alternative Minimum Tax (“AMT”) credit refunds. The Company is assessing the economic and financial statement impact of these provisions.

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

In December 2017, the Tax Reform Act was signed into law. The Tax Reform Act reduced the federal corporate income tax rate to 21% and repealed the corporate 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 our separation from AXA, 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, rebranding 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. These expenses, any recurring expenses, including under the Transitional Services Agreement, and any additional one-time expenses we may incur may be material. See “Risk Factors” in the 2019 Form 10-K for additional information.

We estimate that the aggregate amount of the one-time expenses described above will be approximately $700 million. Through March 31, 2020, a total of $564 million has been incurred, of which $32 million and $24 million was incurred in the three months ended March 31, 2020 and 2019, respectively.

**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 the end of 2020 since the date of our IPO.

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*Investment Management and Research Business*

AB has announced that it will establish its corporate headquarters in and relocate approximately 1,250 jobs located in the New York metro area to, Nashville, Tennessee. Beginning in 2025, AB estimates ongoing annual expense savings of approximately $75 million to $80 million.

**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 principally uses these non-GAAP financial measures in evaluating performance because they present a clearer picture of our operating performance and they allow management to allocate resources. Similarly, management believes that the use of these Non-GAAP financial measures, together with relevant U.S. GAAP measures, provide investors with 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.

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

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| • | Items related to variable annuity product features, which include: (i) certain changes in the fair value of the derivatives and other securities we use to hedge these features; (ii) the effect of benefit ratio unlock adjustments related to extraordinary economic conditions or events such as COVID-19; and (iii) 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 credit loss impairments of securities/investments, 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, separation costs and impacts related to COVID-19; 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 permanent differences due to 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.

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We use the prevailing corporate federal income tax rate of 21% in 2020 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 months ended March 31, 2020 and 2019:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
|  | **(in millions)** | | | | | | |
| Net income (loss) attributable to Holdings | **$** | **5,410** |  |  | $ | (775 | ) |
| Adjustments related to: |  | | |  |  | | |
| Variable annuity product features (1) | **(6,861** | | **)** |  | 1,540 | |  |
| Investment (gains) losses | **(4** | | **)** |  | 11 | |  |
| Net actuarial (gains) losses related to pension and other postretirement benefit obligations | **27** | |  |  | 24 | |  |
| Other adjustments (2) (3) | **634** | |  |  | 40 | |  |
| Income tax expense (benefit) related to above adjustments (4) | **1,303** | |  |  | (337 | | ) |
| Non-recurring tax items | **6** | |  |  | 6 | |  |
| Non-GAAP Operating Earnings | **$** | **515** |  |  | $ | 509 |  |

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|  |  |
| --- | --- |
|  |  |
| (1) | Includes COVID-19 impact on Variable annuity product features due to assumption update of $1.5 billion and other COVID-19 related impacts of $35 million for the three months ended March 31, 2020. |

|  |  |
| --- | --- |
|  |  |
| (2) | Includes assumption update due to COVID-19 of $1.0 billion and other COVID-19 related impacts of $51 million for the three months ended March 31, 2020. |

|  |  |
| --- | --- |
|  |  |
| (3) | Includes separation costs of $32 million and $24 million for the three months ended March 31, 2020 and 2019, respectively. |

|  |  |
| --- | --- |
|  |  |
| (4) | Includes income taxes of $(534) million for the above related COVID-19 items for the three months ended March 31, 2020. |

***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 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’ common shareholders, 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, reflecting the newly adopted NAIC RBC framework the company as of year end 2019. 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’ common shareholders, excluding AOCI and Non-GAAP Operating ROE for the trailing twelve months ended March 31, 2020.

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|  |  |  |  |
| --- | --- | --- | --- |
|  | | | |
|  |  |  |  |
|  | **Trailing Twelve Months Ended March 31, 2020** | | |
|  | **(in millions)** | | |
| Net income (loss) available to Holdings’ common shareholders | **$** | **4,439** |  |
| Average equity attributable to Holdings’ common shareholders, excluding AOCI | **$** | **14,094** |  |
| Return on average equity attributable to Holdings’ common shareholders, excluding AOCI | **31.5** | | **%** |
|  |  | | |
| Non-GAAP Operating Earnings available to Holdings’ common shareholders | **$** | **2,390** |  |
| Average equity attributable to Holdings’ common shareholders, excluding AOCI | **$** | **14,094** |  |
| Non-GAAP Operating ROE | **17.0** | | **%** |

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 March 31, 2020.

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Trailing Twelve Months Ended March 31, 2020** | | | | | | | | | | |
|  | **Individual Retirement** | | |  | **Group Retirement** | | |  | **Protection Solutions** | | |
|  | **(in millions)** | | | | | | | | | | |
| Operating earnings | **$** | **1,579** |  |  | **$** | **415** |  |  | **$** | **385** |  |
| Average capital (1) | **$** | **7,327** |  |  | **$** | **1,271** |  |  | **$** | **2,820** |  |
| Non-GAAP Operating ROC | **21.6** | | **%** |  | **32.7** | | **%** |  | **13.7** | | **%** |

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|  |  |
| --- | --- |
|  |  |
| (1) | 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, reflecting the newly adopted NAIC RBC framework the company as of year end 2019. |

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

Non-GAAP Operating Earnings per common 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 months ended March 31, 2020 and 2019.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
|  | **(per share amounts)** | | | | | | |
| Net income (loss) attributable to Holdings (1) | **$** | **11.67** |  |  | $ | (1.50 | ) |
| Less: Preferred stock dividends | **0.02** | |  |  | — | |  |
| Net income (loss) available to Holdings’ common shareholders | **11.65** | |  |  | (1.50 | | ) |
| Adjustments related to: |  | | |  |  | | |
| Variable annuity product features (2) | **(14.80** | | **)** |  | 2.97 | |  |
| Investment (gains) losses | **(0.01** | | **)** |  | 0.02 | |  |
| Net actuarial (gains) losses related to pension and other postretirement benefit obligations | **0.06** | |  |  | 0.05 | |  |
| Other adjustments (3) (4) | **1.36** | |  |  | 0.08 | |  |
| Income tax expense (benefit) related to above adjustments (5) | **2.81** | |  |  | (0.65 | | ) |
| Non-recurring tax items | **0.01** | |  |  | 0.01 | |  |
| Non-GAAP Operating Earnings per common share | **$** | **1.08** |  |  | $ | 0.98 |  |

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|  |  |
| --- | --- |
|  |  |
| (1) | Due to reporting a net loss for the three months ended March 31, 2019, basic shares was used in the diluted earnings per common share calculation as the use of diluted shares would have resulted in a lower loss per share. |

|  |  |
| --- | --- |
|  |  |
| (2) | Includes COVID-19 impact on Variable annuity product features due to assumption update of $3.17 and other COVID-19 related impacts of $0.08 for the three months ended March 31, 2020. |

|  |  |
| --- | --- |
|  |  |
| (3) | Includes assumption update due to COVID-19 of $2.13 and other COVID-19 related impacts of $0.11 for the three months ended March 31, 2020. |

|  |  |
| --- | --- |
|  |  |
| (4) | Includes separation costs of $0.07 and $0.05 for the three months ended March 31, 2020 and 2019. |

|  |  |
| --- | --- |
|  |  |
| (5) | Includes income taxes of $(1.15) for the above related COVID-19 items for the three months ended March 31, 2020. |

***Assets Under Management***

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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 Equitable 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.

**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.

***Ownership and Consolidation of AllianceBernstein***

Our indirect, wholly-owned subsidiary, AllianceBernstein Corporation, is the General Partner of AB. Accordingly, AB’s results are fully reflected in our consolidated financial statements.

Our blended economic interest in AB was approximately 65% and 65% for the three months ended March 31, 2020 and 2019, respectively.

***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 months ended March 31, 2020 and 2019:

**Consolidated Statement of Income (Loss)**

**(Unaudited)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
|  | **(in millions, except per share data)** | | | | | | |
| **REVENUES** |  | | |  |  | | |
| Policy charges and fee income | **$** | **991** |  |  | $ | 931 |  |
| Premiums | **289** | |  |  | 283 | |  |
| Net derivative gains (losses) | **9,401** | |  |  | (1,630 | | ) |
| Net investment income (loss) | **616** | |  |  | 1,015 | |  |
| Investment gains (losses), net: |  | | |  |  | | |
| Credit losses on AFS debt securities and loans | **(12** | | **)** |  | — | |  |
| Other investment gains (losses), net | **16** | |  |  | (11 | | ) |
| Total investment gains (losses), net | **4** | |  |  | (11 | | ) |

71

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
|  | **(in millions, except per share data)** | | | | | | |
| Investment management and service fees | **1,136** | |  |  | 999 | |  |
| Other income | **156** | |  |  | 127 | |  |
| Total revenues | **12,593** | |  |  | 1,714 | |  |
|  |  | | |  |  | | |
| **BENEFITS AND OTHER DEDUCTIONS** |  | | |  |  | | |
| Policyholders’ benefits | **2,788** | |  |  | 880 | |  |
| Interest credited to policyholders’ account balances | **317** | |  |  | 304 | |  |
| Compensation and benefits | **526** | |  |  | 509 | |  |
| Commissions and distribution-related payments | **338** | |  |  | 281 | |  |
| Interest expense | **52** | |  |  | 56 | |  |
| Amortization of deferred policy acquisition costs | **1,248** | |  |  | 198 | |  |
| Other operating costs and expenses | **437** | |  |  | 410 | |  |
| Total benefits and other deductions | **5,706** | |  |  | 2,638 | |  |
| Income (loss) from continuing operations, before income taxes | **6,887** | |  |  | (924 | | ) |
| Income tax (expense) benefit | **(1,440** | | **)** |  | 215 | |  |
| Net income (loss) | **5,447** | |  |  | (709 | | ) |
| Less: Net income (loss) attributable to the noncontrolling interest | **37** | |  |  | 66 | |  |
| Net income (loss) attributable to Holdings | **$** | **5,410** |  |  | $ | (775 | ) |
| Less: Preferred stock dividends | **13** | |  |  | — | |  |
| Net income (loss) available to Holdings’ common shareholders | **$** | **5,397** |  |  | $ | (775 | ) |
|  |  | | |  |  | | |
| **EARNINGS PER COMMON SHARE** |  | | |  |  | | |
| Net income (loss) applicable to Holdings’ common shareholders per common share: |  | | |  |  | | |
| Basic | **$** | **11.71** |  |  | $ | (1.50 | ) |
| Diluted | **$** | **11.65** |  |  | $ | (1.50 | ) |
| Weighted average common shares outstanding (in millions): |  | | |  |  | | |
| Basic | **461.0** | |  |  | 518.0 | |  |
| Diluted | **463.5** | |  |  | 518.9 | |  |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
|  | **(in millions)** | | | | | | |
| Non-GAAP Operating Earnings | **$** | **515** |  |  | $ | 509 |  |

