QUARTERLY STATEMENT

OF THE

Athene Annuity and Life Company

TO THE

Insurance Department

OF THE

STATE OF

FOR THE QUARTER ENDED
MARCH 31, 2017

LIFE AND ACCIDENT AND HEALTH

2017

ASSETS

		Current Statement Date			4
		1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	December 31 Prior Year Net Admitted Assets
1.	Bonds	37,575,918,326		37,575,918,326	36,780,192,740
2.	Stocks:				
	2.1 Preferred stocks	59,708,225		59,708,225	59,708,225
	2.2 Common stocks	372,145,886		372,145,886	384,427,228
3.	Mortgage loans on real estate:				
	3.1 First liens	3,729,781,674		3,729,781,674	3,774,870,132
	3.2 Other than first liens	593,484,462		593,484,462	604,833,424
4.	Real estate:				
	4.1 Properties occupied by the company (less $ encumbrances)				
	4.2 Properties held for the production of income (less $ encumbrances)	9,388,542		9,388,542	9,388,542
	4.3 Properties held for sale (less $ encumbrances)	6,239,912		6,239,912	7,723,663
5.	Cash ($ 42,126,580), cash equivalents ($ 0) and short-term investments ($ 1,891,324,144)	1,933,450,724		1,933,450,724	1,727,917,471
6.	Contract loans (including $ premium notes)	224,736,382		224,736,382	232,860,992
7.	Derivatives	527,391,252		527,391,252	513,693,447
8.	Other invested assets	1,512,425,558	73,364	1,512,352,194	1,279,430,679
9.	Receivables for securities	22,799,369		22,799,369	15,044,035
10.	Securities lending reinvested collateral assets				
11.	Aggregate write-ins for invested assets	32,895,944		32,895,944	36,168,114
12.	Subtotals, cash and invested assets (Lines 1 to 11)	46,600,366,256	73,364	46,600,292,892	45,426,258,690
13.	Title plants less $ charged off (for Title insurers only)				
14.	Investment income due and accrued	392,423,732	38,745	392,384,987	372,902,336
15.	Premiums and considerations:				
	15.1 Uncollected premiums and agents' balances in the course of collection	7,734		7,734	5,306
	15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including $ earned but unbilled premiums)	9,404,093		9,404,093	8,985,651
	15.3 Accrued retrospective premiums ($) and contracts subject to redetermination ($)				
16.	Reinsurance:				
	16.1 Amounts recoverable from reinsurers	170,936,856		170,936,856	187,189,338
	16.2 Funds held by or deposited with reinsured companies				
	16.3 Other amounts receivable under reinsurance contracts	1,348,417,439		1,348,417,439	1,504,108,833
17.	Amounts receivable relating to uninsured plans				
18.1	Current federal and foreign income tax recoverable and interest thereon				92,025,857
18.2	Net deferred tax asset	20,139,579	5,468,950	14,670,629	16,870,020
19.	Guaranty funds receivable or on deposit	9,767		9,767	8,582
20.	Electronic data processing equipment and software				
21.	Furniture and equipment, including health care delivery assets ($)				
22.	Net adjustment in assets and liabilities due to foreign exchange rates				
23.	Receivables from parent, subsidiaries and affiliates	2,662,443		2,662,443	2,963,673
24.	Health care ($) and other amounts receivable	5,200,479	5,200,479		
25.	Aggregate write-ins for other than invested assets	340,765,319	1,842,783	338,922,536	332,624,415
26.	Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25)	48,890,333,695	12,624,321	48,877,709,374	47,943,942,700
27.	From Separate Accounts, Segregated Accounts and Protected Cell Accounts	40,992,394		40,992,394	40,721,571
28.	Total (Lines 26 and 27)	48,931,326,089	12,624,321	48,918,701,768	47,984,664,271
	DETAILS OF WRITE-INS				
1101.	Derivative Collateral Asset	32,895,944		32,895,944	36,168,114
1102.					
1103.					
1198.	Summary of remaining write-ins for Line 11 from overflow page				
1199.	Totals (Lines 1101 through 1103 plus 1198)(Line 11 above)	32,895,944		32,895,944	36,168,114
2501.	Corporate Owned Life Insurance (COLI)	333,260,637		333,260,637	327,056,842
2502.	Miscellaneous Assets	6,854,669	1,192,770	5,661,899	5,567,573
2503.	Prepaid Expenses	650,013	650,013		
2598.	Summary of remaining write-ins for Line 25 from overflow page				
2599.	Totals (Lines 2501 through 2503 plus 2598)(Line 25 above)	340,765,319	1,842,783	338,922,536	332,624,415

