Variable Annuity M&A Landscape

November 8, 2018

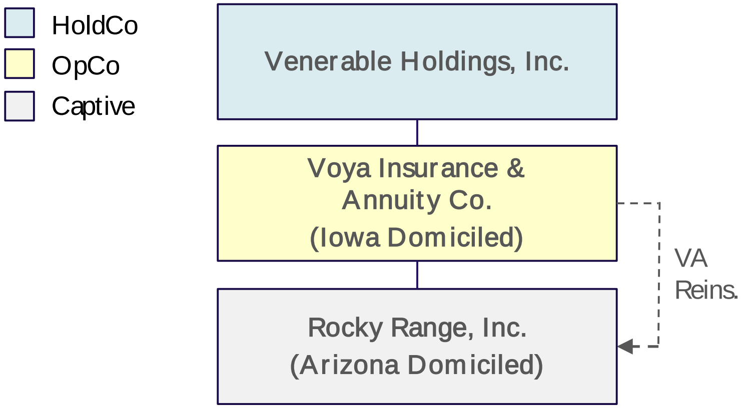
VENERABLE™

Venerable Summary Overview

Business Overview

- Formed through the June 1, 2018 acquisition of Voya's CBVA business by an investors group led by Apollo Global Management, Reverence Capital, and Crestview partners
- Platform with over $37bn in assets and ~250 highly experienced professionals
- Significant excess capital with current RBC at ~700% and VA capital of CTE98+ along with a robust hedging program
- Focused on providing the VA industry with solutions through reinsurance, M&A and other strategic partnership arrangements

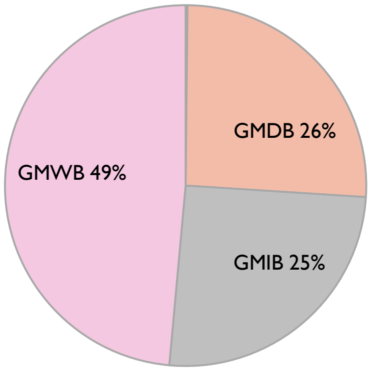
Current Venerable Structure



Summary Balance Sheet ($bn)[1]

Total Statutory Assets	$ 37.2
General Account Assets	$ 9.9
Total Capital & Surplus	$ 2.3
Total Liquidity	$ 1.7

VA Liability Composition



Total VA Account Value: $27.3bn
Total Payout Annuity Reserves: $5.2bn

As of June 1, 2018

1. Assets excluding fixed annuity assets ModCo reinsured to Athene.

Variable Annuity M&A Rationale

Key Benefit	Details & Considerations
1 Favorable Capital Market Environment	• Current capital market conditions are favorable, providing for attractive relative valuations and more favorable pro-forma financial impacts from VA dispositions – Equity market levels near all-time highs, with 5-year CAGR of 11.6% to September 30, 2018 – Benchmark interest rates at highest levels since 2011, with 10-year Treasury at ~3.15%
2 Mitigate Earnings / Capital Volatility	• VA reinsurance and M&A transactions can mitigate the ongoing earnings volatility driven by the current Stat vs. economic exposure misalignment • Moreover, the need for financial management actions (e.g., captives, voluntary reserves, etc.) to offset non-economic RBC ratio changes can be eliminated or substantially reduced
3 Positive for Rating Agencies & Regulators	• With respect to both capital market and policyholder behavior exposures, the VA business represents a high risk exposure from a rating agency and regulatory perspective • Both constituents typically view VA dispositions positively in that they derisk the seller's balance sheet exposure while also increasing the proportion of lower risk business lines
4 Reduce Exposure to Accounting & Capital Changes	• The ongoing NAIC VA reform is expected to result in notable changes to the modeling, accounting, capital and disclosure requirements which could be materially limited through an M&A transaction • Impending GAAP accounting changes will make GMDB & GMIB liabilities fully mark-to-market and materially more volatile than the current accrual based framework

