

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**FORM 10-Q**

(Mark One)

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

For the quarterly period ended **September 30, 2017**

OR

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

For the transition period from                      to

Commission file number **333-1173**

**GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY**

(Exact name of registrant as specified in its charter)

**COLORADO**

**84-0467907**

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

**8515 EAST ORCHARD ROAD, GREENWOOD VILLAGE, CO 80111**

(Address of principal executive offices)

**(303) 737-3000**

(Registrant's telephone number, including area code)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes       No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company as defined in Rule 12b-2 of the 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 Act.

Yes       No

As of November 9, 2017, 7,292,708 shares of the registrant's common stock were outstanding, all of which were owned by the registrant's parent company.

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**Part I Financial Information**  
**Item 1. Interim Financial Statements**

**GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY**  
Condensed Consolidated Balance Sheets  
September 30, 2017 and December 31, 2016  
(In Thousands, Except Share Amounts)  
(Unaudited)

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
<b>Assets</b>		
<b>Investments:</b>		
Fixed maturities, available-for-sale, at fair value (amortized cost \$22,125,948 and \$21,672,727)	\$ 23,012,869	\$ 22,153,703
Fixed maturities, held-for-trading, at fair value (amortized cost \$59,034 and \$519,495)	60,328	514,738
Mortgage loans on real estate (net of allowances of \$773 and \$2,882)	3,943,088	3,558,826
Policy loans	4,073,511	4,019,648
Short-term investments (amortized cost \$823,071 and \$303,988)	823,071	303,988
Limited partnership and other corporation interests	45,117	34,895
Other investments	20,037	15,052
Total investments	<u>31,978,021</u>	<u>30,600,850</u>
<b>Other assets:</b>		
Cash and cash equivalents	20,495	18,321
Reinsurance recoverable	591,805	598,864
Deferred acquisition costs (“DAC”) and value of business acquired (“VOBA”)	461,348	486,690
Investment income due and accrued	316,895	287,681
Collateral under securities lending agreements	74,795	—
Due from parent and affiliates	92,217	81,995
Goodwill	137,683	137,683
Other intangible assets	17,808	20,087
Other assets	934,655	1,021,210
Assets of discontinued operations	16,865	17,652
<b>Separate account assets</b>	<u>27,866,779</u>	<u>27,037,765</u>
<b>Total assets</b>	<u>\$ 62,509,366</u>	<u>\$ 60,308,798</u>

See notes to condensed consolidated financial statements.

(Continued)

**GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY**

Condensed Consolidated Balance Sheets  
September 30, 2017 and December 31, 2016  
(In Thousands, Except Share Amounts)  
(Unaudited)

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
<b>Liabilities and stockholder's equity</b>		
<b>Policy benefit liabilities:</b>		
Future policy benefits	\$ 29,881,799	\$ 28,872,899
Policy and contract claims	386,556	372,259
Policyholders' funds	245,007	285,554
Provision for policyholders' dividends	48,847	49,521
Undistributed earnings on participating business	15,742	15,573
Total policy benefit liabilities	<u>30,577,951</u>	<u>29,595,806</u>
<b>General liabilities:</b>		
Due to parent and affiliates	538,452	537,990
Commercial paper	99,868	99,049
Payable under securities lending agreements	74,795	—
Deferred income tax liabilities, net	297,684	191,911
Other liabilities	776,075	816,304
Liabilities of discontinued operations	16,865	17,652
<b>Separate account liabilities</b>	<u>27,866,779</u>	<u>27,037,765</u>
Total liabilities	60,248,469	58,296,477
<b>Commitments and contingencies (See Note 12)</b>		
<b>Stockholder's equity:</b>		
Preferred stock, \$1 par value, 50,000,000 shares authorized; none issued and outstanding	—	—
Common stock, \$1 par value, 50,000,000 shares authorized; 7,292,708 shares issued and outstanding	7,293	7,293
Additional paid-in capital	940,616	863,031
Accumulated other comprehensive income	420,930	235,875
Retained earnings	892,058	906,122
Total stockholder's equity	<u>2,260,897</u>	<u>2,012,321</u>
<b>Total liabilities and stockholder's equity</b>	<u>\$ 62,509,366</u>	<u>\$ 60,308,798</u>

See notes to condensed consolidated financial statements.

(Concluded)

**GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY**  
Condensed Consolidated Statements of Income  
Three and Nine Months Ended September 30, 2017, and 2016  
(In Thousands)  
(Unaudited)

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Revenues:</b>				
Premium income	\$ 145,504	\$ 146,100	\$ 365,408	\$ 377,845
Fee income	264,304	246,413	786,758	709,844
Other revenue	3,322	3,228	9,367	9,747
Net investment income	300,582	291,539	911,274	979,080
Realized investment gains (losses), net:				
Total other-than-temporary gains (losses), net	(2,969)	—	(3,126)	(536)
Other realized investment gains (losses), net	16,830	33,374	27,297	107,193
Total realized investment gains (losses), net	13,861	33,374	24,171	106,657
Total revenues	<u>727,573</u>	<u>720,654</u>	<u>2,096,978</u>	<u>2,183,173</u>
<b>Benefits and expenses:</b>				
Life and other policy benefits	161,017	172,855	498,300	529,985
Increase (decrease) in future policy benefits	12,704	7,540	(51,148)	(75,221)
Interest credited or paid to contractholders	160,040	154,248	471,531	455,018
Provision for policyholders' share of losses on participating business	(1,033)	(106)	(1,097)	(525)
Dividends to policyholders	11,513	12,324	35,627	37,619
Total benefits	344,241	346,861	953,213	946,876
General insurance expenses	293,176	307,329	884,670	878,367
Amortization of DAC and VOBA	14,076	3,504	39,798	40,397
Interest expense	7,811	7,648	23,087	26,051
Total benefits and expenses	<u>659,304</u>	<u>665,342</u>	<u>1,900,768</u>	<u>1,891,691</u>
<b>Income before income taxes</b>	<b>68,269</b>	<b>55,312</b>	<b>196,210</b>	<b>291,482</b>
Income tax expense	21,688	15,295	64,973	79,043
<b>Net income</b>	<b>\$ 46,581</b>	<b>\$ 40,017</b>	<b>\$ 131,237</b>	<b>\$ 212,439</b>

See notes to condensed consolidated financial statements.

**GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY**  
Condensed Consolidated Statements of Comprehensive Income  
Three and Nine Months Ended September 30, 2017, and 2016  
(In Thousands)  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
<b>Net income</b>	\$ 46,581	\$ 40,017	\$ 131,237	\$ 212,439
Components of other comprehensive income				
Unrealized holding gains (losses), net, arising on available-for-sale fixed maturity investments	39,983	55,849	407,208	895,589
Unrealized holding gains (losses), net, arising on cash flow hedges	(23,111)	(7,805)	(48,311)	(3,307)
Reclassification adjustment for (gains) losses, net, realized in net income	(2,885)	(10,284)	(3,242)	(61,375)
Net unrealized gains (losses) related to investments	13,987	37,760	355,655	830,907
Future policy benefits, DAC and VOBA adjustments	(1,977)	(18,214)	(85,992)	(190,985)
Employee benefit plan adjustment	10,744	2,494	15,036	6,962
<b>Other comprehensive income before income taxes</b>	22,754	22,040	284,699	646,884
Income tax expense related to items of other comprehensive income	7,963	7,715	99,644	226,410
<b>Other comprehensive income<sup>(1)</sup></b>	14,791	14,325	185,055	420,474
<b>Total comprehensive income</b>	\$ 61,372	\$ 54,342	\$ 316,292	\$ 632,913

<sup>(1)</sup> Other comprehensive income includes the non-credit component of impaired gains (losses), net, on fixed maturities available-for-sale in the amounts of \$(2,258) and \$(959) for the three months ended September 30, 2017, and 2016, respectively and \$(3,867) and \$(5,326) for the nine months ended September 30, 2017, and 2016, respectively.

See notes to condensed consolidated financial statements.

**GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY**  
Condensed Consolidated Statements of Stockholder's Equity  
Nine Months Ended September 30, 2017, and 2016  
(In Thousands)  
(Unaudited)

**Nine Months Ended September 30, 2017**

	Common stock	Additional paid-in capital	Accumulated other comprehensive income	Retained earnings	Total
<b>Balances, January 1, 2017</b>	\$ 7,293	\$ 863,031	\$ 235,875	\$ 906,122	\$ 2,012,321
Net income	—	—	—	131,237	131,237
Other comprehensive income, net of income taxes	—	—	185,055	—	185,055
Dividends	—	—	—	(145,301)	(145,301)
Capital contribution <sup>(1)</sup>	—	76,429	—	—	76,429
Capital contribution - stock-based compensation	—	1,156	—	—	1,156
<b>Balances, September 30, 2017</b>	<u>\$ 7,293</u>	<u>\$ 940,616</u>	<u>\$ 420,930</u>	<u>\$ 892,058</u>	<u>\$ 2,260,897</u>

<sup>(1)</sup> In May 2017, the Company received a capital contribution from its parent, GWL&A Financial, in the amount of \$76,429. No additional shares of the Company were issued in relation to this contribution.

**Nine Months Ended September 30, 2016**

	Common stock	Additional paid-in capital	Accumulated other comprehensive income	Retained earnings	Total
<b>Balances, January 1, 2016</b>	\$ 7,233	\$ 840,874	\$ 233,438	\$ 800,721	\$ 1,882,266
Net income	—	—	—	212,439	212,439
Other comprehensive income, net of income taxes	—	—	420,474	—	420,474
Dividends	—	—	—	(125,691)	(125,691)
Capital contribution - stock-based compensation	—	1,637	—	—	1,637
Income tax benefit on stock-based compensation	—	468	—	—	468
<b>Balances, September 30, 2016</b>	<u>\$ 7,233</u>	<u>\$ 842,979</u>	<u>\$ 653,912</u>	<u>\$ 887,469</u>	<u>\$ 2,391,593</u>

See notes to condensed consolidated financial statements.

**GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY**  
Condensed Consolidated Statements of Cash Flows  
Nine Months Ended September 30, 2017, and 2016  
(In Thousands)  
(Unaudited)

	<b>Nine Months Ended September 30,</b>	
	<b>2017</b>	<b>2016</b>
<b>Net cash provided by operating activities</b>	\$ 711,382	\$ 559,668
<b>Cash flows from investing activities:</b>		
Proceeds from sales, maturities and redemptions of investments:		
Fixed maturities, available-for-sale	3,920,591	4,829,009
Mortgage loans on real estate	322,326	310,664
Limited partnership interests, other corporation interests and other investments	6,759	9,386
Purchases of investments:		
Fixed maturities, available-for-sale	(4,313,849)	(4,138,915)
Mortgage loans on real estate	(689,122)	(626,431)
Limited partnership interests, other corporation interests and other investments	(17,697)	(5,491)
Net change in short-term investments	(517,840)	(1,988,191)
Net change in policy loans	(9,677)	5,980
Purchases of furniture, equipment, and software	(30,867)	(33,405)
Net cash used in investing activities	(1,329,376)	(1,637,394)
<b>Cash flows from financing activities:</b>		
Contract deposits	2,251,508	2,756,047
Contract withdrawals	(1,565,225)	(1,500,963)
Net change in due to/from parent and affiliates	(9,760)	(19,924)
Dividends paid	(145,301)	(125,691)
Capital contribution	76,429	—
Payments for and interest paid on financing element derivatives, net	(3,290)	(5,281)
Contingent consideration	—	(14,233)
Net change in commercial paper borrowings	819	6,600
Net change in book overdrafts	15,659	121
Employee taxes paid for withheld shares	(671)	(489)
Income tax benefit on share-based compensation	—	468
Net cash provided by financing activities	620,168	1,096,655
Net increase in cash and cash equivalents	2,174	18,929
Cash and cash equivalents, beginning of year	18,321	34,362
Cash and cash equivalents, end of period	\$ 20,495	\$ 53,291

See notes to condensed consolidated financial statements.

(Continued)



**GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY**  
Condensed Consolidated Statements of Cash Flows  
Nine Months Ended September 30, 2017, and 2016  
(In Thousands)  
(Unaudited)

	<b>Nine Months Ended September 30,</b>	
	<b>2017</b>	<b>2016</b>
<b>Supplemental disclosures of cash flow information:</b>		
Net cash received (paid) during the year for:		
Income taxes	\$ (17,449)	\$ (24,118)
Interest	(16,447)	(21,685)
<b>Non-cash investing and financing transactions during the years:</b>		
Share-based compensation expense	\$ 1,156	\$ 1,637
Fair value of assets acquired in settlement of fixed maturity investments	9,323	—

See notes to condensed consolidated financial statements.

(Concluded)

**GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY**

Notes to Condensed Consolidated Financial Statements

(Dollars in Thousands)

(Unaudited)

**1. Organization and Basis of Presentation**

***Organization***

Great-West Life & Annuity Insurance Company (“GWLA”) and its subsidiaries (collectively, the “Company”) is a direct wholly-owned subsidiary of GWL&A Financial Inc. (“GWL&A Financial”), a holding company formed in 1998. GWL&A Financial is a direct wholly-owned subsidiary of Great-West Lifeco U.S. LLC (“Lifeco U.S.”) and an indirect wholly-owned subsidiary of Great-West Lifeco Inc. (“Lifeco”), a Canadian holding company. The Company offers a wide range of life insurance, retirement, and investment products to individuals, businesses, and other private and public organizations throughout the United States. The Company is an insurance company domiciled in the State of Colorado and is subject to regulation by the Colorado Division of Insurance.

***Basis of Presentation***

The condensed consolidated financial statements include the accounts of the Company and the accounts of its subsidiaries over which it exercises control and are prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Intercompany transactions and balances have been eliminated in consolidation.

The condensed consolidated balance sheet as of December 31, 2016, which was derived from the Company’s audited consolidated financial statements, and the unaudited interim condensed consolidated financial statements as of and for the three and nine months ended September 30, 2017, have been prepared in accordance with the instructions for Form 10-Q. In compliance with those instructions, certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. As such, these condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

In the opinion of management, these statements include all normal recurring adjustments necessary to fairly present the Company’s condensed consolidated results of operations, financial position, and cash flows as of September 30, 2017, and for all periods presented. The condensed consolidated results of operations and condensed consolidated statement of cash flows for the nine months ended September 30, 2017, are not necessarily indicative of the results or cash flows expected for the full year.

***Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**2. Application of Recent Accounting Pronouncements**

***Recently adopted accounting pronouncements***

In March 2016, the FASB issued ASU 2016-09, *Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting*. The new guidance is effective for the fiscal years beginning after December 15, 2016, including interim periods, a retrospective or a prospective transition approach depending upon the type of change. The new guidance changed several aspects of the accounting for share-based payment award transactions, including: (i) income tax consequences when awards vest or are settled; (ii) classification of awards as either equity or liabilities due to statutory tax withholding requirements; and (iii) classification on the statement of cash flows. The adoption of this ASU did not have a material effect on the Company’s condensed consolidated financial statements.

**GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY**

Notes to Condensed Consolidated Financial Statements

(Dollars in Thousands)

(Unaudited)

***Future adoption of new accounting pronouncements***

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, effective for fiscal years beginning after December 15, 2017 and interim periods within those years. Early adoption is permitted. The guidance may be applied retrospectively for all periods presented or retrospectively with a cumulative-effect adjustment at the date of adoption. The new guidance will supersede nearly all existing revenue recognition guidance under U.S. GAAP; however, it will not impact the accounting for insurance and investment contracts within the scope of financial services insurance, leases, financial instruments and guarantees. The core principle of the model requires that an entity recognizes revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. The update also requires increased disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts.

The Company's implementation efforts are primarily focused on customer contracts with fee income earned from assets under management, assets under administration, shareholder servicing, administration and recordkeeping services, and investment advisory services as well as the evaluation of certain incremental costs to obtain a customer contract. The Company anticipates that the adoption of this update will primarily impact the accounting for certain contract costs and contract fulfillment costs, which are currently expensed as incurred. Under the new standard, these costs will be deferred and recognized as expenses over the expected customer life. While the Company continues to make progress in its assessment and implementation of this update, it has not yet finalized a range of the potential quantitative impact on its condensed consolidated financial statements or whether the Company will adopt on a prospective or retrospective basis.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted for the instrument-specific credit risk provision. The amendments in this update address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments by requiring equity investments (except those accounted for under the equity method of accounting) to be measured at fair value with changes in fair value recognized in net income, eliminating certain disclosure requirements related to financial instruments measured at amortized cost and adding disclosures related to the measurement categories of financial assets and financial liabilities, requiring entities to present separately in other comprehensive income the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (i.e. "own credit") when the entity has elected the fair value option for financial instruments, and clarifying that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. The Company is currently evaluating the impact of this update on its condensed consolidated financial statements and anticipates the primary impact to be the requirement for equity investments such as limited partnership interests, that are currently accounted for under the cost method, to be measured at fair value with changes in the fair value recognized in net income.