LIABILITIES, SURPLUS AND OTHER FUNDS

	1 Current Statement Date	2 December 31 Prior Year
1. Aggregate reserve for life contracts $ 40,228,253,056 less $ .... included in Line 6.3 (including $ 32,199,230,584 Modco Reserve)	40,228,253,056	39,552,826,684
2. Aggregate reserve for accident and health contracts (including $ 3,478,464 Modco Reserve)	5,848,279	6,002,064
3. Liability for deposit-type contracts (including $ 458,702,228 Modco Reserve)	570,905,939	620,596,467
4. Contract claims:		
4.1 Life	236,896,486	185,683,677
4.2 Accident and health	14,911	18,486
5. Policyholders' dividends $ .... and coupons $ .... due and unpaid		
6. Provision for policyholders' dividends and coupons payable in following calendar year - estimated amounts:		
6.1 Dividends apportioned for payment (including $ .... Modco)		
6.2 Dividends not yet apportioned (including $ .... Modco)		
6.3 Coupons and similar benefits (including $ .... Modco)		
7. Amount provisionally held for deferred dividend policies not included in Line 6		
8. Premiums and annuity considerations for life and accident and health contracts received in advance less $ .... discount; including $ 6,006 accident and health premiums	6,006	6,015
9. Contract liabilities not included elsewhere:		
9.1 Surrender values on canceled contracts		
9.2 Provision for experience rating refunds, including the liability of $ .... accident and health experience rating refunds of which $ .... is for medical loss ratio rebate per the Public Health Service Act		
9.3 Other amounts payable on reinsurance, including $ .... assumed and $ 2,028,140,800 ceded	2,028,140,800	2,192,286,994
9.4 Interest Maintenance Reserve	119,587,863	118,021,468
10. Commissions to agents due or accrued-life and annuity contracts $ 6,763,358 , accident and health $ .... and deposit-type contract funds $	6,763,358	10,383,028
11. Commissions and expense allowances payable on reinsurance assumed		
12. General expenses due or accrued	9,215,432	9,587,185
13. Transfers to Separate Accounts due or accrued (net) (including $ (127) accrued for expense allowances recognized in reserves, net of reinsured allowances)	552,057,085	738,264,515
14. Taxes, licenses and fees due or accrued, excluding federal income taxes	9,402,270	9,767,340
15.1 Current federal and foreign income taxes, including $ .... on realized capital gains (losses)		
15.2 Net deferred tax liability		
16. Unearned investment income	3,507,375	3,522,534
17. Amounts withheld or retained by company as agent or trustee	2,212,779	2,381,598
18. Amounts held for agents' account, including $ 2,159,247 agents' credit balances	2,159,247	2,501,079
19. Remittances and items not allocated	137,730,611	96,552,990
20. Net adjustment in assets and liabilities due to foreign exchange rates		
21. Liability for benefits for employees and agents if not included above	43,273,798	44,337,726
22. Borrowed money $ .... and interest thereon $		
23. Dividends to stockholders declared and unpaid		
24. Miscellaneous liabilities:		
24.01 Asset valuation reserve	496,109,709	473,944,678
24.02 Reinsurance in unauthorized and certified ($ ....) companies		
24.03 Funds held under reinsurance treaties with unauthorized and certified ($ ....) reinsurers	1,474,227,881	1,492,046,322
24.04 Payable to parent, subsidiaries and affiliates	16,224,783	11,207,156
24.05 Drafts outstanding		
24.06 Liability for amounts held under uninsured plans		
24.07 Funds held under coinsurance		
24.08 Derivatives	8,383,971	2,494,301
24.09 Payable for securities	285,786,504	24,171,446
24.10 Payable for securities lending		
24.11 Capital notes $ .... and interest thereon $		
25. Aggregate write-ins for liabilities	1,666,671,275	1,374,426,761
26. Total liabilities excluding Separate Accounts business (Lines 1 to 25)	47,903,379,416	46,971,030,518
27. From Separate Accounts Statement	(99,768,404)	(99,705,289)
28. Total liabilities (Lines 26 and 27)	47,803,611,012	46,871,325,228
29. Common capital stock	10,000,000	10,000,000
30. Preferred capital stock		
31. Aggregate write-ins for other than special surplus funds		
32. Surplus notes		
33. Gross paid in and contributed surplus	916,346,703	2,412,648,926
34. Aggregate write-ins for special surplus funds		
35. Unassigned funds (surplus)	188,744,054	(1,309,309,884)
36. Less treasury stock, at cost:		
36.1 .... shares common (value included in Line 29 $ ....)		
36.2 .... shares preferred (value included in Line 30 $ ....)		
37. Surplus (Total Lines 31+32+33+34+35-36) (including $ 140,760,798 in Separate Accounts Statement)	1,105,090,756	1,103,339,043
38. Totals of Lines 29, 30 and 37	1,115,090,756	1,113,339,043
39. Totals of Lines 28 and 38 (Page 2, Line 28, Col. 3)	48,918,701,768	47,984,664,271
DETAILS OF WRITE-INS		
2501. Derivative Collateral Liability	1,606,190,072	1,319,432,451
2502. Unclaimed Funds	24,049,695	21,145,602
2503. Payable to Third Party Administrator	21,490,801	20,778,145
2598. Summary of remaining write-ins for Line 25 from overflow page	14,940,707	13,070,563
2599. Totals (Lines 2501 through 2503 plus 2598)(Line 25 above)	1,666,671,275	1,374,426,761
3101.		
3102.		
3103.		
3198. Summary of remaining write-ins for Line 31 from overflow page		
3199. Totals (Lines 3101 through 3103 plus 3198)(Line 31 above)		
3401.		
3402.		
3403.		
3498. Summary of remaining write-ins for Line 34 from overflow page		
3499. Totals (Lines 3401 through 3403 plus 3498)(Line 34 above)		