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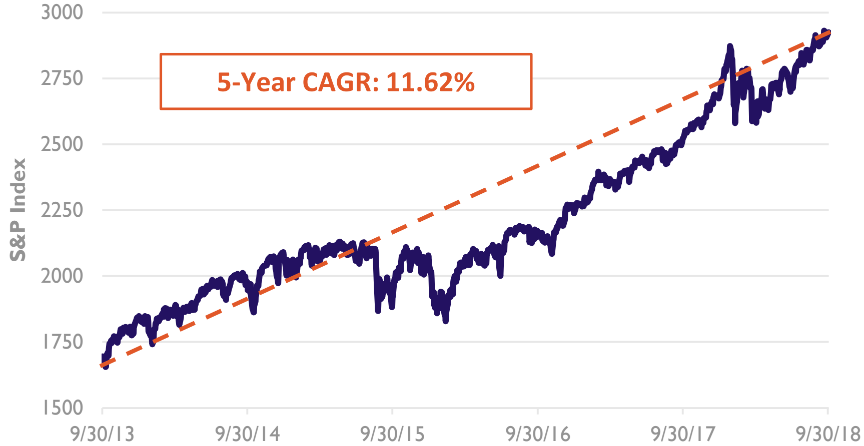
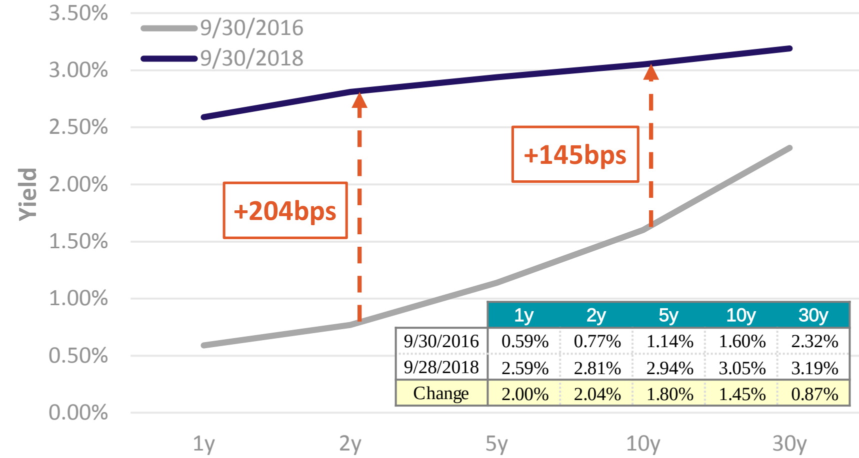
❶ Favorable Capital Market Environment

S&P 500 Index: 5-year Historical Returns



U.S. Treasury Yield Curve: 9/30/16 vs. 9/28/18



	1y	2y	5y	10y	30y
9/30/2016	0.59%	0.77%	1.14%	1.60%	2.32%
9/28/2018	2.59%	2.81%	2.94%	3.05%	3.19%
Change	2.00%	2.04%	1.80%	1.45%	0.87%

Variable Annuity Valuation Impact from Capital Market Conditions

- Current equity market and interest rate levels are highly favorable relative to recent historic levels, leading to materially improved valuations for legacy VA businesses
- **Equity Markets:** As measured by the S&P 500, equity markets have returned a 5-year CAGR of 11.6% as of Q3 2018
  - These returns have materially increased legacy VA block valuations as indicated by improved risk-neutral valuations, CTE metrics, NARs and ITM-ness
- **Interest Rates:** Key U.S. Treasury benchmark yields are at highs relative to recent historical levels, with 10-year rate increasing 145bps between the between Q3 2016 and Q3 2018
  - Particularly for long-duration living benefits, this rise in interest rates has also led to marked improvements in legacy VA block valuations
  - Unlike equity exposures, corresponding hedge losses are generally more limited as many insurers are not 100% rate hedged
- With these capital market improvements, the pro forma financial impact from legacy VA business dispositions are much more favorable

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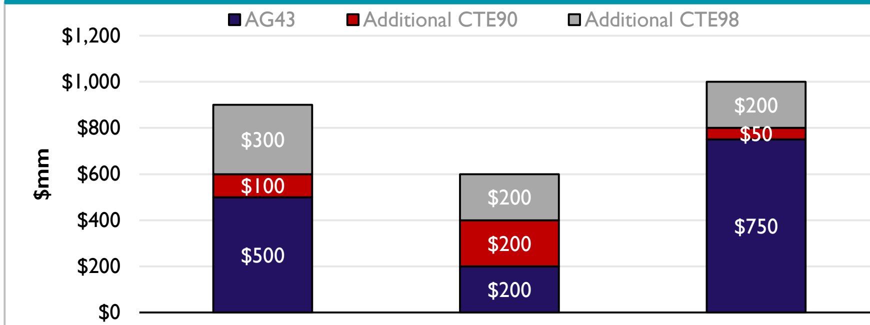
❷ Mitigate Capital / Earnings Volatility

Illustrative Sensitivities of Liability Frameworks

Liability Framework	Delta	Rho	Vega
GAAP: SOP 03-1	◑	◔	○
Statutory Accounting	●	◑	○
Market Consistent	●	●	●

Illustrative RBC Ratio Volatility[1]



Scenario	Baseline	Favorable Markets	Market Downturn
TAC	$400	$400	$250
RBC	$100	$200	$50
RBC Ratio	400%	200%	500%

Overview of Current Capital / Earnings Volatility

- The existing variable annuity Statutory accounting and required capital frameworks frequently creates material non-economic financial statement volatility and/or counterintuitive RBC movements
  - This volatility is one of the key rationales driving the historic prevalence of voluntary reserves and/or captives
- For publicly-traded variable annuity carriers focused on quarterly GAAP results, this volatility is further exacerbated as the current GAAP liability metrics do not align with Statutory or economic frameworks
- Although recent NAIC and FASB developments (see ❹) are designed to limit these issues, the changes are several years away and may still leave certain residual misalignments
- Moreover, even the most robust hedge programs will generate an amount of volatility driven by basis risk, jump risk, roll risk and various other drivers of tracking error