In February 2016, the FASB issued ASU 2016-02, *Leases*, effective for annual reporting periods beginning on or after December 15, 2018, and interim periods within those annual periods. Earlier application is permitted as of the beginning of an interim or annual period. This update requires organizations to recognize lease assets and lease liabilities on the balance sheet with lease terms of more than 12 months and also disclose certain qualitative and quantitative information about leasing arrangements. The Company's implementation efforts are primarily focused on the review of its existing lease contracts and performing a completeness assessment over the lease population. The Company is currently evaluating the impact of this update on its condensed consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments: Credit Losses: Measurement of Credit Losses on Financial Instruments*, effective for fiscal years and interim periods within those beginning after December 15, 2019. Early adoption is permitted for fiscal years beginning after December 15, 2018. This update amends guidance on the impairment of financial instruments by adding an impairment model that is based on expected losses rather than incurred losses and is intended to result in more timely recognition of losses. The standard also simplifies the accounting by decreasing the number of credit impairment models that an entity can use to account for debt instruments. The Company is currently evaluating the impact of this update on its condensed consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)*, effective for fiscal years and interim periods within those beginning after December 15, 2017. Early adoption is permitted. This ASU addresses diversity in how certain cash receipts and cash

**GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY**

Notes to Condensed Consolidated Financial Statements

(Dollars in Thousands)

(Unaudited)

payments are presented and classified in the statement of cash flows. The Company is currently evaluating the impact of this update on its condensed consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash (a consensus of the Emerging Issues Task Force)*, effective for fiscal years and interim periods within those beginning after December 15, 2017. Early adoption is permitted. This update requires organizations to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. The Company is currently evaluating the impact of this update on its condensed consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other*, effective for annual or any interim goodwill impairment tests after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The update eliminates Step 2 from the goodwill impairment test and will require management to perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. Any amount by which the carrying amount exceeds the reporting unit's fair value (not to exceed the goodwill allocated to that reporting unit) is recognized as an impairment charge. The Company is currently evaluating the impact of this update on its condensed consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, *Compensation-Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, effective for annual reporting periods beginning on or after December 15, 2017, and interim periods within those annual periods. Earlier application is permitted for all entities as of the beginning of an interim or annual period. This update requires organizations to disaggregate the service cost component from the other components of net benefit costs in the income statement and present it with other current compensation costs for the related employees while providing guidance for capitalization eligibility for service costs. The Company is currently evaluating the impact of this update in its condensed consolidated financial statements.

**3. Dividends**

The maximum amount of dividends, which can be paid to stockholders by insurance companies domiciled in the State of Colorado, is subject to restrictions relating to statutory surplus and statutory net gain from operations. Prior to the payment of any dividends, the Company seeks approval from the Colorado Insurance Commissioner. During the nine months ended September 30, 2017, and 2016, the Company paid dividends of \$145,301 and \$125,691, respectively, to its parent, GWL&A Financial.

**4. Summary of Investments**

The following tables summarize fixed maturity investments classified as available-for-sale and the non-credit-related component of other-than-temporary impairments ("OTTI") in accumulated other comprehensive income (loss) ("AOCI"):

	September 30, 2017				
Fixed maturities:	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value and carrying value	OTTI (gain) loss included in AOCI <sup>(1)</sup>
U.S. government direct obligations and U.S. agencies	\$ 1,502,617	\$ 49,176	\$ 8,333	\$ 1,543,460	\$ —
Obligations of U.S. states and their subdivisions	1,884,136	228,301	1,619	2,110,818	—
Corporate debt securities <sup>(2)</sup>	14,991,367	622,399	118,566	15,495,200	(1,088)
Asset-backed securities	1,578,590	110,333	12,173	1,676,750	(65,696)
Residential mortgage-backed securities	68,946	2,618	645	70,919	(141)
Commercial mortgage-backed securities	1,375,325	22,547	10,920	1,386,952	—
Collateralized debt obligations	724,967	3,832	29	728,770	—
Total fixed maturities	<u>\$22,125,948</u>	<u>\$ 1,039,206</u>	<u>\$ 152,285</u>	<u>\$ 23,012,869</u>	<u>\$ (66,925)</u>

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<sup>(1)</sup> Indicates the amount of any OTTI (gain) loss included in AOCI that is included in gross unrealized gains and losses. OTTI (gain) loss included in AOCI, as presented above, includes both the initial recognition of non-credit losses and the effects of subsequent increases and decreases in estimated fair value for those fixed maturity securities with previous non-credit impairment. The non-credit loss component of OTTI (gain) loss was in an unrealized gain position due to increases in estimated fair value subsequent to initial recognition of non-credit losses on such securities.

<sup>(2)</sup> Includes perpetual debt investments with amortized cost of \$115,037 and estimated fair value of \$111,141.

	<b>December 31, 2016</b>				
	<b>Amortized cost</b>	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>	<b>Estimated fair value and carrying value</b>	<b>OTTI (gain) loss included in AOCI <sup>(1)</sup></b>
<b>Fixed maturities:</b>					
U.S. government direct obligations and U.S. agencies	\$ 3,022,279	\$ 47,791	\$ 34,958	\$ 3,035,112	\$ —
Obligations of U.S. states and their subdivisions	1,890,568	214,411	6,317	2,098,662	—
Corporate debt securities <sup>(2)</sup>	13,811,597	477,316	309,164	13,979,749	(1,488)
Asset-backed securities	1,226,493	104,274	18,388	1,312,379	(72,464)
Residential mortgage-backed securities	138,292	3,867	1,167	140,992	23
Commercial mortgage-backed securities	1,222,257	23,207	20,182	1,225,282	—
Collateralized debt obligations	361,241	339	53	361,527	—
<b>Total fixed maturities</b>	<b>\$21,672,727</b>	<b>\$ 871,205</b>	<b>\$ 390,229</b>	<b>\$ 22,153,703</b>	<b>\$ (73,929)</b>

<sup>(1)</sup> Indicates the amount of any OTTI (gain) loss included in AOCI that is included in gross unrealized gains and losses. OTTI (gain) loss included in AOCI, as presented above, includes both the initial recognition of non-credit losses and the effects of subsequent increases and decreases in estimated fair value for those fixed maturity securities with previous non-credit impairment. The non-credit loss component of OTTI (gain) loss was in an unrealized gain position due to increases in estimated fair value subsequent to initial recognition of non-credit losses on such securities.

<sup>(2)</sup> Includes perpetual debt investments with amortized cost of \$135,187 and estimated fair value of \$113,239.

See Note 7 for additional discussion regarding fair value measurements.

The amortized cost and estimated fair value of fixed maturity investments classified as available-for-sale, based on estimated cash flows, are shown in the table below. Actual maturities will likely differ from these projections because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<b>September 30, 2017</b>	
	<b>Amortized cost</b>	<b>Estimated fair value</b>
Maturing in one year or less	\$ 796,697	\$ 814,539
Maturing after one year through five years	3,998,273	4,166,545
Maturing after five years through ten years	7,432,248	7,650,580
Maturing after ten years	5,000,632	5,356,030
Mortgage-backed and asset-backed securities	4,898,098	5,025,175
<b>Total fixed maturities</b>	<b>\$ 22,125,948</b>	<b>\$ 23,012,869</b>

Mortgage-backed (commercial and residential) and asset-backed securities include those issued by the U.S. government and U.S. agencies.

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The following table summarizes information regarding the sales of securities classified as available-for-sale:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Proceeds from sales	\$ 339,051	\$ 421,245	\$ 2,810,599	\$ 3,777,445
Gross realized gains from sales	8,512	8,487	29,433	55,154
Gross realized losses from sales	2,993	24	24,330	170

**Mortgage loans on real estate** — The following table summarizes the carrying value of the mortgage loan portfolio by component:

	September 30, 2017	December 31, 2016
Principal	\$ 3,936,617	\$ 3,558,863
Unamortized premium (discount) and fees, net	4,244	5,541
Foreign exchange translation	3,000	(2,696)
Mortgage provision allowance	(773)	(2,882)
Total mortgage loans	\$ 3,943,088	\$ 3,558,826

The following table summarizes the recorded investment of the mortgage loan portfolio by risk assessment category as of September 30, 2017, and December 31, 2016, respectively:

	September 30, 2017	December 31, 2016
Performing	\$ 3,943,861	\$ 3,560,243
Non-performing	—	1,465
Total	\$ 3,943,861	\$ 3,561,708

The following table summarizes activity in the mortgage provision allowance:

	Nine Months Ended September 30, 2017	Year Ended December 31, 2016
	Commercial mortgages	Commercial mortgages
Beginning balance	\$ 2,882	\$ 2,890
Provision increases	157	536
Charge-off	(663)	—
Recovery	(30)	—
Provision decreases	(1,573)	(544)
Ending balance	\$ 773	\$ 2,882
Allowance ending balance by basis of impairment method:		
Individually evaluated for impairment	\$ —	\$ 536
Collectively evaluated for impairment	773	2,346
Recorded investment balance in the mortgage loan portfolio, gross of allowance, by basis of impairment method:		
Individually evaluated for impairment	—	1,465
Collectively evaluated for impairment	3,943,861	3,560,243

**Limited partnership and other corporation interests** — At September 30, 2017 and December 31, 2016, the Company had \$45,117 and \$34,895, respectively, invested in limited partnership and other corporation interests. Limited partnership interests represent the Company's minority ownership interests in pooled investment funds that primarily make private equity

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investments across diverse industries and geographical focuses. The Company has determined its interest in each limited partnership to be considered a variable interest entity (“VIE”). Consolidation is not required as the Company is not deemed to be the primary beneficiary of the VIEs.

The carrying value and maximum exposure to loss in relation to the activities of the VIEs was \$42,734 and \$32,444 at September 30, 2017, and December 31, 2016, respectively.

**Securities lending** — Securities with a cost or amortized cost of \$105,952 and estimated fair values of \$103,921 were on loan under the program at September 30, 2017. There were no securities on loan at December 31, 2016. The Company received cash of \$74,795 and securities with a fair value of \$32,393 as collateral at September 30, 2017. The Company bears the risk of any deficiency in the amount of collateral available for return to a borrower due to a loss in an approved investment.

Under the securities lending program the collateral pledged is, by definition, the securities loaned against the cash borrowed. The cash collateral liability under the securities lending program is \$74,795, and class of securities loaned consists entirely of Corporate debt securities.

The Company’s securities lending agreements are open agreements meaning the borrower can return and the Company can recall the loaned securities at any time. The assets and liabilities associated with securities lending program are not subject to master netting arrangements and are not offset in the condensed consolidated balance sheets.

**Unrealized losses on fixed maturity investments classified as available-for-sale** — The following tables summarize unrealized investment losses, including the non-credit-related portion of OTTI losses reported in AOCI, by class of investment:

	September 30, 2017					
	Less than twelve months		Twelve months or longer		Total	
	Estimated fair value	Unrealized loss and OTTI	Estimated fair value	Unrealized loss and OTTI	Estimated fair value	Unrealized loss and OTTI
<b>Fixed maturities:</b>						
U.S. government direct obligations and U.S. agencies	\$ 631,467	\$ 8,156	\$ 11,037	\$ 177	\$ 642,504	\$ 8,333
Obligations of U.S. states and their subdivisions	43,583	726	18,093	893	61,676	1,619
Corporate debt securities	2,401,845	35,750	1,360,880	82,816	3,762,725	118,566
Asset-backed securities	464,858	2,246	224,740	9,927	689,598	12,173
Residential mortgage-backed securities	—	—	12,383	645	12,383	645
Commercial mortgage-backed securities	488,610	5,851	102,235	5,069	590,845	10,920
Collateralized debt obligations	77,015	29	—	—	77,015	29
Total fixed maturities	<u>\$4,107,378</u>	<u>\$ 52,758</u>	<u>\$ 1,729,368</u>	<u>\$ 99,527</u>	<u>\$5,836,746</u>	<u>\$ 152,285</u>
Total number of securities in an unrealized loss position		<u>397</u>		<u>169</u>		<u>566</u>

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	December 31, 2016					
	Less than twelve months		Twelve months or longer		Total	
	Estimated fair value	Unrealized loss and OTTI	Estimated fair value	Unrealized loss and OTTI	Estimated fair value	Unrealized loss and OTTI
<b>Fixed maturities:</b>						
U.S. government direct obligations and U.S. agencies	\$ 2,006,588	\$ 34,752	\$ 10,526	\$ 206	\$ 2,017,114	\$ 34,958
Obligations of U.S. states and their subdivisions	216,154	5,922	10,498	395	226,652	6,317
Corporate debt securities	4,119,630	170,453	860,153	138,711	4,979,783	309,164
Asset-backed securities	316,065	6,971	230,331	11,417	546,396	18,388
Residential mortgage-backed securities	16,962	102	14,297	1,065	31,259	1,167
Commercial mortgage-backed securities	592,508	17,535	26,068	2,647	618,576	20,182
Collateralized debt obligations	160,612	53	—	—	160,612	53
Total fixed maturities	<u>\$ 7,428,519</u>	<u>\$ 235,788</u>	<u>\$ 1,151,873</u>	<u>\$ 154,441</u>	<u>\$ 8,580,392</u>	<u>\$ 390,229</u>
Total number of securities in an unrealized loss position		<u>610</u>		<u>128</u>		<u>738</u>

**Fixed maturity investments** — Total unrealized losses and OTTI decreased by \$237,944, or 61%, from December 31, 2016, to September 30, 2017. The majority, or \$183,030, of the decrease was in the less than twelve months category. The overall decrease in unrealized losses was across all asset classes and reflects lower interest rates at September 30, 2017, compared to December 31, 2016, resulting in generally higher valuations of these fixed maturity securities.

Total unrealized losses greater than twelve months decreased by \$54,914 from December 31, 2016, to September 30, 2017. Corporate debt securities account for 83%, or \$82,816, of the unrealized losses and OTTI greater than twelve months at September 30, 2017. Non-investment grade corporate debt securities account for \$5,693 of the unrealized losses and OTTI greater than twelve months. Management does not have the intent to sell these assets; therefore, an OTTI was not recognized in earnings.

Asset-backed securities account for 10% of the unrealized losses and OTTI greater than twelve months at September 30, 2017. The present value of the cash flows expected to be collected is not less than amortized cost and management does not have the intent to sell these assets; therefore, an OTTI was not recognized in earnings.

**Other-than-temporary impairment recognition** — The OTTI on fixed maturity securities where the loss portion is bifurcated and the credit related component is recognized in realized investment gains (losses) is summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Beginning balance	\$ 77,411	\$ 94,687	\$ 83,665	\$ 102,343
Reductions due to increases in cash flows expected to be collected that are recognized over the remaining life of the security	(5,273)	(4,405)	(11,527)	(12,061)
Ending balance	<u>\$ 72,138</u>	<u>\$ 90,282</u>	<u>\$ 72,138</u>	<u>\$ 90,282</u>



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**5. Derivative Financial Instruments**

Derivative transactions are generally entered into pursuant to International Swaps and Derivatives Association (“ISDA”) Master Agreements or Master Securities Forward Transaction Agreements (“MSFTA”) with approved counterparties that provide for a single net payment to be made by one party to the other on a daily basis, periodic payment dates, or at the due date, expiration, or termination of the agreement.

The ISDA Master Agreements contain provisions that would allow the counterparties to require immediate settlement of all derivative instruments in a net liability position if the Company were to default on any debt obligations over a certain threshold. The MSFTA contain provisions which do not stipulate a threshold for default and only apply to debt obligations between the Company and the specific counterparty. The aggregate fair value, inclusive of accrued income and expense, of derivative instruments with credit-risk-related contingent features that were in a net liability position was \$81,632 and \$38,324 as of September 30, 2017, and December 31, 2016, respectively. The Company had pledged collateral related to these derivatives of \$16,171 and zero as of September 30, 2017, and December 31, 2016, respectively, in the normal course of business. If the credit-risk-related contingent features were triggered on September 30, 2017, the fair value of assets that could be required to settle the derivatives in a net liability position was \$65,461.

At September 30, 2017, and December 31, 2016, the Company had pledged \$16,171 and zero of unrestricted cash collateral to counterparties in the normal course of business, while other counterparties had pledged \$25,353 and \$103,214 of unrestricted cash collateral to the Company to satisfy collateral netting agreements, respectively.

At September 30, 2017, the Company estimated \$10,544 of net derivative gains related to cash flow hedges included in AOCI will be reclassified into net income within the next twelve months. Gains and losses included in AOCI are reclassified into net income when the hedged item affects earnings.

**Types of derivative instruments and derivative strategies**

**Interest rate contracts**

*Cash flow hedges*

Interest rate swap agreements are used to convert the interest rate on certain debt security investments and debt obligations from a floating rate to a fixed rate. Interest rate futures are used to manage the interest rate risks of forecasted acquisitions of fixed rate maturity investments and are primarily structured to hedge interest rate risk inherent in the assumptions used to price certain liabilities.

*Not designated as hedging instruments*

The Company enters into certain transactions in which derivatives are hedging an economic risk but hedge accounting is not elected. These derivative instruments include: exchange-traded interest rate swap futures, over-the-counter (“OTC”) interest rate swaptions, OTC interest rate swaps, exchange-traded Eurodollar interest rate futures, and treasury interest rate futures. Certain of the Company’s OTC derivatives are cleared and settled through a central clearing counterparty while others are bilateral contracts between the Company and a counterparty.

The derivative instruments mentioned above are economic hedges and used to manage risk. These transactions are used to offset changes in liabilities including those in variable annuity products, hedge the economic effect of a large increase in interest rates, manage the potential variability in future interest payments due to a change in credited interest rates and the related change in cash flows due to increased surrenders, and manage interest rate risks of forecasted acquisitions of fixed rate maturity investments and forecasted liability pricing.