The following table summarizes our Non-GAAP Operating Earnings per common share for the three months ended March 31, 2020 and 2019:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
|  | **(in millions)** | | | | | | |
| Non-GAAP Operating Earnings per common share: |  | | |  |  | | |
| Basic | **$** | **1.09** |  |  | $ | 0.98 |  |
| Diluted | **$** | **1.08** |  |  | $ | 0.98 |  |

The following discussion compares the results for the three months ended March 31, 2020 to the three months ended March 31, 2019.

**Three Months Ended March 31, 2020 Compared to the Three Months Ended March 31, 2019**

***Net Income Attributable to Holdings***

Net income (loss) attributable to Holdings increased by $6.2 billion, to a net income of $5.4 billion for the three months ended March 31, 2020 from a net loss of $775 million in the three months ended March 31, 2019 primarily driven by the following notable items:

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|  |  |
| --- | --- |
|  |  |
| • | Increase in Net derivative gains of $11.0 billion driven by gains from freestanding derivatives reflecting the decrease in both equity market and interest rates in the first quarter of 2020 compared to increases in the first quarter of 2019, as well as the positive impacts from non-performance risk and credit spreads. |

|  |  |
| --- | --- |
|  |  |
| • | Increase in Fee-type revenue of $232 million mainly driven by an increase in our Investment Management and Research segment attributable to higher base fees resulting from higher average AUM and higher Bernstein Research Services revenues, the growth in premiums of our employee benefits products in our Protection Solutions segment, as well as the favorable impact of higher average Separate Accounts AV. |

|  |  |
| --- | --- |
|  |  |
| • | Increase in Net investment gains of $15 million primarily due to the rebalancing of our U.S. Treasury portfolio, partially offset by a $49 million impairment on assets and liabilities held-for-sale. |

|  |  |
| --- | --- |
|  |  |
| • | Decrease in Net income attributable to noncontrolling interest of $29 million mainly due to lower consolidated VIE income, partly offset by higher AB pre-tax income. |

|  |  |
| --- | --- |
|  |  |
| • | Decrease in Income tax benefit of $1.7 billion primarily driven by a pre-tax gain in the first quarter of 2020 compared to pre-tax loss in the first quarter of 2019. |

Partially offsetting this increase were the following notable items:

|  |  |
| --- | --- |
|  |  |
| • | Increase in Policyholders’ benefits of $1.9 billion mainly due to our Individual Retirement segment driven by the unfavorable impact from the interest rate assumption update related to COVID-19 as well as the adverse impact of the drop in equity market in the first quarter of 2020, offset by higher Net Derivatives gains. |

|  |  |
| --- | --- |
|  |  |
| • | Increase in Amortization of DAC of $1.1 billion mainly in our Protection Solutions segment driven by the impact of the assumption update related to COVID-19. As a result of the lower interest rate assumption, Protection Solutions entered into loss recognition resulting in an acceleration of DAC amortization. |

|  |  |
| --- | --- |
|  |  |
| • | Decrease in Net investment income of $399 million mainly due to a change in the market value of trading securities supporting our variable annuity products due to higher credit spreads in 2020 compared to 2019. |

|  |  |
| --- | --- |
|  |  |
| • | Increase in Compensation, benefits and other operating expenses of $44 million mainly driven by our Investment Management and Research segment resulting from higher employee compensation due to higher average AUM. |

|  |  |
| --- | --- |
|  |  |
| • | Increase in Commissions and distribution-related payments of $57 million mainly driven by higher commission expense due to higher distribution-related payments in our Investment Management and Research segment, as well as the growth in broker dealers sales. |

|  |  |
| --- | --- |
|  |  |
| • | Increase in Interest credited to policyholders’ account balances of $13 million driven by our Individual Retirement segment primarily attributable to higher SCS AV due to new business growth, partly offset by a decrease in our Protection Solution segment. |

See “—Significant Factors Impacting Our Results—Assumption Updates and Model Changes” for more information regarding the COVID-19-related assumption update and other COVID-19 related impacts.

***Non-GAAP Operating Earnings***

Non-GAAP Operating Earnings increased by $6 million to $515 million for the three months ended March 31, 2020 from $509 million in the three months ended March 31, 2019. The following notable items were the primary drivers for the increase in Non-GAAP Operating Earnings.

|  |  |
| --- | --- |
|  |  |
| • | Increase in Net derivative gains of $458 million mainly due to our Individual Retirement segment largely offsetting the impact of the drop in equity markets in 2020. |

|  |  |
| --- | --- |
|  |  |
| • | Increase in Fee-type revenue of $186 million mainly driven by an increase in our Investment Management and Research segment attributable to higher base fees resulting from higher average AUM and higher Bernstein Research Services revenues, the growth in premiums of our employee benefits products in our Protection Solutions segment, as well as the favorable impact of higher average Separate Accounts AV. |

|  |  |
| --- | --- |
|  |  |
| • | Increase in Net investment income of $3 million mainly due to the positive impacts of higher asset balances and the General Account investment portfolio optimization. |

Partially offsetting this increase were the following notable items:

73

|  |  |
| --- | --- |
|  |  |
| • | Increase in Policyholders’ benefits of $480 million mainly in our Individual Retirement segment (offset by an increase in Net derivatives gains) reflecting the impact of equity market declines in 2020. |

|  |  |
| --- | --- |
|  |  |
| • | Increase in Commissions and distribution-related payments of $57 million mainly driven by higher distribution-related payments in our Investment Management and Research segment, as well as the growth in sales. products. |

|  |  |
| --- | --- |
|  |  |
| • | Increase in Compensation, benefits and other operating costs and expenses of $37 million mainly driven by our Investment Management and Research segment resulting from higher employee compensation due to higher average AUM, partly offset by productivity initiatives. |

|  |  |
| --- | --- |
|  |  |
| • | Increase in Interest credited to policyholders’ account balances of $20 million driven by our Individual Retirement segment primarily attributable to higher SCS AV due to new business growth, partly offset by a decrease in our Protection Solution segment. |

|  |  |
| --- | --- |
|  |  |
| • | Increase in Amortization of DAC of $20 million mainly due to higher SCS amortization in our Individual Retirement segment due to business growth, higher reactivity to earnings in our Closed Block, and higher baseline amortization in our Protection Solutions segments. |

|  |  |
| --- | --- |
|  |  |
| • | Increase in Earnings attributable to the noncontrolling interest of $10 million mainly in our Investment Management and Research segment due to higher AB Operating earnings. |

|  |  |
| --- | --- |
|  |  |
| • | Increase in Income tax expense of $15 million mainly driven by higher pre-tax earnings. |

**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) on our segments and Corporate and Other for the three months ended March 31, 2020 and 2019:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
|  | **(in millions)** | | | | | | |
| Operating earnings (loss) by segment: |  | | |  |  | | |
| Individual Retirement | **$** | **372** |  |  | $ | 370 |  |
| Group Retirement | **106** | |  |  | 81 | |  |
| Investment Management and Research | **95** | |  |  | 77 | |  |
| Protection Solutions | **38** | |  |  | 49 | |  |
| Corporate and Other | **(96** | | **)** |  | (68 | | ) |
| Non-GAAP Operating Earnings | **$** | **515** |  |  | $ | 509 |  |

***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 18% ETR for our retirement and protection business (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:

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|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
|  | **(in millions)** | | | | | | |
| **Operating earnings** | **$** | **372** |  |  | $ | 370 |  |

Key components of Operating earnings are:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
|  | **(in millions)** | | | | | | |
| **REVENUES** |  | | |  |  | | |
| Policy charges, fee income and premiums | **$** | **501** |  |  | $ | 498 |  |
| Net investment income | **316** | |  |  | 268 | |  |
| Investment gains (losses), net including derivative gains (losses) | **487** | |  |  | 63 | |  |
| Investment management, service fees and other income | **177** | |  |  | 178 | |  |
| **Segment revenues** | **$** | **1,481** |  |  | $ | 1,007 |  |
|  |  | | |  |  | | |
| **BENEFITS AND OTHER DEDUCTIONS** |  | | |  |  | | |
| Policyholders' benefits | **$** | **679** |  |  | $ | 244 |  |
| Interest credited to policyholders' account balances | **82** | |  |  | 62 | |  |
| Commissions and distribution-related payments | **72** | |  |  | 66 | |  |
| Amortization of deferred policy acquisition costs | **88** | |  |  | 83 | |  |
| Compensation, benefits and other operating costs and expenses | **107** | |  |  | 111 | |  |
| Interest expense | **—** | |  |  | — | |  |
| **Segment benefits and other deductions** | **$** | **1,028** |  |  | $ | 566 |  |

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

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **As of** | | | | | | |
|  | **March 31, 2020** | | |  | December 31, 2019 | | |
|  | **(in millions)** | | | | | | |
| **AV** |  | | |  |  | | |
| General Account | **$** | **23,862** |  |  | $ | 26,108 |  |
| Separate Accounts | **69,727** | |  |  | 82,814 | |  |
| **Total AV** | **$** | **93,589** |  |  | $ | 108,922 |  |

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

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
|  | **(in millions)** | | | | | | |
| **Balance as of beginning of period** | **$** | **108,922** |  |  | $ | 94,589 |  |
| Gross premiums | **1,990** | |  |  | 2,038 | |  |
| Surrenders, withdrawals and benefits | **(2,310** | | **)** |  | (2,126 | | ) |
| Net flows | **(320** | | **)** |  | (88 | | ) |
| Investment performance, interest credited and policy charges | **(15,004** | | **)** |  | 7,997 | |  |
| Other (1) | **(6** | | **)** |  | — | |  |
| Reclassified to Assets held-for-sale | **(3** | | **)** |  | — | |  |
| **Balance as of end of period** | **$** | **93,589** |  |  | $ | 102,498 |  |

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

(1) Represents amounts related to our fixed income annuity (“FIA”) contracts which were previously reported as Policyholders’ account balances in the consolidated balance sheets and therefore included in our definition of “Account Value”. As of March 31, 2020, FIAs are reported as Future policy benefits and other policyholders’ liabilities in the consolidated balance sheets and accordingly were excluded from Account Value.