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[1] *Illustratively assumes total assets are maintained at a CTE98 level*

❸ Positive for Rating Agencies & Regulators

Rating Agency Commentary: Recent VA Transactions		
VA Transaction	**Date**	**Highlighted Commentary**
TALCOTT RESOLUTION	May 31, 2018	***Moody's:*** *"Shedding Talcott eliminates a large component of tail risk for The Hartford because its other liabilities are much less sensitive to financial markets."* ***S&P:*** *"The divestures have reduced risks significantly, especially those stemming from its run-off VA book that has been a source of earnings volatility."*
VENERABLE	June 1, 2018	***Moody's*** *"The sale of the substantially all of the CBVA business … will be credit positive for Voya, reducing significant interest rate, equity market, and policyholder behavior risks, while eliminating the complexity and cost associated with CBVA hedging."* ***S&P:*** *"… we view the sale of the CBVA block as credit positive because we expect less volatility in VOYA's net income, and relatively stable reserving and capital requirements from the remaining businesses."*

Rating Agency Commentary: Recent Life Industry Outlooks		
Rating Agency	**Date**	**Highlighted Commentary**
FitchRatings	December 6, 2017	*"The individual annuity market remains in a state of flux due to regulatory uncertainties [and] challenging macroeconomic environment…"*
Moody's	June 1, 2018	*"…the robust equity markets have aided legacy VA blocks, as have recently increasing interest rates. A decline in the equity markets could bring VA guarantees back into focus, as many have "ratchets" that incorporate market highs into guarantees."*
S&P Global	January 24, 2018	*"We expect most insurers that retain their legacy risk to scrub their reserves annually and make necessary reserving updates. Continuous annual reserving increases are negative for earnings, and they create volatility on the income statement."*

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❹ Reduce Exposure to Accounting & Capital Changes

Accounting & Capital Reform Timeline

Stat / RBC

July 2018: NAIC VAIWG adopts revisions to AG43 & C3P2 proposal

2019: Expected adoption of technical language by NAIC committees

2020-2022: Expected 3-year grade-in period to incorporate reform impacts

2018 | 2019 | 2020 | 2021 | 2022

GAAP

August 2018: FASB issues final accounting standards update for long-duration contracts

Q1 2021: Insurers begin reporting under new accounting guidance, with SEC filers required to file two years of comparative filings starting from Q1 2019

Key Considerations

- In 2018, both the NAIC and the FASB adopted proposals that will significantly alter the go-forward accounting and capital regimes applicable to U.S. VA businesses
- **NAIC VA Reform**
  - The NAIC's Variable Annuity Issues Working Group (VAIWG) adopted a proposal developed by Oliver Wyman recommending 28 changes to AG43 and C-3 Phase II
  - While the changes are primarily designed to allow for more economic management of VA businesses, some are expected to require certain insurers to increase conservatism driving elevated reserve and/or capital requirements
- **GAAP Accounting**
  - Resulting from a recent FASB accounting update for long-duration contracts, all SOP 03-1 reserves (e.g., GMDB and GMIB) will transition in Q1 2021 to fully mark-to-market and potentially elevated FAS 133/157 reserves
  - GAAP filers will subsequently need to either hedge these rider on a fully market consistent basis, or face exposure to meaningful accounting volatility

Sources: "Revisions to AG 43/VM-21 and C3 Phase II", Oliver Wyman, May 31, 2018
ASU No. 2018-12, Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts, FASB, August 15, 2018

Precedent Variable Annuity Value Transactions

		The Hartford	Voya Financial
	Selling Company	THE HARTFORD	VOYA FINANCIAL
	Divested VA Block(s)	Run-off VA block ($41bn account value)	Run-off VA block ($36bn of reserves)
	Size of GAAP Charge ($bn)	$3.2bn after-tax	$2.3bn after-tax
	Change in GAAP BVPS (%)	(24%)	(22%)
	1-Day Unaffected Stock Price Impact[1]	N/A	+17.9%
	1-Month Unaffected Stock Price Impact[2]	N/A	+23.8%
	P / BV Impact[3]	1.21x → 1.57x	0.73x → 1.10x
Investor Positioning	Manageable BV Impact	✓	✓
Investor Positioning	Significantly ROE Accretive	✓	✓
Investor Positioning	Clear Go-Forward Strategy	✓	✓
Investor Positioning	Rating Agency Reaction	✓	✓

Source: Relevant company presentations, SNL Financial, FactSet.

[1] Based on change one day prior to leak and one day after transaction announced; Hartford transaction was rumored years in advance of announcement.

[2] Based on change one-month prior to leak and one day after transaction announced; Hartford transaction was rumored years in advance of announcement.

[3] Based on price day before announcement/leak and book value at 9/30/17 versus price day after announcement and book value post-transaction.