**Foreign currency contracts**

Cross-currency swaps and foreign currency forwards are used to manage the foreign currency exchange rate risk associated with investments denominated in other than U.S. dollars. The Company uses cross-currency swaps to convert interest and

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principal payments on foreign denominated debt instruments into U.S. dollars. Cross-currency swaps may be designated as cash flow hedges; however, hedge accounting is not always elected. The Company uses foreign currency forwards to reduce the risk of foreign currency exchange rate changes on proceeds received on sales of foreign denominated debt instruments; however, hedge accounting is not elected.

**Equity contracts**

The Company uses futures on equity indices to offset changes in guaranteed lifetime withdrawal benefit liabilities; however, hedge accounting is not elected.

**Other forward contracts**

The Company uses forward settling to be announced (“TBA”) securities to gain exposure to the investment risk and return of agency mortgage-backed securities (pass-throughs). These transactions enhance the return on the Company’s investment portfolio and provide a more liquid and cost effective method of achieving these goals than purchasing or selling individual agency mortgage-backed pools. As the Company does not regularly accept delivery of such securities, they are accounted for as derivatives but hedge accounting is not elected.

The following tables summarize the notional amount and fair value of derivative financial instruments, excluding embedded derivatives:

	September 30, 2017			
	Notional amount	Net derivatives	Asset derivatives	Liability derivatives
		Fair value	Fair value <sup>(1)</sup>	Fair value <sup>(1)</sup>
Hedge designation/derivative type:				
Derivatives designated as hedges:				
Cash flow hedges:				
Interest rate swaps	\$ 419,800	\$ 29,482	\$ 29,482	\$ —
Cross-currency swaps	755,890	(4,310)	30,874	35,184
Total cash flow hedges	1,175,690	25,172	60,356	35,184
Total derivatives designated as hedges	1,175,690	25,172	60,356	35,184
Derivatives not designated as hedges:				
Interest rate swaps	507,100	(2,477)	10,147	12,624
Futures on equity indices	29,674	—	—	—
Interest rate futures	74,200	—	—	—
Interest rate swaptions	162,423	156	156	—
Other forward contracts	2,954,200	(3,151)	925	4,076
Cross-currency swaps	612,733	(3,863)	27,193	31,056
Total derivatives not designated as hedges	4,340,330	(9,335)	38,421	47,756
Total derivative financial instruments	\$ 5,516,020	\$ 15,837	\$ 98,777	\$ 82,940

<sup>(1)</sup> The estimated fair value excludes accrued income and expense. The estimated fair value of all derivatives in an asset position is reported within other assets and the estimated fair value of all derivatives in a liability position is reported within other liabilities in the condensed consolidated balance sheets.

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	December 31, 2016			
	Notional amount	Net derivatives	Asset derivatives	Liability derivatives
		Fair value	Fair value <sup>(1)</sup>	Fair value <sup>(1)</sup>
Hedge designation/derivative type:				
Derivatives designated as hedges:				
Cash flow hedges:				
Interest rate swaps	\$ 419,800	\$ 33,390	\$ 33,390	\$ —
Cross-currency swaps	614,208	45,347	53,641	8,294
Total cash flow hedges	<u>1,034,008</u>	<u>78,737</u>	<u>87,031</u>	<u>8,294</u>
Total derivatives designated as hedges	<u>1,034,008</u>	<u>78,737</u>	<u>87,031</u>	<u>8,294</u>
Derivatives not designated as hedges:				
Interest rate swaps	468,100	(4,358)	8,982	13,340
Futures on equity indices	34,422	—	—	—
Interest rate futures	81,500	—	—	—
Interest rate swaptions	165,534	354	354	—
Cross-currency swaps	612,733	33,371	50,018	16,647
Total derivatives not designated as hedges	<u>1,362,289</u>	<u>29,367</u>	<u>59,354</u>	<u>29,987</u>
Total derivative financial instruments	<u>\$ 2,396,297</u>	<u>\$ 108,104</u>	<u>\$ 146,385</u>	<u>\$ 38,281</u>

<sup>(1)</sup> The estimated fair value excludes accrued income and expense. The estimated fair value of all derivatives in an asset position is reported within other assets and the estimated fair value of all derivatives in a liability position is reported within other liabilities in the condensed consolidated balance sheets.

Notional amounts are used to express the extent of the Company's involvement in derivative transactions and represent a standard measurement of the volume of its derivative activity. Notional amounts represent those amounts used to calculate contractual flows to be exchanged and are not paid or received. The average notional outstanding during the nine months ended September 30, 2017, was \$908,500, \$1,302,507, \$113,004, \$162,408, and \$2,409,855 for interest rate swaps, cross-currency swaps, futures, swaptions, and other forward contracts, respectively. The average notional outstanding during the year ended December 31, 2016, was \$784,900, \$1,141,967, \$145,658, \$156,632, and \$2,230,167 for interest rate swaps, cross-currency swaps, futures, swaptions, and other forward contracts, respectively.

The following tables present the effect of derivative instruments in the condensed consolidated statements of income and comprehensive income reported by cash flow hedges and derivatives not designated as hedges, excluding embedded derivatives:

	Gain (loss) recognized in OCI on derivatives (Effective portion)		Gain (loss) reclassified from OCI into net income (Effective portion)	
	Three Months Ended September 30,		Three Months Ended September 30,	
	2017	2016	2017	2016
Cash flow hedges:				
Interest rate swaps	\$ 115	\$ (401)	\$ 1,175	\$ 1,335 (A)
Interest rate swaps	(653)	(4,284)	(690)	(1,092) (B)
Cross-currency swaps	(22,573)	(3,120)	(108)	1,576 (A)
Total cash flow hedges	<u>\$ (23,111)</u>	<u>\$ (7,805)</u>	<u>\$ 377</u>	<u>\$ 1,819</u>

(A) Net investment income.

(B) Interest expense.

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	Gain (loss) recognized in OCI on derivatives (Effective portion)		Gain (loss) reclassified from OCI into net income (Effective portion)	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Cash flow hedges:				
Interest rate swaps	\$ 611	\$ 4,098	\$ 3,581	\$ 4,166 (A)
Interest rate swaps	(5,003)	(29,017)	(2,357)	(1,675) (B)
Cross-currency swaps	(43,919)	21,612	21	3,777 (A)
Total cash flow hedges	<u>\$ (48,311)</u>	<u>\$ (3,307)</u>	<u>\$ 1,245</u>	<u>\$ 6,268</u>

(A) Net investment income.

(B) Interest expense.

	Gain (loss) on derivatives recognized in net income	
	Three Months Ended September 30,	
	2017	2016
Derivatives not designated as hedging instruments:		
Futures on equity indices	\$ (583) (A)	\$ 510 (A)
Futures on equity indices	(1,070) (B)	(2,081) (B)
Interest rate swaps	492 (A)	418 (A)
Interest rate futures	(40) (A)	134 (A)
Interest rate futures	18 (B)	(183) (B)
Interest rate swaptions	(6) (A)	23 (A)
Interest rate swaptions	(73) (B)	(39) (B)
Other forward contracts	(571) (A)	(8,286) (A)
Other forward contracts	7,264 (B)	19,413 (B)
Cross-currency swaps	(16,046) (A)	1,872 (A)
Total derivatives not designated as hedging instruments	<u>\$ (10,615)</u>	<u>\$ 11,781</u>

(A) Net investment income.

(B) Represents realized gains (losses) on closed positions recorded in realized investment gains (losses), net.

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	<b>Gain (loss) on derivatives recognized in net income</b>			
	<b>Nine Months Ended September 30,</b>			
	<b>2017</b>		<b>2016</b>	
Derivatives not designated as hedging instruments:				
Futures on equity indices	\$	(917) (A)	\$	103 (A)
Futures on equity indices		(3,890) (B)		(5,358) (B)
Interest rate swaps		3,919 (A)		19,727 (A)
Interest rate futures		62 (A)		(77) (A)
Interest rate futures		(183) (B)		(249) (B)
Interest rate swaptions		(37) (A)		96 (A)
Interest rate swaptions		(224) (B)		(256) (B)
Other forward contracts		(3,151) (A)		7,268 (A)
Other forward contracts		20,383 (B)		31,509 (B)
Cross-currency swaps		(38,297) (A)		62,147 (A)
Total derivatives not designated as hedging instruments	\$	<u>(22,335)</u>	\$	<u>114,910</u>

(A) Net investment income.

(B) Represents realized gains (losses) on closed positions recorded in realized investment gains (losses), net.

**Embedded derivative - Guaranteed Lifetime Withdrawal Benefit**

The Company offers a guaranteed lifetime withdrawal benefit (“GLWB”) through a variable annuity or a contingent deferred annuity. The GLWB is deemed to be an embedded derivative. The GLWB is recorded at fair value within future policy benefits on the condensed consolidated balance sheets. Changes in fair value of the GLWB are recorded in net investment income in the condensed consolidated statements of income.

The estimated fair value of the GLWB was \$10,221 and \$5,712 at September 30, 2017, and December 31, 2016, respectively. The changes in fair value of the GLWB were \$(626) and \$(590) for the three months ended September 30, 2017, and 2016, respectively, and \$(4,509) and \$(20,020) for the nine months ended September 30, 2017, and 2016, respectively.

**6. Summary of Offsetting Assets and Liabilities**

The Company enters into derivative transactions and short-term reverse repurchase agreements with several approved counterparties. The Company’s derivative transactions are generally governed by MSFTA or ISDA Master Agreements which provide for legally enforceable set-off and close-out netting in the event of default or bankruptcy of the Company’s counterparties. The Company’s MSFTA and ISDA Master Agreements generally include provisions which require both the pledging and accepting of collateral in connection with its derivative transactions. These provisions have the effect of securing each party’s position to the extent of collateral held. Short-term reverse repurchase agreements also include collateral provisions with the counterparty. The following tables summarize the effect of master netting arrangements on the Company’s financial position in the normal course of business and in the event of default or bankruptcy of the Company’s counterparties:

	<b>September 30, 2017</b>			
	<b>Gross fair value of recognized assets <sup>(1)</sup></b>	<b>Gross fair value not offset in balance sheets</b>		<b>Net fair value</b>
		<b>Financial instruments</b>	<b>Cash collateral</b>	
<b>Financial instruments (assets):</b>				
Derivative instruments <sup>(2)</sup>	\$ 72,217	\$ (56,224)	\$ (14,263)	\$ 1,730
Short-term reverse repurchase agreements <sup>(3)</sup>	20,900	(20,900)	—	—
<b>Total financial instruments (assets)</b>	<u>93,117</u>	<u>(77,124)</u>	<u>(14,263)</u>	<u>1,730</u>

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<b>September 30, 2017</b>				
<b>Financial instruments (liabilities):</b>	<b>Gross fair value of recognized liabilities <sup>(1)</sup></b>	<b>Gross fair value not offset in balance sheets</b>		<b>Net fair value</b>
		<b>Financial instruments</b>	<b>Cash collateral</b>	
Derivative instruments <sup>(4)</sup>	70,720	(56,224)	(13,006)	1,490

<sup>(1)</sup> The gross fair value of derivative instrument and short-term reverse repurchase agreement assets is not netted against offsetting liabilities for presentation on the condensed consolidated balance sheets.

<sup>(2)</sup> The estimated fair value of derivative instrument assets is reported in other assets in the condensed consolidated balance sheets. Derivative transactions entered into under ISDA master agreements include income and expense accruals.

<sup>(3)</sup> The estimated fair value of short-term reverse repurchase agreement assets is reported in short-term investments in the condensed consolidated balance sheets. The collateral is held by an independent third-party custodian under a tri-party agreement.

<sup>(4)</sup> The estimated fair value of derivative instrument liabilities is reported in other liabilities in the condensed consolidated balance sheets. Derivative transactions entered into under ISDA master agreements include income and expense accruals.

<b>December 31, 2016</b>				
<b>Financial instruments:</b>	<b>Gross fair value of recognized assets/liabilities <sup>(1)</sup></b>	<b>Gross fair value not offset in balance sheets</b>		<b>Net fair value</b>
		<b>Financial instruments</b>	<b>Cash collateral received/(pledged)</b>	
Derivative instruments (assets) <sup>(2)</sup>	\$ 119,862	\$ (26,254)	\$ 92,756	\$ 852
Derivative instruments (liabilities) <sup>(3)</sup>	26,254	(26,254)	—	—

<sup>(1)</sup> The gross fair value of derivative instrument assets is not netted against offsetting liabilities for presentation on the condensed consolidated balance sheets.

<sup>(2)</sup> The estimated fair value of derivative instrument assets is reported in other assets in the condensed consolidated balance sheets. Derivative transactions entered into under ISDA master agreements include income and expense accruals.

<sup>(3)</sup> The estimated fair value of derivative instrument liabilities is reported in other liabilities in the condensed consolidated balance sheets. Derivative transactions entered into under ISDA master agreements include income and expense accruals.

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**7. Fair Value Measurements**

***Recurring fair value measurements***

The following tables present the Company's financial assets and liabilities carried at fair value on a recurring basis by fair value hierarchy category:

	Assets and liabilities measured at fair value on a recurring basis			
	September 30, 2017			
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
<b>Assets</b>				
Fixed maturities available-for-sale:				
U.S. government direct obligations and U.S. agencies	\$ —	\$ 1,543,460	\$ —	\$ 1,543,460
Obligations of U.S. states and their subdivisions	—	2,110,818	—	2,110,818
Corporate debt securities	—	15,485,120	10,080	15,495,200
Asset-backed securities	—	1,676,750	—	1,676,750
Residential mortgage-backed securities	—	70,919	—	70,919
Commercial mortgage-backed securities	—	1,386,952	—	1,386,952
Collateralized debt obligations	—	728,770	—	728,770
Total fixed maturities available-for-sale	—	23,002,789	10,080	23,012,869
Fixed maturities held-for-trading:				
U.S. government direct obligations and U.S. agencies	—	20,291	—	20,291
Corporate debt securities	—	38,956	—	38,956
Commercial mortgage-backed securities	—	1,081	—	1,081
Total fixed maturities held-for-trading	—	60,328	—	60,328
Short-term investments	320,398	502,673	—	823,071
Collateral under securities lending agreements	1,870	72,925	—	74,795
Collateral under derivative counterparty collateral agreements	41,524	—	—	41,524
Derivative instruments designated as hedges:				
Interest rate swaps	—	29,482	—	29,482
Cross-currency swaps	—	30,874	—	30,874
Derivative instruments not designated as hedges:				
Interest rate swaps	—	10,147	—	10,147
Interest rate swaptions	—	156	—	156
Other forward contracts	—	925	—	925
Cross-currency swaps	—	27,193	—	27,193
Total derivative instruments	—	98,777	—	98,777
Separate account assets <sup>(1)</sup>	16,255,644	11,213,991	—	27,866,779
Total assets	\$ 16,619,436	\$ 34,951,483	\$ 10,080	\$ 51,978,143
<b>Liabilities</b>				
Derivative instruments designated as hedges:				
Cross-currency swaps	\$ —	\$ 35,184	\$ —	\$ 35,184
Derivative instruments not designated as hedges:				
Interest rate swaps	—	12,624	—	12,624
Other forward contracts	—	4,076	—	4,076
Cross-currency swaps	—	31,056	—	31,056
Total derivative instruments	—	82,940	—	82,940
Embedded derivatives - GLWB	—	—	10,221	10,221
Separate account liabilities <sup>(2)</sup>	18	521,723	—	521,741
Total liabilities	\$ 18	\$ 604,663	\$ 10,221	\$ 614,902

<sup>(1)</sup> Included in the total fair value amount are \$397 million of investments as of September 30, 2017 for which the fair value is estimated using net asset value per unit as a practical expedient which are excluded from the disclosure requirement to classify amounts in the fair value hierarchy in connection with the adoption of ASU 2015-07.

<sup>(2)</sup> Includes only separate account instruments which are carried at the fair value of the underlying liabilities owned by the separate accounts.

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	Assets and liabilities measured at fair value on a recurring basis			
	December 31, 2016			
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
<b>Assets</b>				
Fixed maturities available-for-sale:				
U.S. government direct obligations and U.S. agencies	\$ —	\$ 3,035,112	\$ —	\$ 3,035,112
Obligations of U.S. states and their subdivisions	—	2,098,662	—	2,098,662
Corporate debt securities	—	13,968,110	11,639	13,979,749
Asset-backed securities	—	1,312,379	—	1,312,379
Residential mortgage-backed securities	—	140,992	—	140,992
Commercial mortgage-backed securities	—	1,225,282	—	1,225,282
Collateralized debt obligations	—	361,527	—	361,527
Total fixed maturities available-for-sale	—	22,142,064	11,639	22,153,703
Fixed maturities held-for-trading:				
U.S. government direct obligations and U.S. agencies	—	458,067	—	458,067
Corporate debt securities	—	55,591	—	55,591
Commercial mortgage-backed securities	—	1,080	—	1,080
Total fixed maturities held-for-trading	—	514,738	—	514,738
Short-term investments	267,851	36,137	—	303,988
Collateral under derivative counterparty collateral agreements	103,214	—	—	103,214
Derivative instruments designated as hedges:				
Interest rate swaps	—	33,390	—	33,390
Cross-currency swaps	—	53,641	—	53,641
Derivative instruments not designated as hedges:				
Interest rate swaps	—	8,982	—	8,982
Interest rate swaptions	—	354	—	354
Cross-currency swaps	—	50,018	—	50,018
Total derivative instruments	—	146,385	—	146,385
Separate account assets <sup>(1)</sup>	15,407,992	11,199,924	—	27,037,765
Total assets	<u>\$ 15,779,057</u>	<u>\$ 34,039,248</u>	<u>\$ 11,639</u>	<u>\$ 50,259,793</u>
<b>Liabilities</b>				
Collateral under derivative counterparty collateral agreements	\$ 103,214	\$ —	\$ —	\$ 103,214
Derivative instruments designated as hedges:				
Cross-currency swaps	—	8,294	—	8,294
Derivative instruments not designated as hedges:				
Interest rate swaps	—	13,340	—	13,340
Cross-currency swaps	—	16,647	—	16,647
Total derivative instruments	—	38,281	—	38,281
Embedded derivatives - GLWB	—	—	5,712	5,712
Separate account liabilities <sup>(2)</sup>	55	336,468	—	336,523
Total liabilities	<u>\$ 103,269</u>	<u>\$ 374,749</u>	<u>\$ 5,712</u>	<u>\$ 483,730</u>

<sup>(1)</sup> Included in the total fair value amount are \$430 million of investments as of December 31, 2016 for which the fair value is estimated using net asset value per unit as a practical expedient which are excluded from the disclosure requirement to classify amounts in the fair value hierarchy in connection with the adoption of ASU 2015-07.