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**Three Months Ended March 31, 2020 Compared to the Three Months Ended March 31, 2019 for the Individual Retirement Segment**

***Operating earnings***

Operating earnings increased $2 million to $372 million during the three months ended March 31, 2020 from $370 million in the three months ended March 31, 2019. The following notable items were the primary drivers for the increase in Operating earnings.

|  |  |
| --- | --- |
|  |  |
| • | Increase in Net investment income of $48 million mainly due to higher SCS asset balances and the General Account investment portfolio optimization. |

The increase was partially offset by:

|  |  |
| --- | --- |
|  |  |
| • | Increase in Interest credited to policyholders’ account balances of $20 million primarily driven by higher SCS AV due to new business growth. |

|  |  |
| --- | --- |
|  |  |
| • | Increase in Amortization of DAC of $5 million, primarily due to SCS, reflecting business growth. |

|  |  |
| --- | --- |
|  |  |
| • | Commissions and distribution-related payments increased by $6 million due to higher average asset balances. |

|  |  |
| --- | --- |
|  |  |
| • | Net GMxB results were stable as the increase in Net derivatives gains almost offset the increase in Policyholders’ benefits reflecting the impact of lower equity market in 2020. |

|  |  |
| --- | --- |
|  |  |
| • | Increase in Income tax expense of $10 million was driven by higher pre-tax earnings. |

***Net Flows and AV***

|  |  |
| --- | --- |
|  |  |
| • | The decline in AV of $15.3 billion in the three months ended March 31, 2020 was due primarily to declines in equity markets ($-15 billion) and net outflows in our older fixed-rate GMxB block ($-0.3 billion). |

|  |  |
| --- | --- |
|  |  |
| • | Net outflows of $320 million were $233 million higher than in the three months ended March 31, 2019, mainly driven by $935 million of outflows on our older fixed-rate GMxB block, which were partially offset by $615 million of inflows on our newer, less capital-intensive products. |

**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 March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
|  | **(in millions)** | | | | | | |
| **Operating earnings** | **$** | **106** |  |  | $ | 81 |  |

Key components of Operating earnings are:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
|  | **(in millions)** | | | | | | |
| **REVENUES** |  | | |  |  | | |
| Policy charges, fee income and premiums | **$** | **71** |  |  | $ | 65 |  |
| Net investment income | **159** | |  |  | 134 | |  |
| Investment gains (losses), net including derivative gains (losses) | **—** | |  |  | 4 | |  |
| Investment management, service fees and other income | **52** | |  |  | 48 | |  |
| **Segment revenues** | **$** | **282** |  |  | $ | 251 |  |
|  |  | | |  |  | | |

76

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
|  | **(in millions)** | | | | | | |
| **BENEFITS AND OTHER DEDUCTIONS** |  | | |  |  | | |
| Policyholders’ benefits | **$** | **—** |  |  | $ | — |  |
| Interest credited to policyholders’ account balances | **76** | |  |  | 73 | |  |
| Commissions and distribution-related payments | **11** | |  |  | 10 | |  |
| Amortization of deferred policy acquisition costs | **12** | |  |  | 12 | |  |
| Compensation, benefits and other operating costs and expenses | **54** | |  |  | 60 | |  |
| Interest expense | **—** | |  |  | — | |  |
| **Segment benefits and other deductions** | **$** | **153** |  |  | $ | 155 |  |

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

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **As of** | | | | | | |
|  | **March 31, 2020** | | |  | December 31, 2019 | | |
|  | **(in millions)** | | | | | | |
| **AV** |  | | |  |  | | |
| General Account | **$** | **12,257** |  |  | $ | 12,071 |  |
| Separate Accounts | **20,891** | |  |  | 25,809 | |  |
| **Total AV** | **$** | **33,148** |  |  | $ | 37,880 |  |

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

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
|  | **(in millions)** | | | | | | |
| **Balance as of beginning of period** | **$** | **37,880** |  |  | $ | 32,401 |  |
| Gross premiums | **925** | |  |  | 840 | |  |
| Surrenders, withdrawals and benefits | **(797** | | **)** |  | (733 | | ) |
| Net flows | **128** | |  |  | 107 | |  |
| Investment performance, interest credited and policy charges | **(4,860** | | **)** |  | 2,569 | |  |
| **Balance as of end of period** | **$** | **33,148** |  |  | $ | 35,077 |  |

**Three Months Ended March 31, 2020 Compared to the Three Months Ended March 31, 2019 for the Group Retirement Segment**

***Operating earnings***

Operating earnings increased $25 million to $106 million during the three months ended March 31, 2020 from $81 million in the three months ended March 31, 2019. The increase is primarily attributable to the following:

|  |  |
| --- | --- |
|  |  |
| • | Net investment income increased by $25 million due to higher asset balances and the General Account investment portfolio optimization. |

|  |  |
| --- | --- |
|  |  |
| • | Increase in fee-type revenues of $10 million due to positive net flows and higher average Separate Accounts AV. |

|  |  |
| --- | --- |
|  |  |
| • | Operating expense reduction of $6 million due to continuous efficiency gains. |

The increase was partially offset by the following:

|  |  |
| --- | --- |
|  |  |
| • | Interest credited to policyholders’ account balances increased by $3 million due to General Account growth. |

***Net Flows and AV***

|  |  |
| --- | --- |
|  |  |
| • | The decrease in AV of $4.7 billion in the three months ended March 31, 2020 was driven by equity markets ($-4.9 billion), partially mitigated by positive net flows ($128 million). |

77

|  |  |
| --- | --- |
|  |  |
| • | Net inflows of $128 million increased $21 million, driven by strong gross premiums in both tax exempt and corporate  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 economic interest in AB of approximately 65% and 65% during three months ended March 31, 2020 and 2019 respectively.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
|  | **(in millions)** | | | | | | |
| **Operating earnings** | **$** | **95** |  |  | $ | 77 |  |

Key components of Operating earnings are:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
|  | **(in millions)** | | | | | | |
| **REVENUES** |  | | |  |  | | |
| Policy charges, fee income and premiums | **$** | **—** |  |  | $ | — |  |
| Net investment income | **(33** | | **)** |  | 24 | |  |

78

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
|  | **(in millions)** | | | | | | |
| Investment gains (losses), net including derivative gains (losses) | **30** | |  |  | (20 | | ) |
| Investment management, service fees and other income | **910** | |  |  | 776 | |  |
| **Segment revenues** | **$** | **907** |  |  | $ | 780 |  |
|  |  | | |  |  | | |
| **BENEFITS AND OTHER DEDUCTIONS** |  | | |  |  | | |
| Policyholders’ benefits | **$** | **—** |  |  | $ | — |  |
| Interest credited to policyholders’ account balances | **—** | |  |  | — | |  |
| Commissions and distribution related payments | **140** | |  |  | 106 | |  |
| Amortization of deferred policy acquisition costs | **—** | |  |  | — | |  |
| Compensation, benefits and other operating costs and expenses | **558** | |  |  | 509 | |  |
| Interest expense | **2** | |  |  | 4 | |  |
| **Segment benefits and other deductions** | **$** | **700** |  |  | $ | 619 |  |

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

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
|  | **(in billions)** | | | | | | |
| **Balance as of beginning of period** | **$** | **622.9** |  |  | $ | 516.4 |  |
| Long-term flows |  | | |  |  | | |
| Sales/new accounts | **31.6** | |  |  | 23.1 | |  |
| Redemptions/terminations | **(32.7** | | **)** |  | (18.2 | | ) |
| Cash flow/unreinvested dividends | **(4.5** | | **)** |  | (3.8 | | ) |
| Net long-term (outflows) inflows | **(5.6** | | **)** |  | 1.1 | |  |
| Acquisition | **0.2** | |  |  | — | |  |
| Market appreciation (depreciation) | **(75.7** | | **)** |  | 37.2 | |  |
| Net change | **(81.1** | | **)** |  | 38.3 | |  |
| **Balance as of end of period** | **$** | **541.8** |  |  | $ | 554.7 |  |

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

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
|  | **(in billions)** | | | | | | |
| ***Distribution Channel:*** |  | | |  |  | | |
| Institutions | **$** | **276.6** |  |  | $ | 252.2 |  |
| Retail | **229.0** | |  |  | 193.4 | |  |
| Private Wealth Management | **96.4** | |  |  | 93.6 | |  |
| **Total** | **$** | **602.0** |  |  | $ | 539.2 |  |
|  |  | | |  |  | | |
| ***Investment Service:*** |  | | |  |  | | |
| Equity Actively Managed | **$** | **164.8** |  |  | $ | 148.5 |  |
| Equity Passively Managed (1) | **55.4** | |  |  | 53.9 | |  |
| Fixed Income Actively Managed – Taxable | **256.7** | |  |  | 223.4 | |  |
| Fixed Income Actively Managed – Tax-exempt | **47.7** | |  |  | 42.6 | |  |
| Fixed Income Passively Managed (1) | **9.7** | |  |  | 9.4 | |  |
| Other (2) | **67.7** | |  |  | 61.4 | |  |
| **Total** | **$** | **602.0** |  |  | $ | 539.2 |  |