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VARIABLE ANNUITY MERGERS AND ACQUISITIONS CASE STUDY

ACTUARIES' CLUB OF HARTFORD & SPRINGFIELD

NOVEMBER 8, 2018

Guillaume Briere-Giroux, FSA, MAAA, CFA

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1 | Case study overview

Case study overview

1 **Key analysis component in VA M&A is the statutory footprint and sustaining sufficient levels of capital**

2 **Variable annuity NAIC reform is changing statutory sensitivities and may impact the total asset requirement**

3 **Illustrative analysis is provided to go over these dynamics**

4 **This is a small subset of the work needed to due diligence a variable annuity block**

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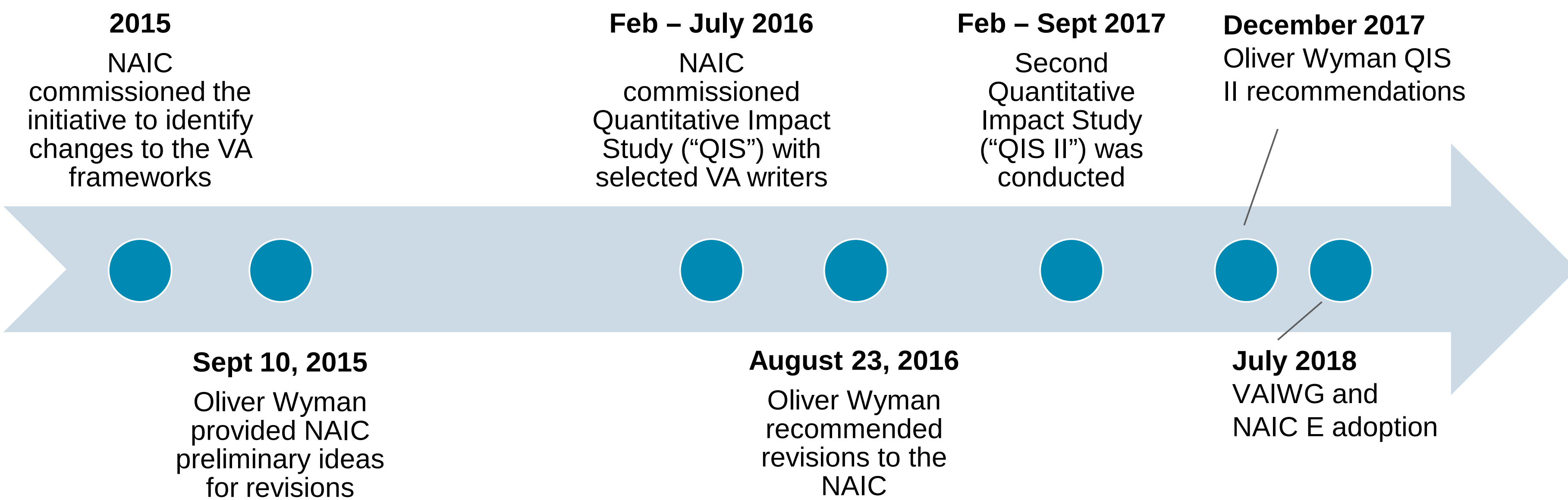
Background of the reform

- The interplay of AG43 and C3P2 introduced unprecedented complexity into VA statutory balance sheet and risk management, prompting the use of captive reinsurance transactions
- In 2015, the NAIC commissioned an initiative to identify changes to the statutory framework for VAs that can remove or mitigate the motivation for insurers to engage in captive reinsurance, followed by two QIS studies
- These studies form the basis of the current proposed framework, adopted by the VAIWG and the NAIC E Committee in July 2018



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2 M&A case study

Hedging considerations

Hedging and reserves / capital are interrelated both through the level of required assets and the sensitivity to market movement

Impact of hedging on solvency requirements

	Pre-NAIC AG 43	Pre-NAIC C3P2	S&P CTE	Post-NAIC AG 43	Post-NAIC RBC
Equity hedging	• Heavily penalized ■	• Usually adverse to neutral ■	• Likely to reduce CTE 95+ ■	• Heavily penalized ■ *(but less so than pre-NAIC AG 43)*	• Reduction in CTE 98 ■
Interest rate hedging	• Heavily penalized ■	• Heavily penalized ■	• Penalized / neutral ■	• Heavily penalized ■ *(but less so than pre-NAIC AG 43)*	• Reduction in CTE 98 ■
Volatility hedging	• Heavily penalized ■				• Less penalized ■

[1]There is strong dependency between the initial yield curve and the costs / benefits of equity and interest rate hedging. Same for implied vs. realized volatility for volatility hedging.