<sup>(2)</sup> Includes only separate account instruments which are carried at the fair value of the underlying liabilities owned by the separate accounts.



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The methods and assumptions used to estimate the fair value of the Company's financial assets and liabilities carried at fair value on a recurring basis are as follows:

***Fixed maturity investments***

The fair values for fixed maturity investments are generally based upon evaluated prices from independent pricing services. In cases where these prices are not readily available, fair values are estimated by the Company. To determine estimated fair value for these instruments, the Company generally utilizes discounted cash flow models with market observable pricing inputs such as spreads, average life, and credit quality. Fair value estimates are made at a specific point in time, based on available market information and judgments about financial instruments, including estimates of the timing and amounts of expected future cash flows and the credit standing of the issuer or counterparty.

***Short-term investments and securities lending agreements***

The amortized cost of short-term investments and collateral under securities lending agreements is a reasonable estimate of fair value due to their short-term nature and high credit quality of the issuers.

***Derivative counterparty collateral agreements***

Included in other assets is cash collateral received from or pledged to derivative counterparties and included in other liabilities is the obligation to return the cash collateral to the counterparties. The carrying value of the collateral is a reasonable estimate of fair value.

***Derivative instruments***

Included in other assets and other liabilities are derivative financial instruments. The estimated fair values of OTC derivatives, primarily consisting of cross-currency swaps, interest rate swaps, interest rate swaptions, and other forward contracts, are the estimated amounts the Company would receive or pay to terminate the agreements at the end of each reporting period, taking into consideration current interest rates and other relevant factors.

***Embedded derivative - GLWB***

Significant unobservable inputs used in the fair value measurements of GLWB include long-term equity and interest rate implied volatility, mortality, and policyholder behavior assumptions, such as benefit utilization, lapses, and partial withdrawals.

***Separate account assets and liabilities***

Separate account assets and liabilities primarily include investments in mutual fund, fixed maturity, and short-term securities. Mutual funds are recorded at net asset value, which approximates fair value, on a daily basis. The fixed maturity and short-term investments are valued in the same manner, and using the same pricing sources and inputs as the fixed maturity and short-term investments of the Company.

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The following tables present additional information about assets and liabilities measured at fair value on a recurring basis and for which the Company has utilized Level 3 inputs to determine fair value:

	<b>Recurring Level 3 financial assets and liabilities</b>	
	<b>Three Months Ended September 30, 2017</b>	
	<b>Assets</b>	<b>Liabilities</b>
	<b>Fixed maturities available-for-sale Corporate debt securities</b>	<b>Embedded derivatives - GLWB</b>
Balances, July 1, 2017	\$ 10,703	\$ 9,595
Realized and unrealized gains (losses) included in:		
Net income (loss)	—	(626)
Other comprehensive income (loss)	166	—
Settlements	(432)	—
Transfers out of Level 3 <sup>(1)</sup>	(357)	—
Balances, September 30, 2017	<u>\$ 10,080</u>	<u>\$ 10,221</u>
Total gains (losses) for the period included in net income attributable to the change in unrealized gains and losses relating to assets and liabilities held at September 30, 2017	<u>\$ —</u>	<u>\$ (626)</u>

<sup>(1)</sup> Transfers out of Level 3 are due primarily to increased observability of inputs in valuation methodologies as evidenced by corroboration of market prices with multiple pricing vendors.

	<b>Recurring Level 3 financial assets and liabilities</b>	
	<b>Three Months Ended September 30, 2016</b>	
	<b>Assets</b>	<b>Liabilities</b>
	<b>Fixed maturities available-for-sale Corporate debt securities</b>	<b>Embedded derivatives - GLWB</b>
Balances, July 1, 2016	\$ 15,056	\$ 30,687
Realized and unrealized gains (losses) included in:		
Net income (loss)	—	(590)
Other comprehensive income (loss)	245	—
Settlements	(594)	—
Balances, September 30, 2016	<u>\$ 14,707</u>	<u>\$ 31,277</u>
Total gains (losses) for the period included in net income attributable to the change in unrealized gains and losses relating to assets and liabilities held at September 30, 2016	<u>\$ —</u>	<u>\$ (590)</u>

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	<b>Recurring Level 3 financial assets and liabilities</b>	
	<b>Nine Months Ended September 30, 2017</b>	
	<b>Assets</b>	<b>Liabilities</b>
	<b>Fixed maturities available-for-sale</b>	<b>Embedded derivatives - GLWB</b>
Balances, January 1, 2017	\$ 11,639	\$ 5,712
Realized and unrealized gains (losses) included in:		
Net income (loss)	—	(4,509)
Other comprehensive income (loss)	83	—
Settlements	(1,275)	—
Transfers out of Level 3 <sup>(1)</sup>	(367)	—
Balances, September 30, 2017	<u>\$ 10,080</u>	<u>\$ 10,221</u>
Total gains (losses) for the period included in net income attributable to the change in unrealized gains and losses relating to assets and liabilities held at September 30, 2017	<u>\$ —</u>	<u>\$ (4,509)</u>

<sup>(1)</sup> Transfers out of Level 3 are due primarily to increased observability of inputs in valuation methodologies as evidenced by corroboration of market prices with multiple pricing vendors.

	<b>Recurring Level 3 financial assets and liabilities</b>	
	<b>Nine Months Ended September 30, 2016</b>	
	<b>Assets</b>	<b>Liabilities</b>
	<b>Fixed maturities available-for-sale</b>	<b>Embedded derivatives - GLWB</b>
Balances, January 1, 2016	\$ 4,538	\$ 11,257
Realized and unrealized gains (losses) included in:		
Net income (loss)	—	(20,020)
Other comprehensive income (loss)	720	—
Settlements	(1,787)	—
Transfers into Level 3 <sup>(1)</sup>	11,236	—
Balances, September 30, 2016	<u>\$ 14,707</u>	<u>\$ 31,277</u>
Total gains (losses) for the period included in net income attributable to the change in unrealized gains and losses relating to assets and liabilities held at September 30, 2016	<u>\$ —</u>	<u>\$ (20,020)</u>

<sup>(1)</sup> Transfers into Level 3 are due primarily to decreased observability of inputs in valuation methodologies.

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The following table presents significant unobservable inputs used during the valuation of certain liabilities categorized within Level 3 of the recurring fair value measurements table:

	Valuation Technique	Unobservable Input	Range	
			September 30, 2017	December 31, 2016
Embedded derivatives - GLWB	Risk neutral stochastic valuation methodology	Equity volatility	15% - 28%	15% - 30%
		Swap curve	1.33% - 2.54%	0.75% - 3.00%
		Mortality rate	Based on the Annuity 2000 Mortality Table	Based on the Annuity 2000 Mortality Table
		Base Lapse rate	1% - 15%	1% - 15%

***Fair value of financial instruments***

The following tables summarize the carrying amounts and estimated fair values of the Company's financial instruments and investments not carried at fair value on a recurring basis:

	September 30, 2017		December 31, 2016	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
<b>Assets</b>				
Mortgage loans on real estate	\$ 3,943,088	\$ 4,020,555	\$ 3,558,826	\$ 3,574,240
Policy loans	4,073,511	4,073,511	4,019,648	4,019,648
Limited partnership interests	40,433	40,413	29,345	29,822
Other investments	12,631	43,002	14,382	44,687
<b>Liabilities</b>				
Annuity contract benefits without life contingencies	\$ 12,669,339	\$ 12,641,064	\$ 12,291,378	\$ 12,129,631
Policyholders' funds	245,007	245,007	285,554	285,554
Commercial paper	99,868	99,868	99,049	99,049
Notes payable	534,538	565,903	531,092	495,004

The methods and assumptions used to estimate the fair value of financial instruments not carried at fair value on a recurring basis are summarized as follows:

***Mortgage loans on real estate***

Mortgage loan fair value estimates are generally based on discounted cash flows. A discount rate matrix is used where the discount rate valuing a specific mortgage generally corresponds to that mortgage's remaining term and credit quality. Management believes the discount rate used is comparable to the credit, interest rate, term, servicing costs, and risks of loans similar to the portfolio loans that the Company would make today given its internal pricing strategy. The estimated fair value is classified as Level 2.

***Policy loans***

Policy loans are funds provided to policy holders in return for a claim on the policy. The funds provided are limited to the cash surrender value of the underlying policy. The nature of policy loans is to have a negligible default risk as the loans are fully collateralized by the value of the policy. Policy loans do not have a stated maturity and the balances and accrued interest are repaid either by the policyholder or with proceeds from the policy. Due to the collateralized nature of policy loans and unpredictable timing of repayments, the Company believes the fair value of policy loans approximates carrying value. The estimated fair value is classified as Level 2.

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***Limited partnership interests***

Limited partnership interests, accounted for using the cost method, represent the Company's minority ownership interests in pooled investment funds. These funds employ varying investment strategies that primarily make private equity investments across diverse industries and geographical focuses. The net asset value, determined using the partnership financial statement reported capital account adjusted for other relevant information which may impact the exit value of the investments, is used as a practical expedient to estimate fair value. Distributions by these investments are generated from investment gains, from operating income generated by the underlying investments of the funds, and from liquidation of the underlying assets of the funds which are estimated to be liquidated over the next one to 10 years.

***Other investments***

Other investments primarily include real estate held for investment. The estimated fair value for real estate is based on the unadjusted appraised value which includes factors such as comparable property sales, property income analysis, and capitalization rates. The estimated fair value is classified as Level 3.

***Annuity contract benefits without life contingencies***

The estimated fair value of annuity contract benefits without life contingencies is estimated by discounting the projected expected cash flows to the maturity of the contracts utilizing risk-free spot interest rates plus a provision for the Company's credit risk. The estimated fair value is classified as Level 2.

***Policyholders' funds***

The carrying amount of policyholders' funds approximates the fair value since the Company can change the interest credited rates with 30 days notice. The estimated fair value is classified as Level 2.

***Commercial paper***

The amortized cost of commercial paper is a reasonable estimate of fair value due to its short-term nature and the high credit quality of the obligor. The estimated fair value is classified as Level 2.

***Notes payable***

The estimated fair value of the notes payable to GWL&A Financial is based upon quoted market prices from independent pricing services of securities with characteristics similar to those of the notes payable. The estimated fair value is classified as Level 2.

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**8. Other Comprehensive Income**

The following tables present the accumulated balances for each classification of other comprehensive income (loss):

<b>Three Months Ended September 30, 2017</b>					
	<b>Unrealized holding gains / losses arising on fixed maturities, available-for- sale</b>	<b>Unrealized holding gains / losses arising on cash flow hedges</b>	<b>Future policy benefits, DAC and VOBA adjustments</b>	<b>Employee benefit plan adjustment</b>	<b>Total</b>
Balances, July 1, 2017	\$ 550,776	\$ 50,132	\$ (113,256)	\$ (81,513)	\$ 406,139
Other comprehensive income (loss) before reclassifications	25,989	(15,022)	(1,285)	5,559	15,241
Amounts reclassified from AOCI	(1,630)	(245)	—	1,425	(450)
Net current period other comprehensive income (loss)	24,359	(15,267)	(1,285)	6,984	14,791
Balances, September 30, 2017	<u>\$ 575,135</u>	<u>\$ 34,865</u>	<u>\$ (114,541)</u>	<u>\$ (74,529)</u>	<u>\$ 420,930</u>

<b>Three Months Ended September 30, 2016</b>					
	<b>Unrealized holding gains / losses arising on fixed maturities, available-for- sale</b>	<b>Unrealized holding gains / losses arising on cash flow hedges</b>	<b>Future policy benefits, DAC and VOBA adjustments</b>	<b>Employee benefit plan adjustment</b>	<b>Total</b>
Balances, July 1, 2016	\$ 855,034	\$ 45,316	\$ (178,086)	\$ (82,677)	\$ 639,587
Other comprehensive income (loss) before reclassifications	36,302	(5,074)	(11,839)	—	19,389
Amounts reclassified from AOCI	(5,503)	(1,182)	—	1,621	(5,064)
Net current period other comprehensive income (loss)	30,799	(6,256)	(11,839)	1,621	14,325
Balances, September 30, 2016	<u>\$ 885,833</u>	<u>\$ 39,060</u>	<u>\$ (189,925)</u>	<u>\$ (81,056)</u>	<u>\$ 653,912</u>

<b>Nine Months Ended September 30, 2017</b>					
	<b>Unrealized holding gains / losses arising on fixed maturities, available-for- sale</b>	<b>Unrealized holding gains / losses arising on cash flow hedges</b>	<b>Future policy benefits, DAC and VOBA adjustments</b>	<b>Employee benefit plan adjustment</b>	<b>Total</b>
Balances, January 1, 2017	\$ 311,748	\$ 67,076	\$ (58,646)	\$ (84,303)	\$ 235,875
Other comprehensive income (loss) before reclassifications	264,685	(31,402)	(55,895)	5,559	182,947
Amounts reclassified from AOCI	(1,298)	(809)	—	4,215	2,108
Net current period other comprehensive income (loss)	263,387	(32,211)	(55,895)	9,774	185,055
Balances, September 30, 2017	<u>\$ 575,135</u>	<u>\$ 34,865</u>	<u>\$ (114,541)</u>	<u>\$ (74,529)</u>	<u>\$ 420,930</u>

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**Nine Months Ended September 30, 2016**

	<b>Unrealized holding gains / losses arising on fixed maturities, available-for- sale</b>	<b>Unrealized holding gains / losses arising on cash flow hedges</b>	<b>Future policy benefits, DAC and VOBA adjustments</b>	<b>Employee benefit plan adjustment</b>	<b>Total</b>
Balances, January 1, 2016	\$ 339,520	\$ 45,284	\$ (65,785)	\$ (85,581)	\$ 233,438
Other comprehensive income (loss) before reclassifications	582,133	(2,150)	(124,140)	—	455,843
Amounts reclassified from AOCI	(35,820)	(4,074)	—	4,525	(35,369)
Net current period other comprehensive income (loss)	546,313	(6,224)	(124,140)	4,525	420,474
Balances, September 30, 2016	<u>\$ 885,833</u>	<u>\$ 39,060</u>	<u>\$ (189,925)</u>	<u>\$ (81,056)</u>	<u>\$ 653,912</u>

The following tables present the composition of other comprehensive income (loss):

**Three Months Ended September 30, 2017**

	<b>Before-tax amount</b>	<b>Tax (expense) benefit</b>	<b>Net-of-tax amount</b>
Unrealized holding gains (losses), net, arising on fixed maturities, available-for-sale	\$ 39,983	\$ (13,994)	\$ 25,989
Unrealized holding gains (losses), net, arising on cash flow hedges	(23,111)	8,089	(15,022)
Reclassification adjustment for (gains) losses, net, realized in net income	(2,885)	1,010	(1,875)
Net unrealized gains (losses) related to investments	13,987	(4,895)	9,092
Future policy benefits, DAC and VOBA adjustments	(1,977)	692	(1,285)
Net unrealized gains (losses)	12,010	(4,203)	7,807
Employee benefit plan adjustment	10,744	(3,760)	6,984
Other comprehensive income (loss)	<u>\$ 22,754</u>	<u>\$ (7,963)</u>	<u>\$ 14,791</u>

**Three Months Ended September 30, 2016**

	<b>Before-tax amount</b>	<b>Tax (expense) benefit</b>	<b>Net-of-tax amount</b>
Unrealized holding gains (losses), net, arising on fixed maturities, available-for-sale	\$ 55,849	\$ (19,547)	\$ 36,302
Unrealized holding gains (losses), net, arising on cash flow hedges	(7,805)	2,731	(5,074)
Reclassification adjustment for (gains) losses, net, realized in net income	(10,284)	3,599	(6,685)
Net unrealized gains (losses) related to investments	37,760	(13,217)	24,543
Future policy benefits, DAC and VOBA adjustments	(18,214)	6,375	(11,839)
Net unrealized gains (losses)	19,546	(6,842)	12,704
Employee benefit plan adjustment	2,494	(873)	1,621
Other comprehensive income (loss)	<u>\$ 22,040</u>	<u>\$ (7,715)</u>	<u>\$ 14,325</u>

**GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY**

Notes to Condensed Consolidated Financial Statements

(Dollars in Thousands)

(Unaudited)