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

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

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

**Three Months Ended March 31, 2020 Compared to the Three Months Ended March 31, 2019 for the Investment Management and Research Segment**

***Operating earnings***

Operating earnings increased $18 million to $95 million during the three months ended March 31, 2020 from $77 million in three months ended March 31, 2019 primarily attributable to the following:

|  |  |
| --- | --- |
|  |  |
| • | Increase in fee-type revenues of $134 million primarily due to higher base fees driven by higher average AUM, and higher Bernstein Research Services revenues. |

|  |  |
| --- | --- |
|  |  |
| • | Net derivative gains (losses) increased $50 million primarily due to derivative gains from economically hedging the seed capital investment subject to market risk, partly offsetting the decrease in Net investment income. |

The increase was partially offset by the following:

|  |  |
| --- | --- |
|  |  |
| • | Decrease in Net investment income of $57 million mainly due to the seed capital investment subject to market risk, partly offset by Net Derivative gains. |

|  |  |
| --- | --- |
|  |  |
| • | Compensation, benefits and other operating costs and expenses increased $49 million primarily due to higher employee compensation attributed to higher revenues. |

|  |  |
| --- | --- |
|  |  |
| • | Higher commissions and distribution-related payments of $34 million due to higher payments to financial intermediaries for distribution of AB mutual funds. |

|  |  |
| --- | --- |
|  |  |
| • | Earnings attributable to the noncontrolling interest increased by $20 million due to higher AB Operating earnings. |

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

|  |  |
| --- | --- |
|  |  |
| • | Total AUM as of March 31, 2020 was $541.8 billion, down $81.1 billion, or 13.0%, compared to December 31,2019, and down $12.9 billion, or 2.3%, compared to March 31, 2019. During the first quarter of 2020, AUM decreased as a result of market depreciation of $75.7 billion and net outflows of $5.6 billion (primarily due to Retail net outflows of $5.4 billion). During the twelve months ended March 31, 2020, AUM decreased as a result of market depreciation of $30.8 billion, partially offset by net inflows of $18.6 billion (Retail net inflows of $13.1 billion and Institutional net inflows of $7.6 billion, offset by net outflows of $2.1 billion for Private Wealth Management). |

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**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 of our Protection Solutions segment for the periods presented:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
|  | **(in millions)** | | | | | | |
| **Operating earnings** | **$** | **38** |  |  | $ | 49 |  |

Key components of Operating earnings are:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
|  | **(in millions)** | | | | | | |
| **REVENUES** |  | | |  |  | | |
| Policy charges, fee income and premiums | **$** | **557** |  |  | $ | 542 |  |
| Net investment income | **244** | |  |  | 224 | |  |
| Investment gains (losses), net including derivative gains (losses) | **2** | |  |  | 10 | |  |
| Investment management, service fees and other income | **56** | |  |  | 55 | |  |
| **Segment revenues** | **$** | **859** |  |  | $ | 831 |  |
|  |  | | |  |  | | |
| **BENEFITS AND OTHER DEDUCTIONS** |  | | |  |  | | |
| Policyholders’ benefits | **$** | **502** |  |  | $ | 452 |  |
| Interest credited to policyholders’ account balances | **127** | |  |  | 138 | |  |
| Commissions and distribution related payments | **40** | |  |  | 38 | |  |
| Amortization of deferred policy acquisition costs | **56** | |  |  | 50 | |  |
| Compensation, benefits and other operating costs and expenses | **88** | |  |  | 95 | |  |
| Interest expense | **—** | |  |  | — | |  |
| **Segment benefits and other deductions** | **$** | **813** |  |  | $ | 773 |  |

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

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **As of** | | | | | | |
|  | **March 31, 2020** | | |  | **December 31, 2019** | | |
|  | **(in millions)** | | | | | | |
| **Protection Solutions Reserves (1)** |  | | |  |  | | |
| General Account | **$** | **17,275** |  |  | $ | 17,298 |  |
| Separate Accounts | **11,259** | |  |  | 13,616 | |  |
| **Total Protection Solutions Reserves** | **$** | **28,534** |  |  | $ | 30,914 |  |

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

|  |  |
| --- | --- |
|  |  |
| (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:

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|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **As of** | | | | | | |
|  | **March 31, 2020** | | |  | **December 31, 2019** | | |
|  | **(in billions)** | | | | | | |
| **In-force face amount by product: (1)** |  | | |  |  | | |
| Universal Life (2) | **$** | **52.7** |  |  | $ | 53.3 |  |
| Indexed Universal Life | **26.4** | |  |  | 25.8 | |  |
| Variable Universal Life (3) | **126.0** | |  |  | 127.5 | |  |
| Term | **228.7** | |  |  | 233.5 | |  |
| Whole Life | **1.3** | |  |  | 1.4 | |  |
| **Total in-force face amount** | **$** | **435.1** |  |  | $ | 441.5 |  |

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

|  |  |
| --- | --- |
|  |  |
| (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 March 31, 2020 Compared to the Three Months Ended March 31, 2019 for the Protection Solutions Segment**

***Operating earnings***

Operating earnings decreased $11 million to $38 million during the three months ended March 31, 2020 from $49 million in the three months ended March 31, 2019 primarily attributable to the following:

|  |  |
| --- | --- |
|  |  |
| • | Increase in Policyholders’ benefits of $50 million mainly due to an increase in term product reserves and adverse mortality experience. |

|  |  |
| --- | --- |
|  |  |
| • | Net Derivative Losses of $8 million mainly due to volatility in markets, partly offset by a decrease in interest credited. |

|  |  |
| --- | --- |
|  |  |
| • | Increase in Amortization of DAC of $6 million mainly due to higher baseline amortization. |

This decrease was partially offset by the following:

|  |  |
| --- | --- |
|  |  |
| • | Net investment income increased by $20 million primarily due to higher average asset balances and the General Account investment portfolio optimization. |

|  |  |
| --- | --- |
|  |  |
| • | Fee-type revenue increased by $16 million mainly driven by higher premiums in our employee benefits products. |

|  |  |
| --- | --- |
|  |  |
| • | Interest Credited to policyholder’s account balances decreased by $11 million, including the non-repeat adverse impact in the first quarter of 2019 from the reclassification of certain products, partly offset by Net Derivatives losses. |

|  |  |
| --- | --- |
|  |  |
| • | Compensation, benefits and other operating costs and expenses decreased by $7 million mainly due to productivity initiatives. |

**Corporate and Other**

Corporate and Other includes some of our financing and investment expenses. It also includes: Equitable 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 March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
|  | **(in millions)** | | | | | | |
| **Operating earnings (loss)** | **$** | **(96** | **)** |  | $ | (68 | ) |

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**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 that seek to mitigate the impact of cash flow variability arising from these risks. The impact of COVID-19 is evolving rapidly and its effects upon invested assets are being assessed for potential negative impacts to the performance of mortgage loans and fixed maturities.

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 March 31, 2020 and December 31, 2019, 58% and 62% of the fixed maturities in the short duration group were rated NAIC 1, and 42% and 38% were rated NAIC 2, respectively. During the first quarter of 2020, 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 had an amortized cost of $13.6 billion as of March 31, 2020.

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.

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** | | | | | | | | | | | | |  | Year Ended December 31 | |  |
|  | **2020 (3)** | | | | | |  | 2019 | | | | | |  | 2019 | | |
|  | **Yield** | |  | **Amount (2)** | | |  | Yield | |  | Amount (2) | | |  | Amount (2) | | |
|  | **(Dollars in millions)** | | | | | | | | | | | | | | | | |
| **Fixed Maturities:** |  | |  |  | | |  |  | |  |  | | |  |  | | |
| Income (loss) | **3.59** | **%** |  | **$** | **573** |  |  | 3.65 | % |  | $ | 435 |  |  | $ | 2,019 |  |
| Ending assets |  | |  | **64,815** | |  |  |  | |  | 48,767 | |  |  | 62,687 | |  |
| **Mortgages:** |  | |  |  | | |  |  | |  |  | | |  |  | | |
| Income (loss) | **4.22** | **%** |  | **128** | |  |  | 4.41 | % |  | 132 | |  |  | 541 | |  |
| Ending assets |  | |  | **12,123** | |  |  |  | |  | 12,117 | |  |  | 12,107 | |  |
| **Other Equity Investments (1):** |  | |  |  | | |  |  | |  |  | | |  |  | | |
| Income (loss) | **7.42** | **%** |  | **28** | |  |  | 4.27 | % |  | 15 | |  |  | 86 | |  |
| Ending assets |  | |  | **1,556** | |  |  |  | |  | 1,404 | |  |  | 1,507 | |  |
| **Policy Loans:** |  | |  |  | | |  |  | |  |  | | |  |  | | |
| Income (loss) | **5.57** | **%** |  | **52** | |  |  | 5.62 | % |  | 53 | |  |  | 210 | |  |
| Ending assets |  | |  | **3,720** | |  |  |  | |  | 3,766 | |  |  | 3,735 | |  |
| **Cash and Short-term Investments:** |  | |  |  | | |  |  | |  |  | | |  |  | | |
| Income (loss) | **(1.35** | **)%** |  | **(16** | | **)** |  | — | % |  | — | |  |  | (4 | | ) |
| Ending assets |  | |  | **7,552** | |  |  |  | |  | 3,243 | |  |  | 1,856 | |  |
| **Repurchase and funding agreements:** |  | |  |  | | |  |  | |  |  | | |  |  | | |
| Interest expense and other |  | |  | **(29** | | **)** |  |  | |  | (25 | | ) |  | (110 | | ) |
| Ending assets (liabilities) |  | |  | **(6,759** | | **)** |  |  | |  | (4,001 | | ) |  | (6,909 | | ) |
| **Total Invested Assets:** |  | |  |  | | |  |  | |  |  | | |  |  | | |
| Income (loss) | **3.73** | **%** |  | **736** | |  |  | 3.83 | % |  | 610 | |  |  | 2,742 | |  |
| Ending Assets |  | |  | **83,007** | |  |  |  | |  | 65,296 | |  |  | 74,983 | |  |
| **Short Duration Fixed Maturities:** |  | |  |  | | |  |  | |  |  | | |  |  | | |
| Income (loss) | **3.60** | **%** |  | **52** | |  |  | 2.98 | % |  | 101 | |  |  | 312 | |  |
| Ending assets |  | |  | **5,729** | |  |  |  | |  | 12,262 | |  |  | 6,173 | |  |
| **Total:** |  | |  |  | | |  |  | |  |  | | |  |  | | |
| Investment income (loss) | **3.72** | **%** |  | **788** | |  |  | 3.68 | % |  | 711 | |  |  | 3,054 | |  |
| Less: investment fees | **(0.12** | **)%** |  | **(25** | | **)** |  | (0.08 | )% |  | (16 | | ) |  | (66 | | ) |
| Investment Income, Net | **3.60** | **%** |  | **$** | **763** |  |  | 3.60 | % |  | $ | 695 |  |  | $ | 2,988 |  |
| **Ending Net Assets** |  | |  | **$** | **88,736** |  |  |  | |  | $ | 77,558 |  |  | $ | 81,156 |  |