The hedging strategy impacts the opening solvency requirement; this can influence pricing

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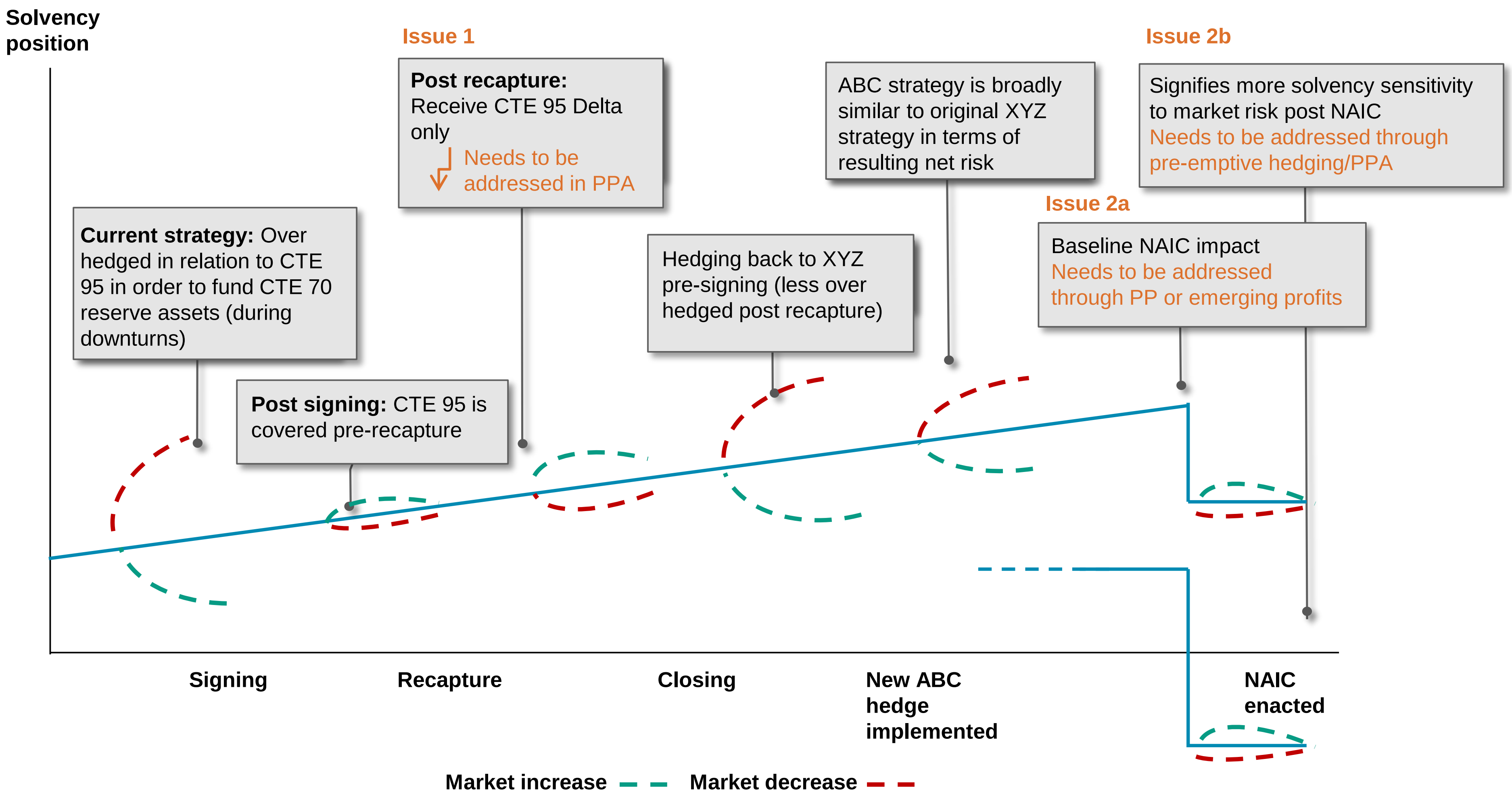
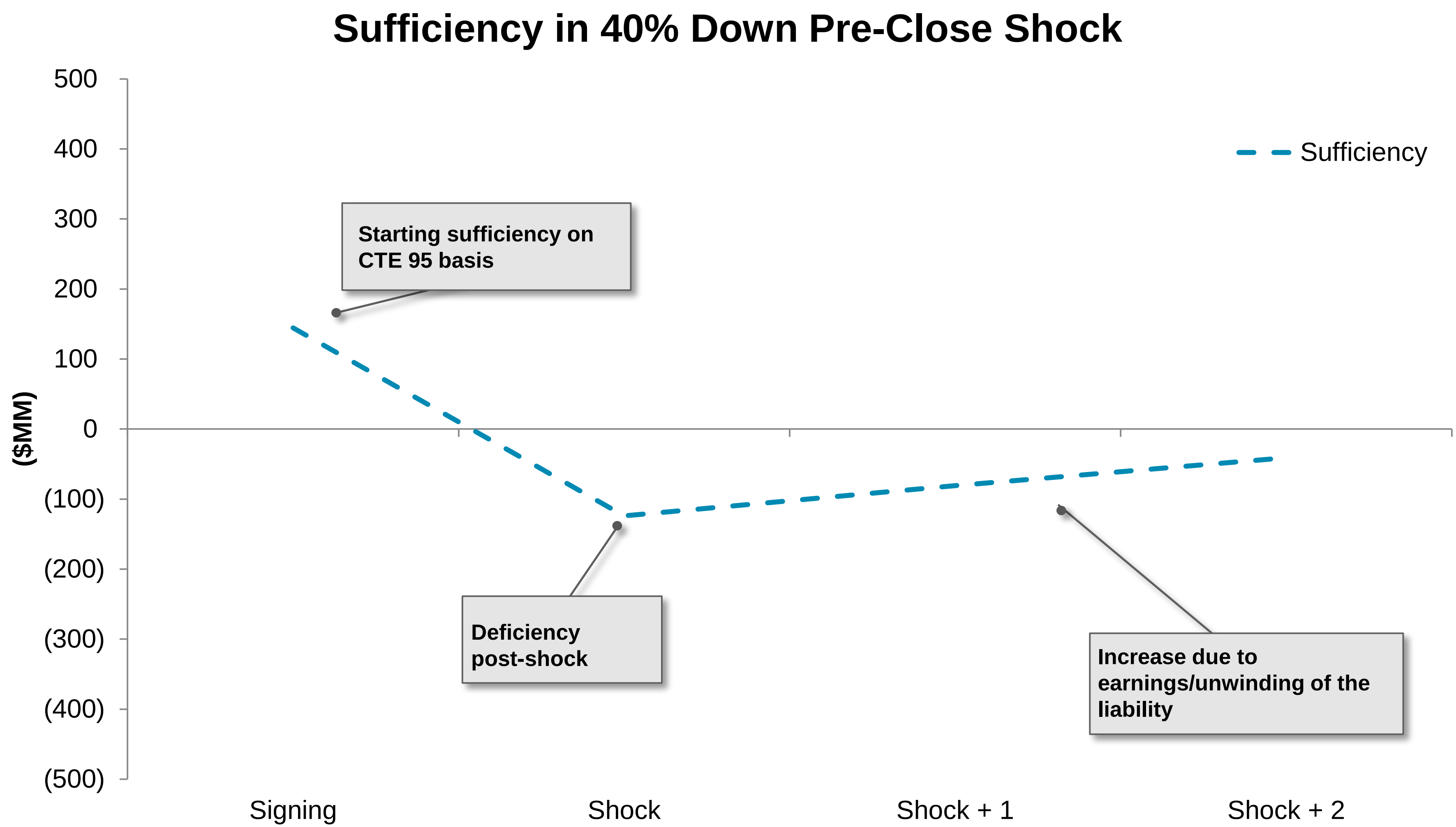
Deal time horizon and issues