	<b>Nine Months Ended September 30, 2017</b>		
	<b>Before-tax amount</b>	<b>Tax (expense) benefit</b>	<b>Net-of-tax amount</b>
Unrealized holding gains (losses), net, arising on fixed maturities, available-for-sale	\$ 407,208	\$ (142,523)	\$ 264,685
Unrealized holding gains (losses), net, arising on cash flow hedges	(48,311)	16,909	(31,402)
Reclassification adjustment for (gains) losses, net, realized in net income	(3,242)	1,135	(2,107)
Net unrealized gains (losses) related to investments	355,655	(124,479)	231,176
Future policy benefits, DAC and VOBA adjustments	(85,992)	30,097	(55,895)
Net unrealized gains (losses)	269,663	(94,382)	175,281
Employee benefit plan adjustment	15,036	(5,262)	9,774
Other comprehensive income (loss)	<u>\$ 284,699</u>	<u>\$ (99,644)</u>	<u>\$ 185,055</u>
	<b>Nine Months Ended September 30, 2016</b>		
	<b>Before-tax amount</b>	<b>Tax (expense) benefit</b>	<b>Net-of-tax amount</b>
Unrealized holding gains (losses), net, arising on fixed maturities, available-for-sale	\$ 895,589	\$ (313,456)	\$ 582,133
Unrealized holding gains (losses), net, arising on cash flow hedges	(3,307)	1,157	(2,150)
Reclassification adjustment for (gains) losses, net, realized in net income	(61,375)	21,481	(39,894)
Net unrealized gains (losses) related to investments	830,907	(290,818)	540,089
Future policy benefits, DAC and VOBA adjustments	(190,985)	66,845	(124,140)
Net unrealized gains (losses)	639,922	(223,973)	415,949
Employee benefit plan adjustment	6,962	(2,437)	4,525
Other comprehensive income (loss)	<u>\$ 646,884</u>	<u>\$ (226,410)</u>	<u>\$ 420,474</u>



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(Dollars in Thousands)

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The following tables presents the reclassifications out of accumulated other comprehensive income (loss):

<b>Details about accumulated other comprehensive income (loss) components</b>	<b>Three Months Ended September 30,</b>		<b>Affected line item in the statement where net income is presented</b>
	<b>2017</b>	<b>2016</b>	
	<b>Amount reclassified from accumulated other comprehensive income (loss)</b>		
Unrealized holding (gains) losses, net, arising on fixed maturities, available-for-sale	\$ (2,508)	\$ (8,465)	Other realized investment (gains) losses, net
	(2,508)	(8,465)	Total before tax
	(878)	(2,962)	Tax expense or benefit
	\$ (1,630)	\$ (5,503)	Net of tax
Unrealized holding (gains) losses, net, arising on cash flow hedges	\$ (1,067)	\$ (2,911)	Net investment income
	690	1,092	Interest Expense
	(377)	(1,819)	Total before tax
	(132)	(637)	Tax expense or benefit
	\$ (245)	\$ (1,182)	Net of tax
Amortization of employee benefit plan items			
Prior service (benefits)	\$ (109) <sup>(1)</sup>	\$ (150) <sup>(1)</sup>	
Actuarial losses	2,302 <sup>(1)</sup>	2,644 <sup>(1)</sup>	
	2,193	2,494	Total before tax
	768	873	Tax expense or benefit
	\$ 1,425	\$ 1,621	Net of tax
<b>Total reclassification</b>	<b>\$ (450)</b>	<b>\$ (5,064)</b>	Net of tax

<sup>(1)</sup> These accumulated other comprehensive income components are included in the computation of net periodic (benefit) cost of employee benefit plans (see Note 9 for additional details).

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Notes to Condensed Consolidated Financial Statements

(Dollars in Thousands)

(Unaudited)

	<b>Nine Months Ended September 30,</b>		
	<b>2017</b>	<b>2016</b>	
<b>Details about accumulated other comprehensive income (loss) components</b>	<b>Amount reclassified from accumulated other comprehensive income (loss)</b>		<b>Affected line item in the statement where net income is presented</b>
Unrealized holding (gains) losses, net, arising on fixed maturities, available-for-sale	\$ (1,997)	\$ (55,107)	Other realized investment (gains) losses, net
	(1,997)	(55,107)	Total before tax
	(699)	(19,287)	Tax expense or benefit
	<u>\$ (1,298)</u>	<u>\$ (35,820)</u>	Net of tax
Unrealized holding (gains) losses, net, arising on cash flow hedges	\$ (3,602)	\$ (7,943)	Net investment income
	2,357	1,675	Interest Expense
	(1,245)	(6,268)	Total before tax
	(436)	(2,194)	Tax expense or benefit
	<u>\$ (809)</u>	<u>\$ (4,074)</u>	Net of tax
Amortization of employee benefit plan items			
Prior service costs (benefits)	\$ 37 <sup>(1)</sup>	\$ (452) <sup>(1)</sup>	
Actuarial losses	6,448 <sup>(1)</sup>	7,414 <sup>(1)</sup>	
	6,485	6,962	Total before tax
	2,270	2,437	Tax expense or benefit
	<u>\$ 4,215</u>	<u>\$ 4,525</u>	Net of tax
Total reclassification	<u>\$ 2,108</u>	<u>\$ (35,369)</u>	Net of tax

<sup>(1)</sup> These accumulated other comprehensive income components are included in the computation of net periodic (benefit) cost of employee benefit plans (see Note 9 for additional details).

**9. Employee Benefit Plans**

Net periodic cost (benefit) of the Defined Benefit Pension, Post-Retirement Medical, and Supplemental Executive Retirement plans included in general insurance expenses in the accompanying condensed consolidated statements of income includes the following components:

	<b>Three Months Ended September 30,</b>							
	<b>Defined Benefit Pension Plan</b>		<b>Post-Retirement Medical Plan</b>		<b>Supplemental Executive Retirement Plan</b>		<b>Total</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Components of net periodic cost (benefit):								
Service cost	\$ 2,170	\$ 3,417	\$ 378	\$ 349	\$ (4)	\$ 73	\$ 2,544	\$ 3,839
Interest cost	6,114	6,384	192	184	405	444	6,711	7,012
Expected return on plan assets	(4,980)	(6,237)	—	—	—	—	(4,980)	(6,237)
Amortization of unrecognized prior service costs (benefits)	—	—	(235)	(275)	126	125	(109)	(150)
Amortization of losses (gains) from earlier periods	2,241	2,726	75	(67)	(14)	(15)	2,302	2,644
Net periodic cost (benefit)	<u>\$ 5,545</u>	<u>\$ 6,290</u>	<u>\$ 410</u>	<u>\$ 191</u>	<u>\$ 513</u>	<u>\$ 627</u>	<u>\$ 6,468</u>	<u>\$ 7,108</u>

**GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY**

## Notes to Condensed Consolidated Financial Statements

(Dollars in Thousands)

(Unaudited)

	Nine Months Ended September 30,							
	Defined Benefit Pension Plan		Post-Retirement Medical Plan		Supplemental Executive Retirement Plan		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Components of net periodic cost (benefit):								
Service cost	\$ 1,436	\$ 6,087	\$ 1,092	\$ 935	\$ (12)	\$ 219	\$ 2,516	\$ 7,241
Interest cost	18,356	18,948	568	534	1,215	1,332	20,139	20,814
Expected return on plan assets	(15,216)	(18,793)	—	—	—	—	(15,216)	(18,793)
Amortization of unrecognized prior service costs (benefits)	—	—	(339)	(827)	376	375	37	(452)
Amortization of losses (gains) from earlier periods	6,639	7,695	(151)	(237)	(40)	(44)	6,448	7,414
Net periodic cost (benefit)	\$ 11,215	\$ 13,937	\$ 1,170	\$ 405	\$ 1,539	\$ 1,882	\$ 13,924	\$ 16,224

During the 3rd quarter of 2017, the Company approved an amendment to the Plan freezing all benefit accruals for pension-eligible participants as of December 31, 2017. The Company also approved an amendment to provide pension-eligible employees with full credit for their anniversary year of services that began in 2017, even if the participants had not completed 1,000 hours of service as of December 31, 2017. The impact of the Plan freeze was reflected on September 25, 2017, and in accordance with ASC 715 Compensation - Retirement Benefits, resulted in a curtailment gain in the amount of \$17,244. Additionally, as a result of the amendment to provide an additional year of service credit, prior service cost in the amount of \$1,852 was recorded in other comprehensive income as of September 30, 2017. Under a curtailment due to a plan freeze, any unrecognized prior service cost included in other comprehensive income associated with the employees affected by the pension plan freeze must be fully recognized in benefit cost in determining the net gain or loss to be recognized for the curtailment. Additionally, the curtailment gain recognized in the income statement is offset by accelerating, in an equal amount, the recognition of any actuarial gain or loss in other comprehensive income. \$15,392 of actuarial loss was recognized from other comprehensive income to offset the net curtailment gain. As a result, the net impact to the income statement was zero.

The Company expects to make payments of approximately \$708 with respect to its Post-Retirement Medical Plan and \$3,336 with respect to its Supplemental Executive Retirement Plan during the year ended December 31, 2017. The Company expects to make contributions of zero to its Defined Benefit Pension Plan during the year ended December 31, 2017. A December 31 measurement date is used for the employee benefit plans.

The following table summarizes payments made to the Post-Retirement Medical Plan and the Supplemental Executive Retirement Plan:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Payments to the Post-Retirement Medical Plan	155	212	531	603
Payments to the Supplemental Executive Retirement Plan	834	834	2,502	2,502

**10. Income Taxes**

The provision for income taxes is comprised of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Current expense (benefit)	\$ 27,585	\$ (1,399)	\$ 58,845	\$ 41,725
Deferred (benefit) expense	(5,897)	16,694	6,128	37,318
Total income tax provision	\$ 21,688	\$ 15,295	\$ 64,973	\$ 79,043

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The following table presents a reconciliation between the statutory federal income tax rate and the Company's effective income tax rate:

	<b>Nine Months Ended September 30,</b>	
	<b>2017</b>	<b>2016</b>
Statutory federal income tax rate	35.0 %	35.0 %
Income tax effect of:		
Investment income not subject to federal tax	(3.9)%	(2.7)%
Tax credits	(0.3)%	(7.3)%
State income taxes, net of federal benefit	2.8 %	2.5 %
Other, net	(0.5)%	(0.4)%
Effective income tax rate	<u>33.1 %</u>	<u>27.1 %</u>

The Company recorded an increase of \$4,694 and a decrease of \$5,824 in unrecognized tax benefits during the nine months ended September 30, 2017, and 2016, respectively. The Company anticipates additional increases to its unrecognized tax benefits of \$6,000 to \$7,000 in the next twelve months. The Company expects that the majority of the increase in its unrecognized tax benefits will not impact the effective tax rate.

The Company files income tax returns in the U.S. federal jurisdiction and various states. With few exceptions, the Company is no longer subject to U.S. federal income tax examinations by tax authorities for years 2013 and prior. Tax years 2014 through 2016 are open to federal examination by the Internal Revenue Service ("IRS"). The Company does not expect significant increases or decreases to unrecognized tax benefits relating to federal, state, or local audits.

**11. Segment Information**

The Chief Operating Decision Maker ("CODM") of the Company is also the Chief Executive Officer ("CEO") of the Company and Lifeco U.S. The CODM reviews the financial information for the purposes of assessing performance and allocating resources based upon the results of Lifeco U.S. and other U.S. affiliates prepared in accordance with International Financial Reporting Standards. The CODM, in his capacity as CEO of the Company, reviews the Company's financial information only in connection with the quarterly and annual reports that are filed with the Securities and Exchange Commission ("SEC"). Consequently, the Company does not provide its discrete financial information to the CODM to be regularly reviewed to make decisions about resources to be allocated or to assess performance. For purposes of SEC reporting requirements, the Company has chosen to present its financial information in three segments, notwithstanding the above. The three segments are: Individual Markets, Empower Retirement, and Other.

***Individual Markets***

The Individual Markets reporting and operating segment distributes life insurance and individual annuity products to both individuals and businesses through various distribution channels. Life insurance products in-force include participating and non-participating term life, whole life, universal life, and variable universal life.

***Empower Retirement***

The Empower Retirement reporting and operating segment provides various retirement plan products and investment options as well as comprehensive administrative and record-keeping services for financial institutions and employers, which include educational, advisory, enrollment, and communication services for employer-sponsored defined contribution plans and associated defined benefit plans.

***Other***

The Company's Other reporting segment is substantially comprised of activity under the assumption of reinsurance between Great-West Life & Annuity Insurance Company of South Carolina ("GWSC"), a wholly owned subsidiary, and The Canada

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Life Assurance Company (“CLAC”) (“the GWSC operating segment”), corporate items not directly allocated to the other operating segments, and interest expense on long-term debt.

The accounting principles used to determine segment results are the same as those used in the consolidated financial statements. The Company evaluates performance of its reportable segments based on their profitability from operations after income taxes. Inter-segment transactions and balances have been eliminated in consolidation. The Company’s operations are not materially dependent on one or a few customers, brokers, or agents. The following tables summarize segment financial information:

<b>Three Months Ended September 30, 2017</b>				
	<b>Individual Markets</b>	<b>Empower Retirement</b>	<b>Other</b>	<b>Total</b>
<b>Revenue:</b>				
Premium income	\$ 125,757	\$ 764	\$ 18,983	\$ 145,504
Fee income	27,780	234,957	1,567	264,304
Other revenue	—	3,322	—	3,322
Net investment income	185,447	103,334	11,801	300,582
Realized investment gains (losses), net	2,389	11,472	—	13,861
<b>Total revenues</b>	<b>341,373</b>	<b>353,849</b>	<b>32,351</b>	<b>727,573</b>
<b>Benefits and expenses:</b>				
Policyholder benefits	272,396	53,736	18,109	344,241
Operating expenses	41,332	255,623	18,108	315,063
<b>Total benefits and expenses</b>	<b>313,728</b>	<b>309,359</b>	<b>36,217</b>	<b>659,304</b>
Income (loss) before income taxes	27,645	44,490	(3,866)	68,269
Income tax expense (benefit)	9,398	13,641	(1,351)	21,688
<b>Net income (loss)</b>	<b>\$ 18,247</b>	<b>\$ 30,849</b>	<b>\$ (2,515)</b>	<b>\$ 46,581</b>

<b>Three Months Ended September 30, 2016</b>				
	<b>Individual Markets</b>	<b>Empower Retirement</b>	<b>Other</b>	<b>Total</b>
<b>Revenue:</b>				
Premium income	\$ 126,770	\$ 605	\$ 18,725	\$ 146,100
Fee income	23,553	221,342	1,518	246,413
Other revenue	—	3,228	—	3,228
Net investment income	185,747	94,383	11,409	291,539
Realized investment gains (losses), net	11,026	21,565	783	33,374
<b>Total revenues</b>	<b>347,096</b>	<b>341,123</b>	<b>32,435</b>	<b>720,654</b>
<b>Benefits and expenses:</b>				
Policyholder benefits	280,821	51,730	14,310	346,861
Operating expenses	35,948	263,327	19,206	318,481
<b>Total benefits and expenses</b>	<b>316,769</b>	<b>315,057</b>	<b>33,516</b>	<b>665,342</b>
Income (loss) before income taxes	30,327	26,066	(1,081)	55,312
Income tax expense (benefit)	10,102	5,442	(249)	15,295
<b>Net income (loss)</b>	<b>\$ 20,225</b>	<b>\$ 20,624</b>	<b>\$ (832)</b>	<b>\$ 40,017</b>

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	<b>Nine Months Ended September 30, 2017</b>			
	<b>Individual Markets</b>	<b>Empower Retirement</b>	<b>Other</b>	<b>Total</b>
<b>Revenue:</b>				
Premium income	\$ 302,017	\$ 1,908	\$ 61,483	\$ 365,408
Fee income	82,960	698,850	4,948	786,758
Other revenue	—	9,367	—	9,367
Net investment income	562,440	313,710	35,124	911,274
Realized investment gains (losses), net	7,010	17,168	(7)	24,171
<b>Total revenues</b>	<b>954,427</b>	<b>1,041,003</b>	<b>101,548</b>	<b>2,096,978</b>
<b>Benefits and expenses:</b>				
Policyholder benefits	740,655	152,067	60,491	953,213
Operating expenses	127,137	760,564	59,854	947,555
<b>Total benefits and expenses</b>	<b>867,792</b>	<b>912,631</b>	<b>120,345</b>	<b>1,900,768</b>
Income (loss) before income taxes	86,635	128,372	(18,797)	196,210
Income tax expense (benefit)	29,579	42,063	(6,669)	64,973
<b>Net income (loss)</b>	<b>\$ 57,056</b>	<b>\$ 86,309</b>	<b>\$ (12,128)</b>	<b>\$ 131,237</b>

	<b>Nine Months Ended September 30, 2016</b>			
	<b>Individual Markets</b>	<b>Empower Retirement</b>	<b>Other</b>	<b>Total</b>
<b>Revenue:</b>				
Premium income	\$ 311,110	\$ 1,311	\$ 65,424	\$ 377,845
Fee income	71,823	633,679	4,342	709,844
Other revenue	—	9,747	—	9,747
Net investment income	619,633	321,972	37,475	979,080
Realized investment gains (losses), net	37,602	68,278	777	106,657
<b>Total revenues</b>	<b>1,040,168</b>	<b>1,034,987</b>	<b>108,018</b>	<b>2,183,173</b>
<b>Benefits and expenses:</b>				
Policyholder benefits	749,790	153,587	43,499	946,876
Operating expenses	127,181	761,827	55,807	944,815
<b>Total benefits and expenses</b>	<b>876,971</b>	<b>915,414</b>	<b>99,306</b>	<b>1,891,691</b>
Income before income taxes	163,197	119,573	8,712	291,482
Income tax expense	55,183	20,579	3,281	79,043
<b>Net income</b>	<b>\$ 108,014</b>	<b>\$ 98,994</b>	<b>\$ 5,431</b>	<b>\$ 212,439</b>

**12. Commitments and Contingencies**
**Commitments**

The Company has a revolving credit facility agreement in the amount of \$50,000 for general corporate purposes. The credit facility expires on March 1, 2018. Interest accrues at a rate dependent on various conditions and terms of borrowings. The agreement requires, among other things, the Company to maintain a minimum adjusted net worth of \$1,100,000, as defined in the credit facility agreement (compiled on the statutory accounting basis prescribed by the National Association of Insurance

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Commissioners), at anytime. The Company was in compliance with all covenants at September 30, 2017, and December 31, 2016. At September 30, 2017, and December 31, 2016, there were no outstanding amounts related to the credit facility.