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| --- | --- |
|  |  |
| (1) | Includes, as of March 31, 2020, March 31, 2019 and December 31, 2019 respectively, $357 million, $277 million and $365 million of other invested assets. |

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| --- | --- |
|  |  |
| (2) | Amount for fixed maturities and mortgages represents original cost, reduced by repayments, write-downs, adjusted amortization of premiums, accretion of discount and 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. |

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|  |  |
| (3) | March 31, 2020 excludes assets reclassified to Held-for-Sale of $1.0 billion and income of $8 million. |

***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 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.

***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.

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**Fixed Maturities by Industry (1)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Amortized Cost** | | |  | **Allowance for Credit Losses** | | |  | **Gross Unrealized Gains** | | |  | **Gross Unrealized Losses** | | |  | **Fair Value** | | |  | **Percentage of Total (%)** | |
|  | **(in millions)** | | | | | | | | | | | | | | | | | | |  |  | |
| **As of March 31, 2020 (3)** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | |
| Corporate Securities: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | |
| Finance | **$** | **13,134** |  |  | **$** | **—** |  |  | **$** | **298** |  |  | **$** | **149** |  |  | **$** | **13,283** |  |  | **19** | **%** |
| Manufacturing | **12,899** | |  |  | **—** | |  |  | **651** | |  |  | **95** | |  |  | **13,455** | |  |  | **19** | **%** |
| Utilities | **5,191** | |  |  | **—** | |  |  | **208** | |  |  | **83** | |  |  | **5,316** | |  |  | **8** | **%** |
| Services | **6,447** | |  |  | **2** | |  |  | **295** | |  |  | **86** | |  |  | **6,654** | |  |  | **9** | **%** |
| Energy | **3,909** | |  |  | **—** | |  |  | **44** | |  |  | **377** | |  |  | **3,576** | |  |  | **5** | **%** |
| Retail and wholesale | **3,643** | |  |  | **—** | |  |  | **169** | |  |  | **24** | |  |  | **3,788** | |  |  | **5** | **%** |
| Transportation | **1,819** | |  |  | **—** | |  |  | **91** | |  |  | **24** | |  |  | **1,886** | |  |  | **3** | **%** |
| Other | **154** | |  |  | **—** | |  |  | **2** | |  |  | **5** | |  |  | **151** | |  |  | **—** | **%** |
| Total corporate securities | **47,196** | |  |  | **2** | |  |  | **1,758** | |  |  | **843** | |  |  | **48,109** | |  |  | **68** | **%** |
| U.S. government | **14,211** | |  |  | **—** | |  |  | **4,407** | |  |  | **—** | |  |  | **18,618** | |  |  | **27** | **%** |
| Residential mortgage-backed (2) | **170** | |  |  | **—** | |  |  | **14** | |  |  | **—** | |  |  | **184** | |  |  | **—** | **%** |
| Preferred stock | **545** | |  |  | **—** | |  |  | **10** | |  |  | **31** | |  |  | **524** | |  |  | **1** | **%** |
| State & political | **661** | |  |  | **—** | |  |  | **71** | |  |  | **7** | |  |  | **725** | |  |  | **1** | **%** |
| Foreign governments | **483** | |  |  | **—** | |  |  | **27** | |  |  | **12** | |  |  | **498** | |  |  | **1** | **%** |
| Commercial mortgage-backed | **37** | |  |  | **—** | |  |  | **2** | |  |  | **—** | |  |  | **39** | |  |  | **—** | **%** |
| Asset-backed securities | **1,514** | |  |  | **—** | |  |  | **6** | |  |  | **124** | |  |  | **1,396** | |  |  | **2** | **%** |
| Total | **$** | **64,817** |  |  | **$** | **2** |  |  | **$** | **6,295** |  |  | **$** | **1,017** |  |  | **$** | **70,093** |  |  | **100** | **%** |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | |
| As of December 31, 2019 |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | |
| Corporate Securities: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | |
| Finance | $ | 12,015 |  |  | $ | — |  |  | $ | 469 |  |  | $ | 4 |  |  | $ | 12,480 |  |  | 19 | % |
| Manufacturing | 12,643 | |  |  | — | |  |  | 706 | |  |  | 9 | |  |  | 13,340 | |  |  | 20 | % |
| Utilities | 4,999 | |  |  | — | |  |  | 302 | |  |  | 8 | |  |  | 5,293 | |  |  | 8 | % |
| Services | 6,730 | |  |  | — | |  |  | 386 | |  |  | 17 | |  |  | 7,099 | |  |  | 11 | % |
| Energy | 3,772 | |  |  | — | |  |  | 189 | |  |  | 14 | |  |  | 3,947 | |  |  | 6 | % |
| Retail and wholesale | 3,515 | |  |  | — | |  |  | 183 | |  |  | 7 | |  |  | 3,691 | |  |  | 6 | % |
| Transportation | 1,793 | |  |  | — | |  |  | 115 | |  |  | 3 | |  |  | 1,905 | |  |  | 3 | % |
| Other | 198 | |  |  | — | |  |  | 8 | |  |  | — | |  |  | 206 | |  |  | — | % |
| Total corporate securities | 45,665 | |  |  | — | |  |  | 2,358 | |  |  | 62 | |  |  | 47,961 | |  |  | 73 | % |
| U.S. government and agency | 14,395 | |  |  | — | |  |  | 1,289 | |  |  | 305 | |  |  | 15,379 | |  |  | 23 | % |
| Residential mortgage-backed (2) | 178 | |  |  | — | |  |  | 13 | |  |  | — | |  |  | 191 | |  |  | — | % |
| Preferred stock | 501 | |  |  | — | |  |  | 17 | |  |  | 5 | |  |  | 513 | |  |  | 1 | % |
| State & political | 638 | |  |  | — | |  |  | 70 | |  |  | 3 | |  |  | 705 | |  |  | 1 | % |
| Foreign governments | 462 | |  |  | — | |  |  | 35 | |  |  | 5 | |  |  | 492 | |  |  | 1 | % |
| Commercial mortgage-backed | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | % |
| Asset-backed securities | 848 | |  |  | — | |  |  | 4 | |  |  | 3 | |  |  | 849 | |  |  | 1 | % |
| Total | $ | 62,687 |  |  | $ | — |  |  | $ | 3,786 |  |  | $ | 383 |  |  | $ | 66,090 |  |  | 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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| --- | --- |
|  |  |
| (3) | Excludes amounts reclassified as Held-for-Sale. |

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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** | | |  | **Allowance for Credit Losses** | | |  | **Gross**  **Unrealized**  **Gains** | | |  | **Gross**  **Unrealized**  **Losses** | | |  | **Fair Value** | | |
|  |  |  |  | **(in millions)** | | | | | | | | | | | | | | | | | | |
| **As of March 31, 2020 (1)** |  |  |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| 1................................ |  | Aaa, Aa, A |  | **$** | **42,890** |  |  | **$** | **—** |  |  | **$** | **5,656** |  |  | **$** | **297** |  |  | **$** | **48,249** |  |
| 2................................ |  | Baa |  | **20,310** | |  |  | **—** | |  |  | **634** | |  |  | **501** | |  |  | **20,443** | |  |
|  |  | Investment grade |  | **63,200** | |  |  | **—** | |  |  | **6,290** | |  |  | **798** | |  |  | **68,692** | |  |
| 3................................ |  | Ba |  | **937** | |  |  | **2** | |  |  | **3** | |  |  | **146** | |  |  | **792** | |  |
| 4................................ |  | B |  | **614** | |  |  | **—** | |  |  | **2** | |  |  | **63** | |  |  | **553** | |  |
| 5................................ |  | Caa |  | **64** | |  |  | **—** | |  |  | **—** | |  |  | **9** | |  |  | **55** | |  |
| 6................................ |  | Ca, C |  | **2** | |  |  | **—** | |  |  | **—** | |  |  | **1** | |  |  | **1** | |  |
|  |  | Below investment grade |  | **1,617** | |  |  | **2** | |  |  | **5** | |  |  | **219** | |  |  | **1,401** | |  |
| Total Fixed Maturities | | |  | **$** | **64,817** |  |  | **$** | **2** |  |  | **$** | **6,295** |  |  | **$** | **1,017** |  |  | **$** | **70,093** |  |
|  |  |  |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| As of December 31, 2019 |  |  |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| 1................................ |  | Aaa, Aa, A |  | $ | 42,770 |  |  | $ | — |  |  | $ | 2,666 |  |  | $ | 342 |  |  | $ | 45,094 |  |
| 2................................ |  | Baa |  | 18,605 | |  |  | — | |  |  | 1,105 | |  |  | 18 | |  |  | 19,692 | |  |
|  |  | Investment grade |  | 61,375 | |  |  | — | |  |  | 3,771 | |  |  | 360 | |  |  | 64,786 | |  |
| 3................................ |  | Ba |  | 663 | |  |  | — | |  |  | 9 | |  |  | 7 | |  |  | 665 | |  |
| 4................................ |  | B |  | 567 | |  |  | — | |  |  | 4 | |  |  | 10 | |  |  | 561 | |  |
| 5................................ |  | Caa |  | 80 | |  |  | — | |  |  | 2 | |  |  | 6 | |  |  | 76 | |  |
| 6................................ |  | Ca, C |  | 2 | |  |  | — | |  |  | — | |  |  | — | |  |  | 2 | |  |
|  |  | Below investment grade |  | 1,312 | |  |  | — | |  |  | 15 | |  |  | 23 | |  |  | 1,304 | |  |
| Total Fixed Maturities | | |  | $ | 62,687 |  |  | $ | — |  |  | $ | 3,786 |  |  | $ | 383 |  |  | $ | 66,090 |  |