Issue 1 – Impact of 40% stress pre-close

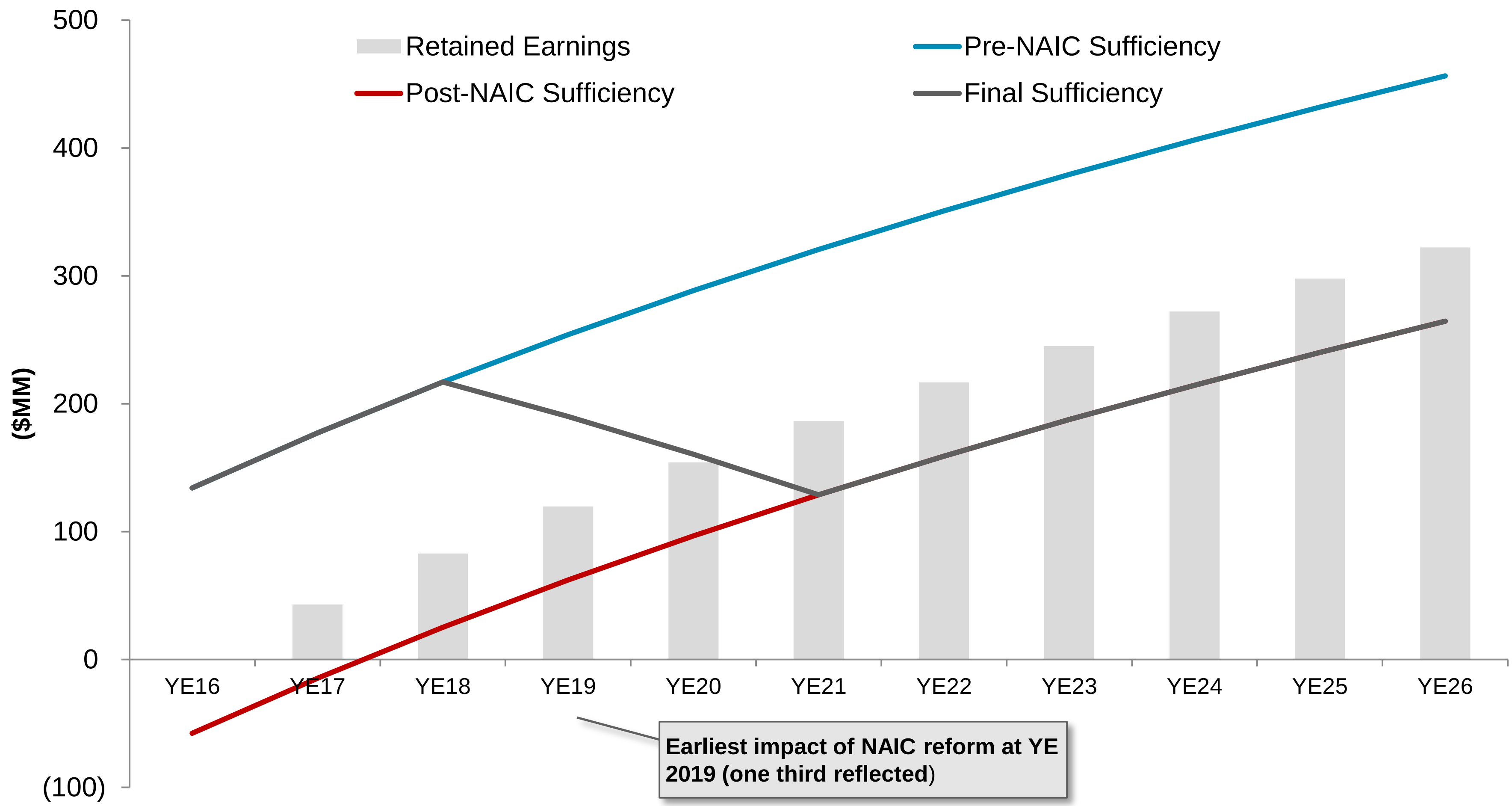
If the purchase price adjustment is linked to CTE 95, a 40% market shock pre-close produces a deficiency