GWSC and CLAC are parties to a reinsurance agreement pursuant to which GWSC assumes term life insurance from CLAC. GWL&A Financial obtained two letters of credit for the benefit of the Company as collateral under the GWSC and CLAC reinsurance agreement for policy liabilities and capital support. The first letter of credit is for \$1,141,440 and renews annually until it expires on July 3, 2027. The second letter of credit is for \$70,000 and renews annually unless the Company terminates it under the provisions specified in the agreement. At September 30, 2017, and December 31, 2016, there were no outstanding amounts related to the letters of credit.

In addition, the Company has other letters of credit with a total amount of \$9,095, renewable annually for an indefinite period of time. At September 30, 2017, and December 31, 2016, there were no outstanding amounts related to those letters of credit.

The Company makes commitments to fund partnership interests, mortgage loans on real estate, and other investments in the normal course of its business. The amounts of these unfunded commitments at September 30, 2017, and December 31, 2016, were as follows:

	<u>September 30, 2017</u>		<u>December 31, 2016</u>
Due in less than one year	\$ 464,957	\$	438,458
Due within one to three years	2,239		—
Total	<u>\$ 467,196</u>	\$	<u>438,458</u>

Included in the total unfunded commitments at September 30, 2017, and December 31, 2016, is \$76,617 and \$93,440, respectively, related to cost basis limited partnership interests, all of which is due within one year from the dates indicated.

***Contingencies***

From time to time, the Company may be threatened with, or named as a defendant in, lawsuits, arbitrations, and administrative claims. Any such claims that are decided against the Company could harm the Company's business. The Company is also subject to periodic regulatory audits and inspections which could result in fines or other disciplinary actions. Unfavorable outcomes in such matters may result in a material impact on the Company's financial position, results of operations, or cash flows.

The Company is defending lawsuits relating to the costs and features of certain of its retirement or fund products. These actions have not reached the trial stage. Management believes the claims are without merit and will defend these actions. Based on the information known, these actions will not have a material adverse effect on the consolidated financial position of the Company.

The Company is involved in other various legal proceedings that arise in the ordinary course of its business. In the opinion of management, after consultation with counsel, the likelihood of loss from the resolution of these proceedings is remote and/or the estimated loss is not expected to have a material effect on the Company's consolidated financial position, results of its operations, or cash flows.

**13. Subsequent Events**

The Company evaluated subsequent events through the date the condensed consolidated financial statements were issued. The Company concluded that no subsequent events have occurred that would require recognition or disclosure in the condensed consolidated financial statements.

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

### **General**

*As used in this Form 10-Q, the "Company" refers to Great-West Life & Annuity Insurance Company, a stock life insurance company originally organized on March 28, 1907 and domiciled in the state of Colorado, and its subsidiaries.*

This Form 10-Q contains forward-looking statements. Forward-looking statements are statements not based on historical information and that relate to future operations, strategies, financial results, or other developments. In particular, statements using words such as "may," "would," "could," "should," "estimates," "expected," "anticipate," "believe," or words of similar import generally involve forward-looking statements. Without limiting the foregoing, forward-looking statements include statements that represent the Company's beliefs concerning future or projected levels of sales of its products, investment spreads or yields, or the earnings or profitability of the Company's activities.

Forward-looking statements are necessarily based upon estimates and assumptions that are inherently subject to significant business, economic, and competitive uncertainties and contingencies, many of which are beyond the Company's control and many of which, with respect to future business decisions, are subject to change. Some of these risks are described in "Risk Factors" in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2016. These uncertainties and contingencies can affect actual results and could cause actual results to differ materially from those expressed in any forward-looking statements made by, or on behalf of, the Company. Whether or not actual results differ materially from forward-looking statements may depend on numerous foreseeable and unforeseeable events or developments, some of which may be global or national in scope, such as general economic conditions and interest rates, some of which may be related to the insurance industry generally, such as pricing competition, regulatory developments and industry consolidation, and others of which may relate to the Company specifically, such as credit, volatility, and other risks associated with its investment portfolio and other factors.

Readers should also consider other matters, including any risks and uncertainties, discussed in documents filed by the Company and certain of its subsidiaries with the Securities and Exchange Commission. The following discussion addresses the Company's results of operations for the three and nine months ended September 30, 2017, compared with the same period in 2016. This discussion should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2016, under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," to which the reader is directed for additional information.

### **Recent Events**

On April 6, 2016, the U.S. Department of Labor ("DOL") issued a new rule redefining and expanding who is a fiduciary by reason of providing investment advice to a retirement plan or holder of an individual retirement account. The Company has analyzed the rule against current business practices, particularly in its Empower Retirement and Individual Markets businesses. The rule requires changes to certain aspects of product and service delivery but management does not expect that it will prevent Great-West Financial from executing on their overall business strategy and growth objectives. The Company is in compliance with the components of the rule that were effective June 9, 2017 and is preparing to be fully compliant by January 1, 2018 if required. The DOL has proposed an extension of the full compliance date to July 1, 2019. The Company is monitoring the DOL's decision whether to finalize an extension.

The Company continues to monitor the potential for significant policy changes following the release of the Tax Reform Framework by the Trump Administration, House Ways and Means Committee and Senate Finance Committee; including corporate tax reform which would have an impact on the Company's deferred tax assets and liabilities as well as the effective tax rate in subsequent periods.



## Current Market Conditions

The S&P 500 index at September 30, 2017 was up by 4% compared to June 30, 2017 and up by 12.5% compared to January 1, 2017. The S&P 500 index at September 30, 2016 was up by 3% compared to June 30, 2016 and was up by 6% compared to January 1, 2016. The average of the S&P 500 index was up by 14% and 16% during the three and nine months ended September 30, 2017, respectively, when compared to the same period in 2016.

S&P 500 Index	2017			2016		
	Close	Average in Quarter	Average for Year to Date	Close	Average in Quarter	Average for Year to Date
September 30	2,519	2,465	2,396	2,168	2,161	2,063
June 30	2,423	2,396	2,360	2,099	2,074	2,013
March 31	2,363	2,324	2,324	2,060	1,952	1,952
January 1	2,239			2,044		

Variable asset-based fees earned by the Company fluctuate with changes in participant account balances. Participant account balances change due to cash flow and unrealized market gains and losses, which are primarily associated with changes in the U.S. equities market. Fee income increased for the three and nine months ended September 30, 2017, when compared to the same period in 2016. For the three and nine months ended September 30, 2017, the variance was primarily due to higher asset-based fees, driven by growth in these assets, due to positive net cash flows and higher average equity market levels.

The 10-year U.S. Treasury rate at September 30, 2017, was up by 2 basis points as compared to June 30, 2017 and was down by 12 basis points as compared to January 1, 2017. The rate at September 30, 2016 was up by 11 basis points as compared to June 30, 2016 and was down by 67 basis points as compared to January 1, 2016. The average of the 10-year U.S. Treasury rate during the three months ended September 30, 2017, was up by 68 basis points when compared to 2016 and the rate during the nine months ended September 30, 2017 was up by 58 basis points when compared to 2016.

10-Year Treasury Rate	2017			2016		
	Close	Average in Quarter	Average for Year to Date	Close	Average in Quarter	Average for Year to Date
September 30	2.33%	2.24%	2.32%	1.60%	1.56%	1.74%
June 30	2.31%	2.26%	2.35%	1.49%	1.75%	1.89%
March 31	2.35%	2.45%	2.45%	1.78%	1.91%	1.91%
January 1	2.45%			2.27%		

Unrealized gains on fixed maturity investments fluctuate with changes in the prevailing interest rates. When interest rates decrease, market values of fixed maturity investments generally increase. The Company has recorded in other comprehensive income favorable changes in unrealized gains (losses), net, on fixed maturity investments, of \$37 million and \$406 million for the three and nine months ended September 30, 2017, compared to favorable changes of \$48 million and \$846 million for the three and nine months ended September 30, 2016. This resulted in an increase in accumulated other comprehensive income (loss), net of policy holder related amounts, and deferred taxes.

The Company employs hedging strategies for the purpose of managing the interest rate, foreign currency exchange rate, and equity market risks impacting the Company's business. For some derivative instruments, hedge accounting is not elected; therefore all gains or losses from these transactions are recorded in the condensed consolidated statement of income. As a result, fluctuations in interest rates, foreign currencies, or equity markets may cause the Company to experience volatility in net income. For the three and nine months ended September 30, 2017, the Company recorded realized gains on forward settling to be announced ("TBA") securities of \$7 million and \$20 million, respectively, compared to gains of \$19 million and \$32 million, respectively in 2016. For the three and nine months ended September 30, 2017, the Company recorded losses in net investment income on cross-currency swaps of \$16 million and \$38 million, compared to gains of \$2 million and \$62 million, respectively, in 2016.

## Reconciliation of Net Income to Adjusted Operating Income

The Company uses the same accounting policies and procedures to measure adjusted operating income as it uses to measure consolidated net income. The Company employs hedging strategies for the purpose of managing the interest rate, foreign currency exchange rate, and equity market risks impacting the Company's business. For some derivative instruments, hedge accounting is not elected; therefore, all gains or losses from these transactions are recorded in the consolidated statement of income. As a result, fluctuations in interest rates, foreign currencies, or equity markets may cause the Company to experience volatility in net income. As such, the Company has defined adjusted operating income as net income, excluding realized and unrealized gains and losses on investments and derivatives and their related tax effect. Adjusted operating income should not be viewed as a substitute for net income prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). In addition, the Company's adjusted operating income measures may not be comparable to similarly titled measures reported by other companies.

### *Three months ended September 30, 2017 compared with the three months ended September 30, 2016*

The Company believes that the presentation of adjusted operating income enhances the understanding of the Company's performance by highlighting the results of operations and the underlying profitability drivers of the business. Adjusted operating income should not be viewed as a substitute for U.S. GAAP net income. The following is a summary of the contributions of each segment to net income and a reconciliation of net income to adjusted operating income:

Income statement data (In millions)	Three Months Ended September 30,		Increase (decrease)	Percentage change
	2017	2016		
Net income (loss)				
Individual Markets segment	\$ 18	\$ 20	\$ (2)	(10)%
Empower Retirement segment	31	21	10	48 %
Other segment	(3)	(1)	(2)	200 %
Total net income (loss)	46	40	6	15 %
Adjustments to net income (loss)				
Unrealized investment gains (losses), net	(19)	(9)	(10)	111 %
Realized investment gains (losses), net	13	33	(20)	(61)%
Pro-rata tax (expense) benefit <sup>(1)</sup>	2	(8)	10	(125)%
Adjusted operating income (loss)	\$ 50	\$ 24	\$ 26	108 %

<sup>(1)</sup> Calculated utilizing estimated tax rate of 35%.

Unrealized investment gains (losses), net, had an unfavorable change of \$10 million, or 111%, from a loss of \$9 million in 2016 to a loss of \$19 million in 2017. The change was due to a \$19 million unfavorable change from derivatives, partially offset by an favorable change of \$8 million from forward settling TBA securities.

Realized investment gains (losses), net, had an unfavorable change of \$20 million, or 61%, from a gain of \$33 million in 2016 to a gain of \$13 million in 2017. The change was primarily due to a \$12 million unfavorable change from forward settling TBA securities and a \$9 million unfavorable change from bonds.

Pro-rata tax expense changed by \$10 million, or 125%, from an expense of \$8 million in 2016 to a benefit of \$2 million in 2017, due to the unfavorable change in total unrealized and realized investment gains (losses), net.

*Nine months ended September 30, 2017 compared with the nine months ended September 30, 2016*

The following is a summary of the contributions of each segment to the net income and a reconciliation of net income to operating income:

Income statement data (In millions)	Nine Months Ended September 30,		Increase (decrease)	Percentage change
	2017	2016		
Net income (loss)				
Individual Markets segment	\$ 57	\$ 108	\$ (51)	(47)%
Empower Retirement segment	86	99	(13)	(13)%
Other segment	(12)	5	(17)	(340)%
Total net income (loss)	131	212	(81)	(38)%
Adjustments to net income (loss)				
Unrealized investment gains (losses), net	(39)	73	(112)	(153)%
Realized investment gains (losses), net	24	107	(83)	(78)%
Pro-rata tax (expense) benefit <sup>(1)</sup>	6	(63)	69	110 %
Adjusted operating income (loss)	\$ 140	\$ 95	\$ 45	47 %

<sup>(1)</sup> Calculated utilizing estimated tax rate of 35%.

Unrealized investment gains (losses), net, had an unfavorable change of \$112 million, or 153%, from a gain of \$73 million in 2016 to a loss of \$39 million in 2017. The primary drivers of the change was a \$103 million unfavorable change in unrealized gains on derivatives and an \$10 million unfavorable change in unrealized gains on forward settling TBA securities.

Realized investment gains (losses), net, had an unfavorable change of \$83 million, or 78%, to \$24 million during the nine months ended September 30, 2017, when compared to the same period in 2016. The change was primarily driven by an unfavorable change of \$78 million from losses on bonds and an \$11 million unfavorable change in unrealized gains on forward settling TBA securities.

Pro-rata tax expense (benefit) had a change of \$69 million, or 110%, from a \$63 million expense to a \$6 million benefit during the nine months ended September 30, 2017, when compared to the same period in 2016, resulting from the unfavorable change in total unrealized and realized investment gains (losses), net.

## Company Results of Operations

### *Three months ended September 30, 2017 compared with the three months ended September 30, 2016*

The following is a summary of certain financial data of the Company:

Income statement data (In millions)	Three Months Ended September 30,		Increase (decrease)	Percentage change
	2017	2016		
Premium income	\$ 146	\$ 146	\$ —	— %
Fee income	264	246	18	7 %
Other revenue	3	3	—	— %
Adjusted net investment income	320	301	19	6 %
Total adjusted operating revenues	733	696	37	5 %
Policyholder benefits	344	347	(3)	(1)%
Operating expenses	315	318	(3)	(1)%
Total benefits and expenses	659	665	(6)	(1)%
Adjusted operating income (loss) before income taxes	74	31	43	139 %
Adjusted income tax expense (benefit)	24	7	17	243 %
Adjusted operating income (loss)	\$ 50	\$ 24	\$ 26	108 %

The Company's consolidated adjusted operating income had a favorable change of \$26 million, or 108%, to \$50 million for the three months ended September 30, 2017, when compared to the same period in 2016. The increase was primarily due to increased adjusted net investment income and higher fee income, partially offset by increased tax expense.

Fee income had a favorable change of \$18 million, or 7%, to \$264 million for the three months ended September 30, 2017, when compared to the same period in 2016. This increase was primarily related to an increase in asset-based variable fee income resulting from increased average asset levels driven by sales and higher average equity market levels.

Adjusted net investment income had a favorable change of \$19 million, or 6%, to \$320 million. The increase was primarily related to higher investment income earned on bonds, mortgages, and policy loans as a result of higher invested asset balances.

Adjusted income tax expense increased by \$17 million, from an expense of \$7 million in 2016 to \$24 million in 2017 primarily due to increased adjusted operating income before income taxes.

*Nine months ended September 30, 2017 compared with the nine months ended September 30, 2016*

The following is a summary of certain financial data of the Company:

<b>Income statement data (In millions)</b>	<b>Nine Months Ended September 30,</b>		<b>Increase (decrease)</b>	<b>Percentage change</b>
	<b>2017</b>	<b>2016</b>		
Premium income	\$ 365	\$ 378	\$ (13)	(3)%
Fee income	787	710	77	11 %
Other revenue	9	10	(1)	(10)%
Adjusted net investment income	951	905	46	5 %
Total adjusted operating revenues	2,112	2,003	109	5 %
Policyholder benefits	953	947	6	1 %
Operating expenses	948	945	3	— %
Total benefits and expenses	1,901	1,892	9	— %
Adjusted operating income (loss) before income taxes	211	111	100	90 %
Adjusted income tax expense (benefit)	71	16	55	344 %
Adjusted operating income (loss)	\$ 140	\$ 95	\$ 45	47 %

The Company's consolidated adjusted operating income had a favorable change of \$45 million or 47%, to \$140 million for the nine months ended September 30, 2017, when compared to the same period in 2016. The change was primarily due to higher fee income and adjusted net investment income, partially offset by higher adjusted income tax expense.

Fee income had a favorable change of \$77 million, or 11% to \$787 million during the nine months ended September 30, 2017, when compared to the same period in 2016. This was primarily related to an increase in asset-based variable fee income resulting from increased average asset levels driven by sales and higher average equity market levels.