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| (1) | Excludes amounts reclassified as Held-for-Sale. |

***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**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **March 31, 2020** | | | | | |  | December 31, 2019 | | | | | |
|  | **Amortized**  **Cost** | | |  | **% of Total** | |  | Amortized  Cost | | |  | % of Total | |
|  | **(in millions)** | | | | | | | | | | | | |
| **By Region:** |  | | |  |  | |  |  | | |  |  | |
| U.S. Regions: |  | | |  |  | |  |  | | |  |  | |
| Pacific | **$** | **3,550** |  |  | **29** | **%** |  | $ | 3,468 |  |  | 29 | % |
| Middle Atlantic | **3,247** | |  |  | **27** |  |  | 3,220 | |  |  | 27 |  |
| South Atlantic | **1,277** | |  |  | **11** |  |  | 1,269 | |  |  | 10 |  |
| East North Central | **904** | |  |  | **8** |  |  | 906 | |  |  | 8 |  |
| Mountain | **1,017** | |  |  | **8** |  |  | 1,012 | |  |  | 8 |  |
| West North Central | **889** | |  |  | **7** |  |  | 896 | |  |  | 7 |  |
| West South Central | **627** | |  |  | **5** |  |  | 631 | |  |  | 5 |  |
| New England | **513** | |  |  | **4** |  |  | 566 | |  |  | 5 |  |
| East South Central | **145** | |  |  | **1** |  |  | 139 | |  |  | 1 |  |
| Total Mortgage Loans | **$** | **12,169** |  |  | **100** | **%** |  | $ | 12,107 |  |  | 100 | % |
|  |  | | |  |  | |  |  | | |  |  | |
| **By Property Type:** |  | | |  |  | |  |  | | |  |  | |
| Office | **$** | **3,847** |  |  | **32** | **%** |  | $ | 3,794 |  |  | 31 | % |
| Multifamily | **3,757** | |  |  | **31** |  |  | 3,768 | |  |  | 31 |  |
| Agricultural loans | **2,705** | |  |  | **22** |  |  | 2,717 | |  |  | 23 |  |
| Retail | **696** | |  |  | **5** |  |  | 665 | |  |  | 5 |  |
| Industrial | **348** | |  |  | **3** |  |  | 344 | |  |  | 3 |  |
| Hospitality | **475** | |  |  | **4** |  |  | 477 | |  |  | 4 |  |
| Other | **341** | |  |  | **3** |  |  | 342 | |  |  | 3 |  |
| Total Mortgage Loans | **$** | **12,169** |  |  | **100** | **%** |  | $ | 12,107 |  |  | 100 | % |

**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***

The Company had sufficient cash flows from operations to satisfy liquidity requirements.

*Cash Flows 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 of liquidity and our capital position are described in the following paragraphs.

**Sources and Uses of Holding Company Highly Liquid Assets**

The following table sets forth Holding’s principal sources and uses of highly liquid assets, excluding net borrowings from our intercompany liquidity account, for the periods indicated.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** | | | | | | |
|  | **2020** | | |  | 2019 | | |
|  | **(in millions)** | | | | | | |
| **Highly Liquid Assets, beginning of period** | **$** | **1,589** |  |  | $ | 823 |  |
| Dividends from subsidiaries | **263** | |  |  | 68 | |  |
| Repayment of surplus note including interest | **—** | |  |  | 576 | |  |
| Capital contributions to subsidiaries | **(135** | | **)** |  | (76 | | ) |
| **Total Business Capital Activity** | **128** | |  |  | 568 | |  |
|  |  | | |  |  | | |
| Purchase of treasury shares | **(205** | | **)** |  | (600 | | ) |
| Retirement of treasury shares | **—** | |  |  | (150 | | ) |
| Shareholder dividends paid | **(69** | | **)** |  | (68 | | ) |
| **Total Share Repurchases, Dividends and Acquisition Activity** | **(274** | | **)** |  | (818 | | ) |
|  |  | | |  |  | | |
| Preferred stock dividend | **(13** | | **)** |  | — | |  |
| **Total Preferred Stock Activity** | **(13** | | **)** |  | — | |  |
|  |  | | |  |  | | |
| Issuance of loans to affiliates | **(270** | | **)** |  | — | |  |
| **Net decrease (increase) in loans to affiliates** | **(270** | | **)** |  | — | |  |
| **Total Affiliated Debt Activity** | **(270** | | **)** |  | — | |  |
| Interest paid on external debt and P-Caps | **(12** | | **)** |  | (3 | | ) |
| Others, net | **(25** | | **)** |  | 236 | |  |
| **Total Other Activity** | **(37** | | **)** |  | 233 | |  |
|  |  | | |  |  | | |
| **Net increase (decrease) in highly liquid assets** | **(466** | | **)** |  | (16 | | ) |
| **Highly Liquid Assets, end of period** | **$** | **1,123** |  |  | $ | 807 |  |

In the quarter ended March 31, 2020, Holdings’ liquid assets decreased $0.5 billion. Excluding the amount set aside for the EQH facility, liquid assets decreased $0.2 billion. The resources increased by $0.3 billion due to dividend from our subsidiaries, and the uses are $0.3 billion shareholders return including dividend and share repurchases and $0.1 billion capital contribution to subsidiaries.

*Cash Distributions from Our Subsidiaries*

In 2019, Holdings and certain of its subsidiaries received cash distributions from AB of $452 million and $1 billion in dividends from Equitable Life. Also, Holdings received $576 million from Equitable Life as repayment of principal of $572 million and interest of $4 million related to a $572 million surplus note.

In 2020, Holdings and certain of its subsidiaries received cash distributions from AB of $161 million. Also, Holdings received $60 million in distributions from AXA Advisors.

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*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 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 based on a statutory formula. This formula would permit Equitable Life to pay shareholder dividends up to approximately $2.4 billion during 2020. Dividends in excess of this amount 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.

*Distributions from AllianceBernstein*

ABLP is required to distribute all of its Available Cash Flow, as defined in the Amended and Restated Partnership Agreement of ABLP, to the holders of AB Units and to the General Partner. Available Cash Flow is defined 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.

As of March 31, 2020, Holdings and its non-insurance company subsidiaries hold approximately 167.5 million AB Units, 4.1 million AB Holding Units and the 1% General Partnership interest in ABLP, while 2.6 million AB Units continue to be held by Equitable America. Because Equitable America 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 March 31, 2020, the ownership structure of ABLP, including AB Units outstanding as well as the general partner’s 1% interest, was as follows:

|  |  |  |
| --- | --- | --- |
|  | | |
|  |  |  |
| **Owner** | **Percentage Ownership** | |
| EQH and its subsidiaries | 63.4 | % |
| AB Holding | 35.9 | % |
| Unaffiliated holders | 0.7 | % |
| 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 March 31, 2020.

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*Holdings Credit Facilities*

We have a $2.5 billion five-year senior unsecured revolving credit facility (the “Credit Facility”), which may provide significant support to our liquidity position when alternative sources of credit are limited. In addition to the Credit Facility, we have 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 Credit Facilities 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 Credit Facility 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 March 31, 2020, 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, 2019.

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*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.

*Series A Fixed Rate Noncumulative Perpetual Preferred Stock*

In November and December 2019, Holdings issued a total of 32 million depositary shares, each representing a 1/1,000th interest in share of Holdings’ Series A Fixed Rate Noncumulative Perpetual Preferred Stock (“Series A Preferred Stock”), $1.00 par value per share, with a liquidation preference of $25,000 per share, for aggregate net cash proceeds of $775 million ($800 million gross). The preferred stock ranks senior to Holdings common stock with respect to the payment of dividends and liquidation. Holdings will pay dividends on the Series A Preferred Stock on a noncumulative basis only when, as and if declared by Holdings’ Board of Directors (or a duly authorized committee of the board) and will be payable quarterly in arrears, at an annual rate of 5.25% on the stated amount per share. The Series A Preferred Stock is redeemable at Holdings’ option in whole or in part, on or after December 15, 2024, at a redemption price of $25,000 per share of preferred stock, plus declared and unpaid dividends. Prior to December 25, 2024, the preferred stock is redeemable at Holdings’ option, in whole but not in part, within 90 days of the occurrence of certain rating agency events at a redemption price equal to $25,500 per share, plus declared and unpaid dividends or certain regulatory capital events at a redemption price equal to $25,000 per share, plus any declared and unpaid dividends.

***Capital Position of Holdings***

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 capital 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.

*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.

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*Dividends Declared and Paid*

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.