SUMMARY OF OPERATIONS

		1 Current Year To Date	2 Prior Year To Date	3 Prior Year Ended December 31
1.	Premiums and annuity considerations for life and accident and health contracts	225,940,694	136,033,054	1,130,998,048
2.	Considerations for supplementary contracts with life contingencies	975,883	790,888	2,886,290
3.	Net investment income	710,704,205	412,912,657	1,910,612,715
4.	Amortization of Interest Maintenance Reserve (IMR)	2,706,156	3,556,801	14,146,888
5.	Separate Accounts net gain from operations excluding unrealized gains or losses	333,939	618,625	2,474,494
6.	Commissions and expense allowances on reinsurance ceded	150,810,624	142,712,119	577,283,732
7.	Reserve adjustments on reinsurance ceded	(29,772,645)	(372,197,101)	872,272,924
8.	Miscellaneous Income:			
	8.1 Income from fees associated with investment management, administration and contract guarantees from Separate Accounts	126,622	121,979	497,981
	8.2 Charges and fees for deposit-type contracts			
	8.3 Aggregate write-ins for miscellaneous income	6,216,279	5,094,638	20,040,363
9.	Totals (Lines 1 to 8.3)	1,068,041,757	329,643,659	4,531,213,434
10.	Death benefits	(1,155,350)	459,860	(319,925)
11.	Matured endowments (excluding guaranteed annual pure endowments)		75,000	
12.	Annuity benefits	50,544,222	78,326,439	186,020,044
13.	Disability benefits and benefits under accident and health contracts	80,501	53,524	337,370
14.	Coupons, guaranteed annual pure endowments and similar benefits			
15.	Surrender benefits and withdrawals for life contracts	126,123,116	104,717,939	438,064,279
16.	Group conversions			
17.	Interest and adjustments on contract or deposit-type contract funds	5,953,246	2,769,105	25,524,133
18.	Payments on supplementary contracts with life contingencies	766,535	1,523,065	5,005,894
19.	Increase in aggregate reserves for life and accident and health contracts	675,272,587	(34,485,756)	2,970,897,956
20.	Totals (Lines 10 to 19)	857,584,856	153,439,176	3,625,529,752
21.	Commissions on premiums, annuity considerations, and deposit-type contract funds (direct business only)	109,149,232	72,508,046	507,912,190
22.	Commissions and expense allowances on reinsurance assumed	71,018	50,218	451,799
23.	General insurance expenses	63,984,081	51,681,606	250,808,734
24.	Insurance taxes, licenses and fees, excluding federal income taxes	12,441,243	10,505,811	44,080,079
25.	Increase in loading on deferred and uncollected premiums		(1,536)	(1,535)
26.	Net transfers to or (from) Separate Accounts net of reinsurance	(1,242,852)	(1,038,056)	(4,060,575)
27.	Aggregate write-ins for deductions	7,756,253	13,118,025	58,236,401
28.	Totals (Lines 20 to 27)	1,049,743,830	300,263,291	4,482,956,845
29.	Net gain from operations before dividends to policyholders and federal income taxes (Line 9 minus Line 28)	18,297,927	29,380,368	48,256,590