Issue 2a – Impact of NAIC reform

In the base scenario, a small initial NAIC reform shortfall is compensated by earnings from the block at YE 21

Projected Sufficiency and Retained Earnings in Baseline Scenario



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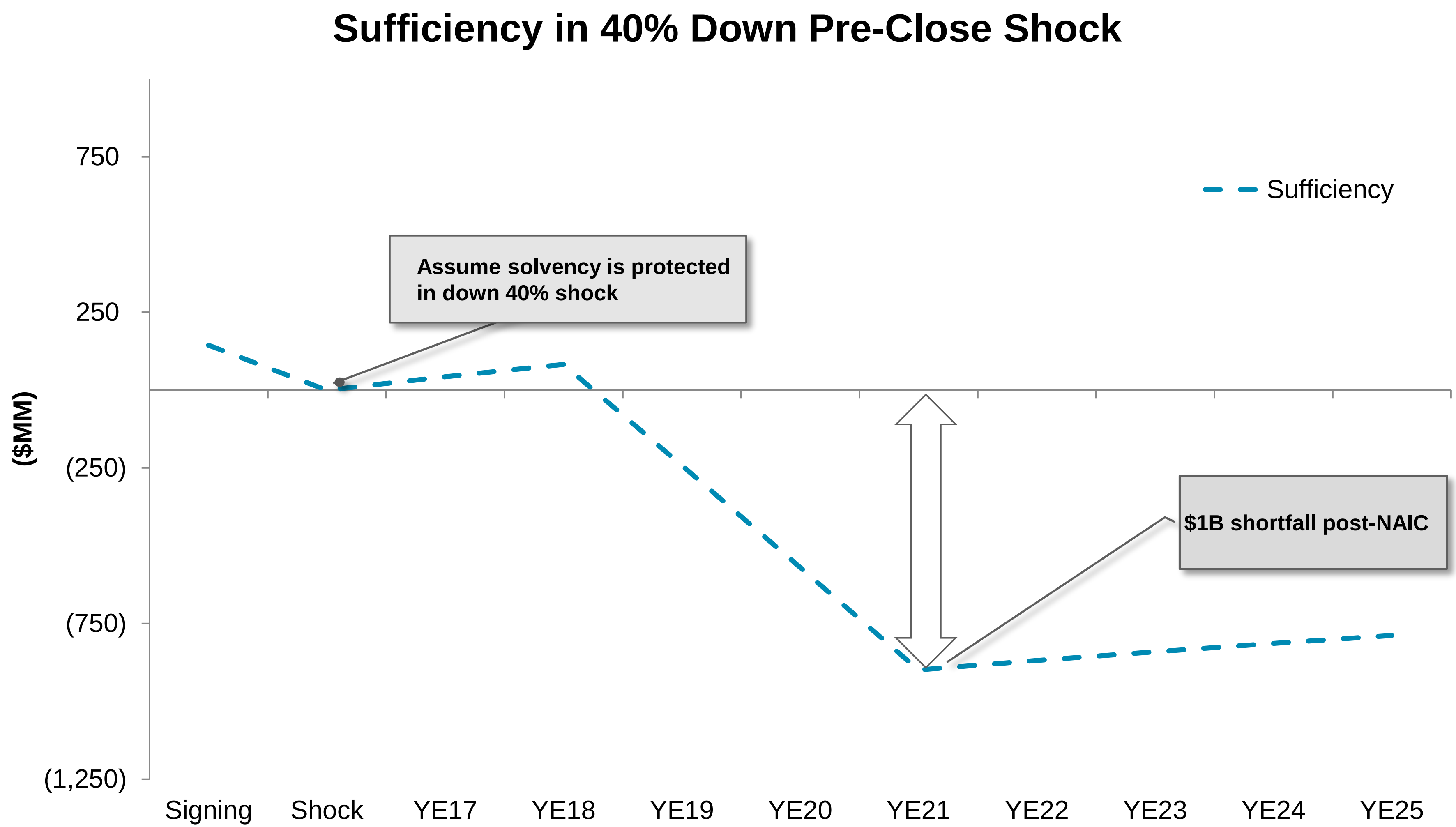
Issue 2b – Impact of NAIC reform under stress