The payment of dividends will be substantially restricted in the event that we do not declare and pay (or set aside) dividends on the Series A Preferred Stock for the last proceeding dividend period. For additional information on the Series A Preferred Stock, see “Series A Fixed Rate Noncumulative Perpetual Preferred Stock.”

In 2019, Holdings paid a total of $285 million in cash dividends to stockholders.

On February 26, 2020, Holdings’ Board of Directors declared a cash dividend on Holdings’ common stock of $0.15 per share, payable on March 16, 2020 to shareholders of record as of March 9, 2020.

On February 26, 2020, Holdings’ Board of Directors declared a cash dividend of $393.741 per share on the Company’s Series A 5.25% Non-Cumulative Perpetual Preferred stock, with a liquidation preference of $25,000 per share, which are represented by depositary shares, each representing a 1/1,000th interest in a share of preferred stock, holders of which will receive approximately $0.39 per depositary share. The dividend was paid on March 16, 2020 to holders of record as of March 5, 2020.

*Share Repurchase Programs*

In 2019, Holdings repurchased approximately 65.6 million shares of its common stock.

On February 26, 2020, Holdings’ Board of Directors authorized an increase of $600 million to the capacity of its existing $400 million share repurchase program (the “2020 Program”). Under this program, Holdings may, from time to time through March 31, 2021, purchase its common stock through various means.

During the quarter ended March 31, 2020, Holdings repurchased 13.7 million shares of its common stock.

As of March 31, 2020, Holdings had a remaining capacity of approximately $395 million remaining in the 2020 program.

*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.”

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***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.

We manage the liquidity of our insurance subsidiaries with the objective of ensuring that they can 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. Our derivatives contracts reside primarily within Equitable Life, which has a significantly large investment portfolio.

*FHLB Membership*

Equitable Life is a member of the Federal Home Loan Bank of New York (“FHLBNY”), which provides Equitable Life with access to collateralized borrowings and other FHLBNY products. At March 31, 2020, we had $4.6 billion of short-term outstanding funding agreements and $2.1 billion of long-term outstanding funding agreements issued to the FHLBNY and had posted $9.8 billion securities as collateral for funding agreements. In addition, Equitable Life implemented a hedge to lock in the funding agreements borrowing rate, and $9 million of hedge impact was reported as funding agreement carrying value.

Equitable America is a member of the Federal Home Loan Bank of San Francisco.

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**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 credit facilities 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.

***AB Credit Facility***

AB has a $800 million committed, unsecured senior revolving credit facility (the “AB Credit Facility”) that matures on 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’s business purposes, including the support of AB’s commercial paper program. AB can draw directly under the AB Credit Facility and AB management may draw on the AB Credit Facility from time to time.

The AB Credit Facility contains affirmative, negative and financial covenants, which are customary for facilities of this type, including restrictions on dispositions of assets, restrictions on liens, a minimum interest coverage ratio and a maximum leverage ratio. As of March 31, 2020, AB was in compliance with these covenants. The AB Credit Facility also includes customary events of default (with customary grace periods, as applicable), including provisions under which, upon the occurrence of an event of default, all outstanding loans may be accelerated and/or lender’s commitments may be terminated. Also, under such provisions, upon the occurrence of certain insolvency- or bankruptcy-related events of default, all amounts payable under the AB Credit Facility would automatically become immediately due and payable, and the lender’s commitments automatically would terminate.

Amounts under the AB Credit Facility may be borrowed, repaid and re-borrowed by us from time to time until the maturity of the facility. Voluntary prepayments and commitment reductions requested by us are permitted at any time without a fee (other than customary breakage costs relating to the prepayment of any drawn loans) upon proper notice and subject to a minimum dollar requirement. Borrowings under the AB Credit Facility bear interest at a rate per annum, which will be, at AB’s option, a rate equal to an applicable margin, which is subject to adjustment based on the credit ratings of AB, plus one of the following indices: London Interbank Offered Rate; a floating base rate; or the Federal Funds rate.

As of March 31, 2020, and December 31, 2019, AB had no amounts outstanding under the AB Credit Facility. During the quarter ended March 31, 2020 and the full year 2019, AB did not draw upon the AB Credit Facility.

***EQH Facility***

In addition to the AB Credit Facility, AB has a $900 million committed, unsecured senior credit facility (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 AB’s general partner.

As of March 31, 2020 and December 31, 2019, AB had $830 million and $560 million, respectively, outstanding under the EQH Facility with interest rates of approximately 0.2% and 1.6%, respectively. Average daily borrowing of the EQH Facility for the three months ended March 31, 2020 and for the 57 days it was available in 2019 were $592 million and $359 million, respectively, with a weighted average interest rate of approximately 1.3% and 1.6% respectively.

***Commercial Paper***

As of March 31, 2020, AB had approximately $105 million in commercial paper outstanding with weighted-average interest rate of approximately 2.1%. At December 31, 2019, AB had no commercial paper outstanding. The commercial paper

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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 three months ended March 31, 2020 and during the 317 days commercial paper was outstanding in 2019 were $45 million and $439 million, respectively, with weighted average interest rates of approximately 1.9% and 2.6%, respectively.

***AB Revolver***

AB has a $200 million committed, unsecured senior revolving credit facility (the “AB Revolver”) with a leading international bank, maturing on November 16, 2021. The AB Revolver is available for AB’s business purposes, including the provision of additional liquidity to meet funding requirements. AB can draw directly under the AB Revolver and management expects to draw on the AB Revolver from time to time. The AB Revolver contains affirmative, negative and financial covenants that are identical to those of the AB Credit Facility. As of both March 31, 2020 and December 31, 2019, AB had no amount outstanding under the AB Revolver. Average daily borrowings of the AB Revolver during the three months ended March 31, 2020 and full year 2019 were $24 million and $24 million, respectively, with weighted average interest rates of approximately 2.3% and 3.2%, respectively.

In addition, AB currently has three uncommitted lines of credit with three financial institutions. Two of these lines of credit permit AB to borrow up to an aggregate of $175 million, while the other line has no stated limit. As of March 31, 2020 and December 31, 2019, AB had no outstanding balance on these lines of credit. Average daily borrowings on the lines of credit during the three months ended March 31, 2020 and full year 2019 were $3 million and $2 million, respectively, with weighted average interest rates of approximately 2.0% and 1.9%, respectively.

**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.

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.

Following our early adoption of the NAIC’s variable annuity framework for the year ended December 31, 2019, we manage our capital on a consolidated basis. Post-NAIC reform, CTE98 translates to 400% RBC. This combined with our target RBC ratio of 350%-400% for non-VAs, translates to a new target minimum consolidated RBC ratio of 375% - 400%.

**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.

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | **As of March 31, 2020** | | | | | | | | | | |
|  | **Holdings** | | |  | **AB** | | |  | **Consolidated** | | |
|  | **(in millions)** | | | | | | | | | | |
| **Short-term debt:** |  | | |  |  | | |  |  | | |
| AB commercial paper (with interest rate of 2.7%) | **$** | **—** |  |  | **$** | **105** |  |  | **$** | **105** |  |
| Total short-term debt | **—** | |  |  | **105** | |  |  | **105** | |  |
| **Long-term debt:** |  | |  |  |  | |  |  |  | |  |
| Senior Notes (5.00%, due 2048) | **1,480** | |  |  | **—** | |  |  | **1,480** | |  |
| Senior Notes (4.35%, due 2028) | **1,488** | |  |  | **—** | |  |  | **1,488** | |  |
| Senior Notes (3.90%, due 2023) | **795** | |  |  | **—** | |  |  | **795** | |  |
| Senior Debentures, 7.0%, due 2028 | **349** | |  |  | **—** | |  |  | **349** | |  |
| Total long-term debt | **4,112** | |  |  | **—** | |  |  | **4,112** | |  |
| **Total borrowings** | **$** | **4,112** |  |  | **$** | **105** |  |  | **$** | **4,217** |  |

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|  | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | As of December 31, 2019 | | | | | | | | | | |
|  | **Holdings** | | |  | **AB** | | |  | **Consolidated** | | |
|  | **(in millions)** | | | | | | | | | | |
| **Short-term debt:** |  | | |  |  | | |  |  | | |
| Total short-term debt | $ | — |  |  | $ | — |  |  | $ | — |  |
| **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 | |  |
| Senior Debentures, 7.0%, due 2028 | 349 | |  |  | — | |  |  | 349 | |  |
| Total long-term debt | 4,111 | |  |  | — | |  |  | 4,111 | |  |
| **Total borrowings** | $ | 4,111 |  |  | $ | — |  |  | $ | 4,111 |  |

*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 March 31, 2020, we had outstanding $349 million aggregate principal amount of 7% 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 March 31, 2020, 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 and terminated the remaining $200 million capacity. In December 2019, we made full prepayment of the outstanding $300 million term loan and as of December 31, 2019, there were no amounts outstanding under the term loan.

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**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.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | | | | |
|  |  |  |  |  |  |
|  | **AM Best** |  | **S&P** |  | **Moody’s** |
| **Last review date** | Dec '19 |  | Nov '19 |  | Aug '19 |
| ***Financial Strength Ratings:*** |  |  |  |  |  |
| AXA Equitable Life Insurance Company | A |  | A+ |  | A2 |
| Equitable Financial Life Insurance Company of America | A |  | A+ |  | A2 |
|  |  |  |  |  |  |
| ***Credit Ratings:*** |  |  |  |  |  |
| Equitable Holdings, Inc. | bbb+ |  | BBB+ |  | Baa2 |
|  |  |  |  |  |  |
| **Last review date** |  |  | Oct '19 |  | Nov '19 |
| AllianceBernstein Holding L.P. | — |  | A |  | 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, 2019.

**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, 2019 for additional information.

**Off-Balance Sheet Arrangements**

At March 31, 2020, 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.