Adjusted net investment income had a favorable change of \$46 million, or 5%, to \$951 million. The increase was primarily related to higher investment income earned on bonds, mortgages, and policy loans as a result of higher invested asset balances.

Adjusted income tax expense had an unfavorable change of \$55 million or 344%, to \$71 million for the nine months ended September 30, 2017, when compared to the same period in 2016 primarily due to an increase in adjusted operating income before income taxes in addition to a management election to claim foreign tax credits in the prior year.

## Individual Markets Segment Results of Operations

*Three months ended September 30, 2017 compared with the three months ended September 30, 2016*

The following is a summary of certain financial data of the Individual Markets segment:

Income statement data (In millions)	Three Months Ended September 30,		Increase (decrease)	Percentage change
	2017	2016		
Premium income	\$ 126	\$ 127	\$ (1)	(1)%
Fee income	28	24	4	17 %
Adjusted net investment income	197	191	6	3 %
Total adjusted operating revenues	351	342	9	3 %
Policyholder benefits	272	281	(9)	(3)%
Operating expenses	41	36	5	14 %
Total benefits and expenses	313	317	(4)	(1)%
Adjusted operating income (loss) before income taxes	38	25	13	52 %
Adjusted income tax expense (benefit)	12	8	4	50 %
Adjusted operating income (loss)	\$ 26	\$ 17	\$ 9	53 %

Adjusted operating income for the Individual Markets segment had a favorable change of \$9 million, or 53%, to \$26 million during the three months ended September 30, 2017, when compared to the same period in 2016. The increase was primarily due to lower policyholder benefits expense, higher adjusted net investment income and fee income, partially offset by higher operating expenses and adjusted income tax expense.

Fee income increased by \$4 million, or 17%, to \$28 million for the three months ended September 30, 2017, when compared to the same period in 2016. This was primarily related to an increase in asset-based variable fee income resulting from increased average asset levels driven by sales.

Adjusted net investment income had a favorable change of \$6 million, or 3%, to \$197 million. The increase was primarily related to higher investment income earned on bonds, mortgages, and policy loans as a result of higher invested asset balances.

Policyholder benefits decreased by \$9 million, or 3%, to \$272 million for the three months ended September 30, 2017, when compared to the same period in 2016 primarily due to favorable mortality experience.

Operating expenses had a unfavorable change of \$5 million, or 14%, to \$41 million for the three months ended September 30, 2017, when compared to the same period in 2016. The primary driver of this decrease is higher DAC amortization.

Adjusted income tax expense increased by \$4 million, from an expense of \$8 million in 2016 to \$12 million in 2017 primarily due to an increase in adjusted operating income before income taxes.

*Nine months ended September 30, 2017 compared with the nine months ended September 30, 2016*

The following is a summary of certain financial data of the Individual Markets segment:

Income statement data (In millions)	Nine Months Ended September 30,		Increase (decrease)	Percentage change
	2017	2016		
Premium income	\$ 302	\$ 311	\$ (9)	(3)%
Fee income	83	72	11	15 %
Adjusted net investment income	581	569	12	2 %
Total revenues	966	952	14	1 %
Policyholder benefits	741	750	(9)	(1)%
Operating expenses	127	127	—	— %
Total benefits and expenses	868	877	(9)	(1)%
Adjusted operating income (loss) before income taxes	98	75	23	31 %
Adjusted income tax expense (benefit)	34	24	10	42 %
Adjusted operating income (loss)	\$ 64	\$ 51	\$ 13	25 %

Adjusted operating income for the Individual Markets segment had a favorable change of \$13 million, or 25%, to \$64 million during the nine months ended September 30, 2017, when compared to the same period in 2016. The change was primarily due to a favorable change in adjusted net investment income and higher fee income, partially offset by higher adjusted income tax expense.

Fee income increased by \$11 million, or 15%, to \$83 million during the nine months ended September 30, 2017, when compared to the same period in 2016. This was primarily related to an increase in asset-based variable fee income resulting from increased average asset levels driven by sales.

Adjusted net investment income had a favorable change of \$12 million, or 2%, to \$581 million for the nine months ended September 30, 2017, when compared to the same period in 2016. This was due to higher investment income earned on bonds, mortgages, and policy loans as a result of higher invested asset balances.

Adjusted income tax expense increased by \$10 million, from an expense of \$24 million in 2016 to \$34 million in 2017 primarily due to an increase in adjusted operating income before income taxes.

## Empower Retirement Segment Results of Operations

*Three months ended September 30, 2017 compared with the three months ended September 30, 2016*

The following is a summary of certain financial data of the Empower Retirement segment:

Income statement data (In millions)	Three Months Ended September 30,		Increase (decrease)	Percentage change
	2017	2016		
Premium income	\$ 1	\$ —	\$ 1	100 %
Fee income	235	\$ 221	14	6 %
Other revenue	3	3	—	— %
Adjusted net investment income	111	99	12	12 %
Total adjusted operating revenues	350	323	27	8 %
Policyholder benefits	54	52	2	4 %
Operating expenses	256	263	(7)	(3)%
Total benefits and expenses	310	315	(5)	(2)%
Adjusted operating income (loss) before income taxes	40	8	32	400 %
Adjusted income tax expense (benefit)	13	(1)	14	(1,400)%
Adjusted operating income (loss)	\$ 27	\$ 9	\$ 18	200 %

Adjusted operating income for the Empower Retirement segment increased by \$18 million, or 200%, to \$27 million for the three months ended September 30, 2017, when compared to the same period in 2016. The change was primarily due to higher fee income, higher adjusted net investment income, partially offset by higher adjusted income tax expense.

Fee income increased by \$14 million, or 6%, to \$235 million for the three months ended September 30, 2017, when compared to the same period in 2016. This increase was primarily related to an increase in asset-based variable fee income resulting from increased average asset levels driven by sales and higher average equity market levels.

Adjusted net investment income had a favorable change of \$12 million, or 12%, to \$111 million for the three months ended September 30, 2017, when compared to the same period in 2016. The primary driver of the change was higher investment income on bonds, mortgages and policy loans as a result of higher invested asset balances.

Adjusted income tax expense had an unfavorable change of \$14 million, or 1,400%, to \$13 million for the three months ended September 30, 2017, when compared to the same period in 2016. The increased tax expense is primarily due to higher adjusted operating income before income taxes.



*Nine months ended September 30, 2017 compared with the nine months ended September 30, 2016*

The following is a summary of certain financial data of the Empower Retirement segment:

Income statement data (In millions)	Nine Months Ended September 30,		Increase (decrease)	Percentage change
	2017	2016		
Premium income	\$ 2	\$ 1	\$ 1	100 %
Fee income	699	634	65	10 %
Other revenue	9	10	(1)	(10)%
Adjusted net investment income	335	299	36	12 %
Total adjusted operating revenues	1,045	944	101	11 %
Policyholder benefits	152	154	(2)	(1)%
Operating expenses	761	762	(1)	— %
Total benefits and expenses	913	916	(3)	— %
Adjusted operating income (loss) before income taxes	132	28	104	371 %
Adjusted income tax expense (benefit)	44	(11)	55	(500)%
Adjusted operating income (loss)	\$ 88	\$ 39	\$ 49	126 %

Adjusted operating income for the Empower Retirement segment had an favorable change of \$49 million, or 126%, to \$88 million for the nine months ended September 30, 2017, when compared to the same period in 2016. The change was primarily due to higher fee income and adjusted net investment income, partially offset by higher adjusted income tax expense.

Fee income increased by \$65 million, or 10%, to \$699 million for the nine months ended September 30, 2017, when compared to the same period in 2016. This was primarily related to an increase in asset-based variable fee income resulting from increased average asset levels driven by sales and higher average equity market levels.

Adjusted net investment income had a favorable change of \$36 million, or 12%, to \$335 million for the nine months ended September 30, 2017, when compared to the same period in 2016. The primary driver of the change was higher investment income on bonds, mortgages, and policy loans as a result of higher invested asset balances.

Adjusted income tax expense had an increase of \$55 million, or 500%, to \$44 million during the nine months ended September 30, 2017, when compared to the same period in 2016. The change was primarily as a result of to higher adjusted operating income before income taxes in addition to a management election to claim foreign tax credits in prior year.

## Other Segment Results of Operations

### *Three months ended September 30, 2017 compared with the three months ended September 30, 2016*

The following is a summary of certain financial data of the Company's Other segment:

Income statement data (In millions)	Three Months Ended September 30,		Increase (decrease)	Percentage change
	2017	2016		
Premium income	\$ 19	\$ 19	\$ —	— %
Fee income	1	1	—	— %
Adjusted net investment income	12	11	1	9 %
Total adjusted operating revenues	32	31	1	3 %
Policyholder benefits	18	14	4	29 %
Operating expenses	18	19	(1)	(5)%
Total benefits and expenses	36	33	3	9 %
Adjusted operating income (loss) before income taxes	(4)	(2)	(2)	100 %
Adjusted income tax expense (benefit)	(1)	—	(1)	100 %
Adjusted operating income (loss)	\$ (3)	\$ (2)	\$ (1)	50 %

Adjusted operating income for the Company's Other segment decreased by \$1 million, or 50%, to a loss of \$3 million for the three months ended September 30, 2017 compared to a loss of \$2 million in 2016. The decrease in adjusted operating income was primarily due to an increase in policyholder benefits expense, partially offset by lower adjusted income tax expense.

Policyholder benefits expense increased by \$4 million, or 29%, to \$18 million for the three months ended September 30, 2017 primarily due to lower surrenders than expected on a closed block of business.

Adjusted income tax benefit increased by \$1 million, or 100%, to \$1 million for the three months ended September 30, 2017 primarily due to a higher adjusted operating loss before income taxes when compared to the same period in prior year.

*Nine months ended September 30, 2017 compared with the nine months ended September 30, 2016*

The following is a summary of certain financial data of the Company's Other segment:

Income statement data (In millions)	Nine Months Ended September 30,		Increase (decrease)	Percentage change
	2017	2016		
Premium income	\$ 61	\$ 66	\$ (5)	(8)%
Fee income	5	4	1	25 %
Adjusted net investment income	35	37	(2)	(5)%
Total adjusted operating revenues	101	107	(6)	(6)%
Policyholder benefits	60	43	17	40 %
Operating expenses	60	56	4	7 %
Total benefits and expenses	120	99	21	21 %
Adjusted operating income (loss) before income taxes	(19)	8	(27)	(338)%
Adjusted income tax expense (benefit)	(7)	3	(10)	(333)%
Adjusted operating income (loss)	<u>\$ (12)</u>	<u>\$ 5</u>	<u>\$ (17)</u>	<u>(340)%</u>

Adjusted operating income for the Company's Other segment had an unfavorable change of \$17 million or 340%, to a loss of \$12 million for the nine months ended September 30, 2017, when compared to income of \$5 million in 2016. The change in adjusted operating income is primarily due to lower premium income, higher policyholder benefits expense and higher operating expenses, partially offset by lower adjusted income tax expense.

Premium income decreased by \$5 million, or 8%, to \$61 million for the nine months ended September 30, 2017 primarily due to a closed block of business.

Policyholder benefits increased by \$17 million, or 40%, to \$60 million for the nine months ended September 30, 2017 primarily due to lower surrenders than expected on a closed block of business.

Operating expenses increased by \$4 million, or 7%, to \$60 million for the nine months ended September 30, 2017 primarily due to restructuring costs.

Adjusted income tax expense (benefit) had a favorable change of \$10 million or 333%, to a benefit of \$7 million for the nine months ended September 30, 2017 primarily due to an adjusted operating loss before income taxes as compared to an adjusted operating income before income taxes in the prior period.

## Investment Operations

The Company's primary investment objective is to acquire assets with duration and cash flow characteristics reflective of its liabilities, while meeting industry, size, issuer, and geographic diversification standards. Formal liquidity and credit quality parameters have also been established.

The Company follows rigorous procedures to control interest rate risk and observes strict asset and liability matching guidelines. These guidelines ensure that even under changing market conditions, the Company's assets should meet the cash flow and income requirements of its liabilities. Using dynamic modeling to analyze the effects of a range of possible market changes upon investments and policyholder benefits, the Company works to ensure that its investment portfolio is appropriately structured to fulfill financial obligations to its policyholders.

The following table presents the percentage distribution of the carrying values of the Company's general account investment portfolio:

<b>(In millions)</b>	<b>September 30, 2017</b>		<b>December 31, 2016</b>	
Fixed maturities, available-for-sale	\$ 23,013	72.0%	\$ 22,154	72.4%
Fixed maturities, held-for-trading	60	0.2%	515	1.7%
Mortgage loans on real estate	3,943	12.3%	3,559	11.6%
Policy loans	4,074	12.7%	4,020	13.1%
Short-term investments	823	2.6%	303	1.0%
Limited partnership and other corporation interests	45	0.1%	35	0.1%
Other investments	20	0.1%	15	0.1%
Total investments	<u>\$ 31,978</u>	<u>100.0%</u>	<u>\$ 30,601</u>	<u>100.0%</u>

### *Fixed Maturity Investments*

Fixed maturity investments include public and privately placed corporate bonds, government bonds, and mortgage-backed and asset-backed securities. Included in available-for-sale fixed maturities are perpetual debt investments which primarily consist of junior subordinated debt instruments that have no stated maturity date but pay fixed or floating interest in perpetuity. The Company's strategy related to mortgage-backed and asset-backed securities is to focus on those investments with low prepayment risk and minimal credit risk.

Private placement investments are generally less marketable than publicly traded assets, yet they typically offer enhanced covenant protection that allows the Company, if necessary, to take appropriate action to protect its investment. The Company believes that the cost of the additional monitoring and analysis required by private placement investments is more than offset by their enhanced yield.

One of the Company's primary objectives is to ensure that its fixed maturity portfolio is maintained at a high average credit quality to limit credit risk. All securities are internally rated by the Company on a basis intended to be similar to that of independent external rating agencies and the Company generally considers ratings from several of these major ratings agencies to develop its internal rating. In addition, the National Association of Insurance Commissioners ("NAIC") implemented a ratings methodology for residential mortgage-backed securities ("RMBS"), commercial mortgage-backed securities ("CMBS"), and other structured securities. The Company may also utilize inputs from this ratings process to develop its internal rating.

The percentage distribution of the estimated fair value of the Company's fixed maturity portfolio by the Company's internal credit rating is summarized as follows:

<b>Credit Rating</b>	<b>September 30, 2017</b>	<b>December 31, 2016</b>
AAA	22.1%	27.3%
AA	14.3%	13.9%
A	34.3%	30.8%
BBB	28.3%	26.8%
BB and below (Non-investment grade)	1.0%	1.2%
Total	<u>100.0%</u>	<u>100.0%</u>

The September 30, 2017, AAA rating percentage decreased as compared to December 31, 2016, as the Company sold AAA-rated government agency MBS pools to enter into forward settling TBA contracts which are treated as derivatives.

The percentage distribution of the estimated fair value of the corporate sector fixed maturity portfolio, calculated as a percentage of fixed maturities, is summarized as follows:

Sector	September 30, 2017	December 31, 2016
Utility	18.2%	18.1%
Finance	13.5%	10.8%
Consumer	11.1%	9.7%
Natural resources	6.3%	6.3%
Transportation	4.2%	3.6%
Other	14.0%	13.3%

### ***Mortgage Loans on Real Estate***

The Company's mortgage loans on real estate are comprised primarily of domestic commercial collateralized real estate loans. The mortgage loan portfolio is diversified with regard to geographical markets and commercial real estate property types. The Company originates, directly or through correspondents, real estate mortgages with the intent to hold to maturity. The Company's portfolio includes loans which are fully amortizing, amortizing with a balloon balance at maturity, interest only to maturity, and interest only for a number of years followed by an amortizing period.

### ***Derivatives***

The Company uses certain derivatives, such as futures, swaps, forwards, and interest rate swaptions, for purposes of managing the interest rate, foreign currency exchange rate, and equity market risks impacting the Company's business. These derivatives, when taken alone, may subject the Company to varying degrees of market and credit risk; however, since used for hedging purposes, these instruments are intended to reduce risk. For derivative instruments where hedge accounting is not elected, changes in interest rates, foreign currencies, or equity markets may generate derivative gains or losses which may cause the Company to experience volatility in net income. The Company also uses forward settling TBA securities to gain exposure to the investment risk and return of agency mortgage-backed securities (pass-throughs). These transactions enhance the return on the Company's investment portfolio and provide a more liquid and cost effective method of achieving these goals than purchasing or selling individual agency mortgage-backed pools. The Company controls the credit risk of its over-the-counter derivative contracts through credit approvals, limits, monitoring procedures, and in most cases, requiring collateral. Risk of loss is generally limited to the portion of the fair value of derivative instruments that exceeds the value of the collateral held and not to the notional or contractual amounts of the derivatives.

## Summary of Critical Accounting Estimates

The preparation of financial statements in conformity with U.S. GAAP requires the Company's management to adopt accounting policies to enable them to make a significant variety of accounting and actuarial estimates and assumptions. These estimates and assumptions are evaluated on an ongoing basis based on historical developments, market conditions, industry trends, and other information that is reasonable given the facts and circumstances for the Company. These critical estimates and assumptions affect, among other things, the reported amounts of assets and liabilities, the disclosure of contingent liabilities, and the reported amounts of revenues and expenses. Actual results can differ from the amounts previously estimated, which were based on information available at the time the estimates were made.