Assuming that the purchase price adjustment resolves Issue 1, there remains longer dated exposure due to the NAIC reform under a pre-closing stress



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Key takeaways

1 **Must consider direct impact of NAIC reform on statutory footprint**

2 **Must consider varying sensitivities**

3 **Must consider potential shocks at all stages of the transaction and transition to NAIC reform**

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Variable Annuity M&A Landscape

John Brady, Chief Actuary

November 8, 2018

Talcott Resolution Background

- VA industry leader peaking at over 1 million customers and $100 B AUM
- After the crisis, sales declined significantly
- Life & annuity businesses were placed into runoff in 2012
- Non-USVA businesses divested in 2013 - 2014
- Multiple initiatives reduced the risk of the VA block

1980s | 1990s | 2000s | 2010 | 2011 | 2012 | 2013 | 2014

1980: TL VA sales begin

1992: TLA VA sales begin

2003: VA sales peak at $15.3b

2007: VA assets peak at $123b

Mar. 2012: VA placed into runoff

Feb. 2013: 1st VA buyout offer

May 2013: investment restrictions, rider fee increases

June 2014: second VA buyout offer

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The Talcott Resolution Acquisition: Pre-Announcement

TALCOTT RESOLUTION

Pre-Announcement

- Viability assessment
- Actuarial appraisal
- Initial exhibit drafts
- High-level due diligence
- Decision to proceed
- Presentations to bidders
- Detailed due diligence
- Employee questions
- Narrowing the field
- Additional meetings and due diligence
- Plan for announcement
- Announcement and employee meetings

Dec. 4, 2017
Sale Announcement

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The Talcott Resolution Acquisition: Post-Announcement

Pre-Close

- Discuss strategy, organization, separation
- Meetings with owners, rating agencies & CT Insurance Department (CID)
- Move to new location

May 31, 2018 Sale Close

Post-Close

- Determine strategy for separation
- Establish guiding principles
- Regularly meet with owners, CID
- Stand up new platforms, processes, and people
- Plan for future growth

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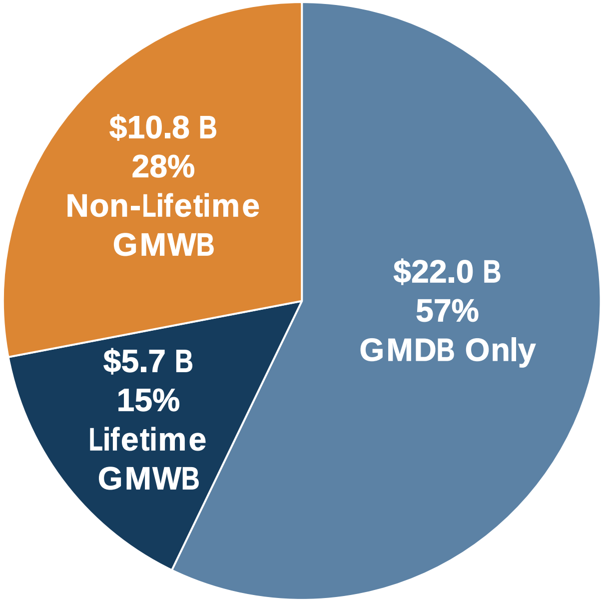
Talcott Resolution Today

$38.5 Billion of Variable Annuity Account Value as of September 30, 2018



Profile:

- *Over $90 billion in assets*
- *~$3.4 billion in statutory surplus*
- *~690,000 contract holders*
- *~375 employees*
- *Leadership team has ~ 25 years experience within the industry*
- *Domiciled in Connecticut*
- *Strategy:*
  - Manage existing businesses
  - Grow through reinsurance, acquisitions and/or TPA opportunities

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Variable Annuity Acquisition Implementation: Block Reinsurance

Actuarial	-Data quality & timing -Experience studies & assumption setting -Benefits of aggregation -Small blocks -Proposed changes for VACARVM & C3P2
Risk / Investments	-Hedging -Separate account funds -General account investments
Legal / Administration	-Legal entity placement -Inuring reinsurance -Policy administration -Intercompany guarantees -Treaty negotiation

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Variable Annuity Acquisition Implementation: Legal Entity Sale

- Actuarial
- Risk / Investments
- Legal / Administration

+

- People
- Processes
- Platforms
- Company Structure
- Rating Agencies
- Accounting
- Distribution

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