**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 2019 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.

**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, 2019 in “Quantitative and Qualitative Disclosures About Market Risk”, with the exception of sensitivity of certain of our derivative financial instruments to changes in equity prices. The change in fair value of these derivatives following a ten percent decline in equity prices as of December 31, 2019 changed as follows: (a) the fair value of futures increased by $462 million, from a decline of $231 million, to an increase of $231 million; (b) the fair value of swaps increased by $3.5 billion, from a decrease of $2.0 billion to an increase of $1.5 billion; and (c) the fair value of options decreased by $1.7 billion, from an increase of $4.1 billion to an increase of $2.4 billion.

**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 March 31, 2020. 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 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 weakness described below, the Company’s CEO and CFO, concluded that the Company’s disclosure controls and procedures were not effective as of March 31, 2020.

As previously reported, the Company identified a material weakness 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 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.

This material weakness resulted in misstatements in the Company’s previously issued annual and interim financial statements and resulted in:

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| --- | --- |
|  |  |
| (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 weakness described above and not indicative of any new material weaknesses. Until remediated, there is a reasonable possibility that this material weakness could result in a material misstatement of the Company’s consolidated financial statements or disclosures that would not be prevented or detected.

**Remediation Status of Material Weakness**

For the material weakness related to Actuarial Models, Assumptions and Data, management has implemented and tested new or enhanced controls as described below but determined that further sustained operation is necessary.

***Remediation Activities:*** *Material Weakness Related to Actuarial Models, Assumptions and Data*

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| • | We have designed, implemented and tested 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, implemented and tested enhanced controls and governance processes for new model implementations. |

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|  |  |
| • | We have designed, implemented and tested enhanced controls for model changes. |

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|  |  |
| • | We have designed, implemented and tested enhanced controls over the annual assumption setting process, including a comprehensive master assumption inventory and risk framework. |

|  |  |
| --- | --- |
|  |  |
| • | We have designed, implemented and tested new controls and are redesigning certain of these controls to validate the reliability of significant data flows feeding actuarial models and assumptions |

First quarter 2020 controls have operated as designed. However, given that certain controls noted above have only operated effectively in one financial closing cycle during the year, and controls are still being redesigned, we have determined that further work and sustained operation is appropriate before concluding the controls are operationally effective.

**Changes in Internal Control Over Financial Reporting**

As described above, the Company continues to design certain controls in connection with its remediation plan. These remediation efforts related to the material weakness described above represent changes in our internal control over financial reporting for the quarter ended March 31, 2020 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

**Item 1.     Legal Proceedings**

For information regarding certain legal proceedings pending against us, see Note 14 of the Notes to the Consolidated Financial Statements. See “Risk Factors—Legal and Regulatory Risks—Legal and regulatory actions could have a material adverse effect on our reputation, business, results of operations or financial condition.”

**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, 2019. Risks to which we are subject include, but are not limited to, the factors mentioned under “*[*Note Regarding Forward-Looking Statements and Information*](#s18A4EB1ADD4F58FD8EC8255BFC3C64DD)*” above and the risks of our businesses described elsewhere in this Quarterly Report on Form 10-Q.*

***The novel coronavirus (COVID-19) pandemic has adversely impacted our business, and the ultimate effect on our business, results of operations and financial condition will depend on future developments that are highly uncertain, including the scope and duration of the pandemic and actions taken by governmental authorities in response to the pandemic.***

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The COVID-19 pandemic has negatively impacted the U.S. and global economies, lowered equity market valuations, created significant volatility and disruption in the capital markets, dramatically increased unemployment levels and has fueled concerns that it will lead to a global recession. In addition, the pandemic has resulted in temporary closures of many businesses and schools and the institution of social distancing and sheltering in place requirements in many states and local communities. Businesses or schools that reopen may also restrict or limit access for the foreseeable future or on a permanent basis. As a result, our ability to sell products through our regular channels and the demand for our products and services could be significantly impacted. The extent to which the COVID-19 pandemic impacts our business, results of operations or financial condition will depend on future developments that are highly uncertain, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic, and could cause us to revise financial targets or other guidance we have previously provided.

While we have implemented risk management and contingency plans and taken other precautions with respect to the COVID-19 pandemic, such measures may not adequately protect our business from the full impacts of the pandemic. Currently, most of our employees and advisors are working remotely with only a few operationally critical employees working at certain of our facilities for business continuity purposes. An extended period of remote work arrangements could strain our business continuity plans, introduce additional operational risk, including but not limited to cybersecurity risks, and impair our ability to effectively manage our business. We also outsource a variety of functions to third parties, including certain of our administrative operations which are in India. As a result, we rely upon the successful implementation and execution of the business continuity planning of such entities in the current environment. While we closely monitor the business continuity activities of these third parties, successful implementation and execution of their business continuity strategies are largely outside our control. If one or more of the third parties to whom we outsource certain critical business activities experience operational failures as a result of the impacts from the spread of COVID-19, or claim that they cannot perform due to a force majeure, it could adversely impact our business, results of operations or financial condition.

Economic uncertainty and unemployment resulting from the impacts of the spread of COVID-19 may have an adverse effect on product sales and also result in existing policyholders seeking sources of liquidity and withdrawing at rates greater than we previously expected. COVID-19 could have an adverse effect on our insurance business due to increased mortality and, in certain cases, morbidity rates. In addition, many state insurance departments, including the NYDFS, are requiring insurers to offer flexible premium payment plans, relax payment dates, waive late fees and penalties in order to avoid canceling or non-renewing polices. If policyholder lapse and surrender rates or premium waivers significantly exceed our expectations, we may need to change our assumptions, models or reserves. The cost of reinsurance to us for these policies could increase, and we may encounter decreased availability of such reinsurance. Each of these could have a material adverse effect on our business, financial condition, results of operations, liquidity and cash flows.

Our investment portfolio (specifically, the increased risk of defaults, downgrades and volatility in the valuations of certain investment assets we hold) has been, and may continue to be, adversely affected as a result the COVID-19 pandemic and uncertainty regarding its outcome. Moreover, declines in equity markets and interest rates, reduced liquidity or a continued slowdown in the U.S. or in global economic conditions may also adversely affect the values and cash flows of these assets. Our investments in mortgages and commercial mortgage-backed securities have been, and could continue to be, negatively affected by delays or failures of borrowers to make payments of principal and interest when due. In some jurisdictions, local governments have imposed delays or moratoriums on many forms of enforcement actions.  More broadly, increased unemployment, slowing economic conditions, and uncertainty about occupant requirements evolving out of the COVID-19 crisis could negatively impact underlying real estate values over the longer term. The recent market volatility has also caused significant increases in credit spreads, which may increase our borrowing costs and decrease product fee income. Further, severe market volatility may leave us unable to react to market events in a prudent manner consistent with our historical investment practices. Market dislocations, decreases in observable market activity or unavailability of information, in each case, arising from the spread of COVID-19, may restrict our access to key inputs used to derive certain estimates and assumptions made in connection with financial reporting or otherwise. Restricted access to such inputs may make our financial statement balances and estimates and assumptions used to run our business subject to greater variability and subjectivity.

Additionally, COVID-19 could negatively affect our internal controls over financial reporting as the vast majority of our employees are required to work from home and onsite locations remain closed, and therefore new processes, procedures, and controls could be required to respond to changes in our business environment. Further, should any key employees become ill from COVID-19 and unable to work, our ability to operate our internal controls may be adversely impacted.

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Any of these events could cause or contribute to the risks and uncertainties enumerated in our Annual Report on Form 10-K and could materially adversely affect our business, results of operations or financial condition.

**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 March 31, 2020, 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** | | |
| 1/1/20 through 1/31/20 | — |  |  | $ | — |  |  | — |  |  | $ | 170,664 |  |
| 2/1/20 through 2/29/20 | 483,438 |  |  | $ | 20.98 |  |  | 483,438 |  |  | $ | 590,027,844 |  |
| 3/1/20 through 3/31/20 | 13,204,242 |  |  | $ | 14.74 |  |  | 13,204,242 |  |  | $ | 395,415,361 |  |
| **Total** | **13,687,680** |  |  | **$** | **14.96** |  |  | **13,687,680** |  |  | **$** | **395,415,361** |  |

**Item 3.     Defaults Upon Senior Securities**

None.

**Item 4.     Mine Safety Disclosures**

None.

**Item 5.      Other Information**

None.

**Item 6.     Exhibits**

|  |  |
| --- | --- |
|  | |
|  |  |
| **Number** | **Description and Method of Filing** |
| [3.1](https://www.sec.gov/Archives/edgar/data/1333986/000156459020000759/eqh-ex31_85.htm) | Certificate of Amendment of Certificate of Incorporation, effective January 13, 2020 (incorporated by reference to Exhibit 3.1 of Holdings’ Form 8-K, filed on January 10, 2020). |
| [3.2](https://www.sec.gov/Archives/edgar/data/1333986/000156459020000759/eqh-ex32_84.htm) | Second Amended and Restated By-Laws of Equitable Holdings, Inc. (incorporated by reference to Exhibit 3.2 to Holdings’ Form 8-K, filed on January 10, 2020). |
| [31.1](eqh-33120exhibit311.htm) | Certification of the Registrant’s Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| [31.2](eqh-33120exhibit312.htm) | Certification of the Registrant’s Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| [32.1](eqh-33120exhibit321.htm) | Certification of the Registrant’s Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| [32.2](eqh-33120exhibit322.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 - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document |
| 104 | Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibits 101). |

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

#    Filed herewith.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, Equitable Holdings, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

|  |  |  |  |
| --- | --- | --- | --- |
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|  |  |  |  |
| Date: May 7, 2020 | EQUITABLE HOLDINGS, INC. | | |
|  |  |  | |
|  | By: | /s/ Anders Malmström | |
|  |  | Name: | Anders Malmström |
|  |  | Title: | Senior Executive Vice President and Chief Financial Officer  (Principal Financial Officer) |
|  |  |  |  |
| Date: May 7, 2020 |  | /s/ William Eckert | |
|  |  | Name: | William Eckert |
|  |  | Title: | Senior Vice President and Chief Accounting Officer  (Principal Accounting Officer) |

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