The Company has identified the following accounting policies, judgments, and estimates as critical in that they involve a higher degree of judgment and are subject to a significant degree of variability:

- Valuation of investments;
- Impairment of investments;
- Valuation of derivatives and related hedge accounting;
- Valuation of DAC and related amortization (including unlocking of assumptions); and
- Valuation of policy benefit liabilities

A discussion of each of these critical accounting policies may be found in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

## Application of Recent Accounting Pronouncements

See Note 2 to the accompanying condensed consolidated financial statements for a discussion of the application of recent accounting pronouncements.

## Liquidity and Capital Resources

Liquidity refers to a company's ability to generate sufficient cash flows to meet the short-term needs of its operations. The Company manages its operations to create stable, reliable, and cost-effective sources of cash flows to meet all of its obligations.

The principal sources of the Company's liquidity are premiums and contract deposits, fees, investment income, and investment maturities and sales. Funds provided from these sources are reasonably predictable and normally exceed liquidity requirements for payment of policy benefits, payments to policy and contractholders in connection with surrenders and withdrawals, and general expenses. However, since the timing of available funds cannot always be matched precisely to commitments, imbalances may arise when demands for funds exceed those on hand. A primary liquidity concern regarding cash flows from operations is the risk of early policyholder and contractholder withdrawals. A primary liquidity concern regarding investment activity is the risk of defaults and market volatility.

In addition, a demand for funds may arise as a result of the Company taking advantage of current investment opportunities. The sources of the funds that may be required in such situations include the issuance of commercial paper or other debt instruments.

Management believes that the liquidity profile of its assets is sufficient to satisfy the short-term liquidity requirements of reasonably foreseeable scenarios.

Generally, the Company has met its operating requirements by utilizing cash flows from operations and maintaining appropriate levels of liquidity in its investment portfolio. Liquidity for the Company has remained strong, as evidenced by the amounts of short-term investments and cash and cash equivalents that totaled \$391 million and \$322 million as of September 30, 2017, and December 31, 2016, respectively. The September 30, 2017, and December 31, 2016, short-term investments included above exclude any amounts held to settle TBA forward contracts. In addition, 99% of the fixed maturity portfolio carried an investment grade rating at September 30, 2017, and December 31, 2016, which provides significant liquidity to the Company's overall investment portfolio.

The Company continues to be well capitalized, with sufficient borrowing capacity. Additionally, the Company anticipates that cash on hand and expected net cash generated by operating activities will exceed the forecasted needs of the business over the next 12 months. The Company's financial strength provides the capacity and flexibility to enable it to raise funds in the capital

markets through the issuance of commercial paper. The Company had \$100 million and \$99 million of commercial paper outstanding as of September 30, 2017, and December 31, 2016, respectively. The commercial paper has been given a rating of A-1+ by Standard & Poor's Ratings Services and a rating of P-1 by Moody's Investors Service, each being the highest rating available. The Company's issuance of commercial paper is not used to fund daily operations and does not have a significant impact on the Company's liquidity.

The Company also has available a revolving credit facility agreement with U.S. Bank, which expires on March 1, 2018, in the amount of \$50 million for general corporate purposes. The Company had no borrowings under this credit facility as of or during the nine months ended September 30, 2017. The Company does not anticipate the need for borrowings under this facility and the loss of its availability would not significantly impact its liquidity.

Capital resources provide protection for policyholders and financial strength to support the underwriting of insurance risks and allow for continued business growth. The amount of capital resources that may be needed is determined by the Company's senior management and Board of Directors, as well as by regulatory requirements. The allocation of resources to new long-term business commitments is designed to achieve an attractive return, tempered by considerations of risk and the need to support the Company's existing business.

### **Off-Balance Sheet Arrangements**

The Company makes commitments to fund partnership interests, mortgage loans on real estate, and other investments in the normal course of its business. The amounts of these unfunded commitments at September 30, 2017, and December 31, 2016, were \$467 million and \$438 million, respectively. The precise timing of the fulfillment of the commitment cannot be predicted; however, \$465 million of the September 30, 2017 balance, and all \$438 million of the December 31, 2016 balance are due within one year of the dates indicated. The remaining \$2 million of the September 30, 2017 balance is due within one to three years. There are no other obligations or liabilities arising from such arrangements that are reasonably likely to become material.

The Company participates in a short-term reverse repurchase program for the purpose of enhancing the total return on its investment portfolio. This type of transaction involves the purchase of securities with a simultaneous agreement to sell similar securities at a future date at an agreed-upon price. In exchange, the financial institutions put non-cash collateral on deposit with a third-party custodian on behalf of the Company. The amount of securities purchased in connection with these transactions was \$21 million and zero at September 30, 2017, and December 31, 2016, respectively. Non-cash collateral on deposit with the third-party custodian on the Company's behalf was \$21 million and zero at September 30, 2017, and December 31, 2016, respectively, which cannot be sold or re-pledged and which has not been recorded on the condensed consolidated balance sheets. Collateral related to the reverse repurchase agreements generally consists of U.S. government or U.S. government agency securities.

The Company participates in a securities lending program in which the Company lends securities that are held as part of its general account investment portfolio to third parties for the purpose of enhancing the total return on its investment portfolio. The Company generally requires initial collateral in an amount greater than or equal to 102% of the fair value of domestic securities loaned and 105% of foreign securities loaned. The Company received securities with a fair value of \$32 million as collateral at September 30, 2017, which have not been recorded on the condensed consolidated balance sheets as the Company does not have effective control. There were no securities on loan and therefore no securities were received as collateral at December 31, 2016.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

The Company has established processes and procedures to effectively identify, monitor, measure, and manage the risks associated with its invested assets and its interest rate sensitive insurance and annuity products. Management has identified investment portfolio management, including the use of derivative instruments, insurance and annuity product design, and asset/liability management as three critical means to accomplish a successful risk management program.

The major risks to which the Company is exposed include the following:

- Market risk - the potential of loss arising from adverse fluctuations in interest rates and equity market prices and the levels of their volatility.
- Insurance risk - the potential of loss resulting from claims, persistency, and expense experience exceeding that assumed in the liabilities held.

- Credit risk - the potential of loss arising from an obligator's inability or unwillingness to meet its obligations to the Company.
- Operational and corporate risk - the potential of direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from other external events.

A discussion of each of these risk factors may be found in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, under Item 7A, "Quantitative and Qualitative Disclosures About Market Risk."

#### **Item 4. Controls and Procedures**

##### *Disclosure Controls and Procedures*

The Company's management, with the participation of its President and Chief Executive Officer and its Principal Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures, as required by Rule 13a-15(b) under the Securities Exchange Act of 1934 ("Exchange Act"). The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in reports it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and to ensure that the information required to be disclosed by the Company in reports that it files under the Exchange Act is accumulated and communicated to the Company's management, including the principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, the President and Chief Executive Officer and Principal Financial Officer have concluded that the Company's disclosure controls and procedures are effective as of September 30, 2017.

##### *Changes in Internal Control over Financial Reporting*

As disclosed in Item 9A, "Controls and Procedures," of the Company's Annual Report on Form 10-K for the year ended December 31, 2016, management concluded that the Company maintained effective internal control over financial reporting. There has been no significant change in the control environment for the three and nine months ended September 30, 2017. Management is committed to continuing to improve its internal control processes and will continue to review its financial reporting controls and procedures.



## **Part II Other Information**

### **Item 1. Legal Proceedings**

From time to time, the Company may be threatened with, or named as a defendant in, lawsuits, arbitrations, and administrative claims. Any such claims that are decided against the Company could harm the Company's business. The Company is also subject to periodic regulatory audits and inspections which could result in fines or other disciplinary actions. Unfavorable outcomes in such matters may result in a material impact on the Company's financial position, results of operations, or cash flows.

The Company is defending lawsuits relating to the costs and features of certain of its retirement or fund products. These actions have not reached the trial stage. Management believes the claims are without merit and will defend these actions. Based on the information known, these actions will not have a material adverse effect on the consolidated financial position of the Company.

The Company is involved in other various legal proceedings that arise in the ordinary course of its business. In the opinion of management, after consultation with counsel, the likelihood of loss from the resolution of these proceedings is remote and/or the estimated loss is not expected to have a material effect on the Company's consolidated financial position, results of its operations or cash flows.

### **Item 1A. Risk Factors**

In the normal course of its business, the Company is exposed to certain operational, regulatory, and financial risks and uncertainties. The most significant risks include the following:

- Competition could negatively affect the ability of the Company to maintain or increase market share or profitability.
- The insurance and financial services industries are heavily regulated and changes in regulation may reduce profitability.
- A downgrade or potential downgrade in the Company's financial strength or claims paying ratings could result in a loss of business and negatively affect results of operations and financial condition.
- Deviations from assumptions regarding future persistency, mortality, and interest rates used in calculating liabilities for future policyholder benefits and claims could adversely affect the Company's results of operations and financial condition.
- The Company may be required to accelerate the amortization of DAC or VOBA, or recognize impairment in the value of goodwill or other intangible assets, which could adversely affect its results of operations and financial condition.
- If the companies that provide reinsurance default or fail to perform or the Company is unable to obtain adequate reinsurance for some of the risks underwritten, the Company could incur significant losses adversely affecting results of operations and financial condition.
- Interest rate fluctuations could have a negative impact on results of operations and financial condition.
- Market fluctuations and general economic conditions may adversely affect results of operations and financial condition.
- Changes in U.S. federal income tax law could make some of the Company's products less attractive to consumers and increase its tax costs.
- The Company may be subject to litigation resulting in substantial awards or settlements and this may adversely affect its reputation and results of operations.
- The Company's risk management policies and procedures may leave it exposed to unidentified or unanticipated risk, which could adversely affect its business, results of operations, and financial condition.

- The Company may experience difficulty in marketing and distributing products through its current and future distribution channels.
- A failure in cyber or information security systems could result in a loss or disclosure of confidential information, damage the Company's reputation, and could impair its ability to conduct business effectively.
- The Company could face difficulties, unforeseen liabilities, or asset impairments arising from business acquisitions or integrations and managing growth of such businesses.
- Counterparties with whom the Company transfers risk may be unable or unwilling to do business with the Company.
- The Company may not be able to secure financing to meet the liquidity or capital needs of the Company.

## Item 6. Exhibits

The documents identified below are filed as a part of this report:

Index to Exhibits

<b>Exhibit Number</b>	<b>Title</b>
<a href="#">3(ii)</a>	Bylaws of Great-West Life & Annuity Insurance Company
<a href="#">31.1</a>	Rule 13a-14(a)/15-d14(a) Certification
<a href="#">31.2</a>	Rule 13a-14(a)/15-d14(a) Certification
<a href="#">32</a>	18 U.S.C. 1350 Certification
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

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

### Great-West Life & Annuity Insurance Company

By: /s/ Kara Roe

Date: November 9, 2017

Kara Roe

Vice President, Controller, and Principal Accounting Officer

BYLAWS OF GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY

ARTICLE I  
MEETING OF SHAREHOLDERS

SECTION 1. The Annual Meeting of Shareholders shall be held at such time, on such date and at such place within or without the State of Colorado as the Board of Directors may determine from time to time.

SECTION 2. Special Meetings of Shareholders may be called by the Chairman or a majority of the Board of Directors at any time upon written notice given pursuant to law (which notice may be waived in accordance with law).

ARTICLE II  
BOARD OF DIRECTORS

SECTION 1. The number of directors may be fixed by the Board of Directors from time to time to such number, not less than seven (7) nor more than twenty-five (25), as the Board may determine.

SECTION 2. Any vacancy on the Board of Directors, whether resulting from an increase in the number of directors or otherwise, may be filled by the affirmative vote of a majority of directors then in office, even though less than a quorum, or by a sole remaining director. Directors shall be elected by the Board of Directors to serve until the next annual meeting of the Shareholders.

SECTION 3. A meeting of the Board may be called by the Chairman of the Board, by the Chairman of the Executive Committee, by such other Director as may from time to time be authorized by the Chairman of the Board, or by a majority of the Directors, on not less than 48 hours notice to the members of the Board specifying the place, date and time of the meeting. Meetings may be held at any time without notice if all members of the Board waive notice. If a meeting of the Board is called by anyone other than the Chairman of the Board, the person[s] calling such a meeting shall so advise the Chairman of the Board. A meeting of a Committee of the Board may be called by the Chairman of the Committee, by the Chairman of the Board, by such other Director(s) as may from time to time be authorized by the Chairman of the Committee, or by a majority of the Committee members, on not less than 48 hours notice to the members of the Committee specifying the place, date and time of the meeting. Meetings may be held at any time without notice if all members of the Committee waive notice. If a meeting of the Committee is called by anyone other than the Chairman of the Board, the person[s] calling the meeting shall so inform the Chairman of the Board and the Chairman of the Committee.

SECTION 4. A quorum at any meeting of the Board shall be a majority of the number of Board members fixed by the Board from time to time. A quorum at any meeting of a Committee of the Board shall be a majority of the Committee members.

SECTION 5. The Board shall establish an Executive Committee, an Audit Committee, a Conduct Review Committee, a Governance and Nominating Committee and a Compensation Committee, and may establish such other Committees as it deems advisable to assist it in discharging its duties, and may establish Committee charters and otherwise delegate to those Committees such duties and responsibilities as may be permitted by law and as it deems necessary or advisable.

ARTICLE III  
OFFICERS

The Chairman of the Board and the President and Chief Executive Officer shall be initially appointed by the Board of Directors. Officers at the level of Senior Vice President and above shall be initially appointed by the Chairman of the Board. The Board of Directors shall annually reappoint all officers at the level of Senior Vice President and above. Officers at a level below Senior Vice President may be appointed by the President and Chief Executive Officer. Any number of offices may be held by the same person. Such officers shall have such authority and perform such duties as normally pertain to their offices or as may from time to time be determined by the Board of Directors.

ARTICLE IV  
INDEMNIFICATION

SECTION 1. In this Article, the following terms shall have the following meanings:

- (a) “expenses” means reasonable expenses incurred in a proceeding, including expenses of investigation and preparation, expenses in connection with an appearance as a witness, and fees and disbursement of counsel, accountants or other experts;
- (b) “liability” means an obligation incurred with respect to a proceeding to pay a judgment, settlement, penalty or fine;
- (c) “party” includes a person who was, is, or is threatened to be made a named defendant or respondent in a proceeding;
- (d) “proceeding” means any threatened, pending or completed action, suit, or proceeding whether civil, criminal, administrative or investigative, and whether formal or informal.

SECTION 2. Subject to applicable law, if any person who is or was a director, officer or employee of the corporation is made a party to a proceeding because the person is or was a director, officer or employee of the corporation, the corporation shall indemnify the person, or the estate or personal representative of the person, from and against all liability and expenses incurred by the person in the proceeding (and advance to the person expenses incurred in the proceeding) if, with respect to the matter(s) giving rise to the proceeding:

- (a) the person conducted himself or herself in good faith; and
- (b) the person reasonably believed that his or her conduct was in the corporation's best interests; and
- (c) in the case of any criminal proceeding, the person had no reasonable cause to believe that his or her conduct was unlawful; and
- (d) if the person is or was an employee of the corporation, the person acted in the ordinary course of the person's employment with the corporation.

SECTION 3. Subject to applicable law, if any person who is or was serving as a director, officer, trustee, plan administrator or employee of another company or entity at the request of the corporation is made a party to a proceeding because the person is or was serving as a director, officer, trustee or employee of the other company or entity, the corporation shall indemnify the person, or the estate or personal representative of the person, from and against all liability and expenses incurred by the person in the proceeding (and advance to the person expenses incurred in the proceeding) if:

- (a) the person is or was appointed to serve at the request of the corporation as a director, officer, trustee or employee of the other company or entity in accordance with Indemnification Procedures approved by the Board of Directors of the corporation; and
- (b) with respect to the matter(s) giving rise to the proceeding:
  - (i) the person conducted himself or herself in good faith; and
  - (ii) the person reasonably believed that his or her conduct was at least not opposed to the corporation's best interests (in the case of a trustee or plan administrator of one of the corporation's staff benefits plans, this means that the person's conduct was for a purpose the person reasonably believed to be in the interests of the plan participants); and
  - (iii) in the case of any criminal proceeding, the person had no reasonable cause to believe that his or her conduct was unlawful; and
  - (iv) if the person is or was an employee of the other company or entity, the person acted in the ordinary course of the person's employment with the other company or entity.

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## CERTIFICATION

I, Robert L. Reynolds, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Great-West Life & Annuity Insurance Company (the “registrant”);

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f) for the registrant and we have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this quarterly report our conclusion about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and

d) disclosed in this quarterly report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control of financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent function):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 9, 2017

/s/ Robert L. Reynolds

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Robert L. Reynolds

President and Chief Executive Officer

## CERTIFICATION

I, Andra Bolotin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Great-West Life & Annuity Insurance Company (the “registrant”);
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f) for the registrant and we have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this quarterly report our conclusion about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
  - d) disclosed in this quarterly report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control of financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 9, 2017

/s/ Andra Bolotin

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Andra Bolotin

Executive Vice President, Chief Financial Officer, and Principal Financial Officer



**CERTIFICATION****Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002****(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Great-West Life & Annuity Insurance Company, a Colorado corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 (the "Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 9, 2017

/s/ Robert L. Reynolds

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Robert L. Reynolds

President and Chief Executive Officer

Dated: November 9, 2017

/s/ Andra Bolotin

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Andra Bolotin

Executive Vice President, Chief Financial Officer, and Principal Financial Officer

The foregoing certification is being furnished solely pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code) and is not being filed as part of the Form 10-Q or as a separate disclosure document.