30.	Dividends to policyholders	3	(5,209)	141
31.	Net gain from operations after dividends to policyholders and before federal income taxes (Line 29 minus Line 30)	18,297,924	29,385,577	48,256,449
32.	Federal and foreign income taxes incurred (excluding tax on capital gains)	(13,609,690)	(35,784,986)	(101,842,903)
33.	Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses) (Line 31 minus Line 32)	31,907,615	65,170,563	150,099,352
34.	Net realized capital gains (losses) (excluding gains (losses) transferred to the IMR) less capital gains tax of $ 4,969,722 (excluding taxes of $ 8,639,969 transferred to the IMR)	(7,172,851)	583,627	(50,472,542)
35.	Net income (Line 33 plus Line 34)	24,734,764	65,754,191	99,626,810
	CAPITAL AND SURPLUS ACCOUNT			
36.	Capital and surplus, December 31, prior year	1,113,339,043	1,108,932,084	1,108,932,084
37.	Net income (Line 35)	24,734,764	65,754,191	99,626,810
38.	Change in net unrealized capital gains (losses) less capital gains tax of $ 4,636,341	9,498,990	(12,727,154)	85,280,558
39.	Change in net unrealized foreign exchange capital gain (loss)	(5,055,087)	5,248,060	(19,795,056)
40.	Change in net deferred income tax	7,905,900	(18,093,609)	(38,491,265)
41.	Change in nonadmitted assets	(4,547,475)	(3,614,059)	5,497,243
42.	Change in liability for reinsurance in unauthorized and certified companies			
43.	Change in reserve on account of change in valuation basis, (increase) or decrease			
44.	Change in asset valuation reserve	(22,165,031)	(464,508)	(71,443,687)
45.	Change in treasury stock			
46.	Surplus (contributed to) withdrawn from Separate Accounts during period			
47.	Other changes in surplus in Separate Accounts Statement			
48.	Change in surplus notes			
49.	Cumulative effect of changes in accounting principles			
50.	Capital changes:			
	50.1 Paid in			
	50.2 Transferred from surplus (Stock Dividend)			
	50.3 Transferred to surplus			
51.	Surplus adjustment:			
	51.1 Paid in	(1,496,302,224)		13,772,241
	51.2 Transferred to capital (Stock Dividend)			
	51.3 Transferred from capital			
	51.4 Change in surplus as a result of reinsurance	(14,633,765)	(17,019,000)	(41,823,071)
52.	Dividends to stockholders			
53.	Aggregate write-ins for gains and losses in surplus	1,502,315,641	(6,702,338)	(28,216,815)
54.	Net change in capital and surplus for the year (Lines 37 through 53)	1,751,713	12,381,583	4,406,959
55.	Capital and surplus, as of statement date (Lines 36 + 54)	1,115,090,756	1,121,313,667	1,113,339,043
	DETAILS OF WRITE-INS			
08.301.	COLI Income	6,203,794	5,083,376	19,648,018
08.302.	Miscellaneous Income	12,485	11,262	392,345
08.303.				
08.398.	Summary of remaining write-ins for Line 8.3 from overflow page			
08.399.	Totals (Lines 08.301 through 08.303 plus 08.398) (Line 8.3 above)	6,216,279	5,094,638	20,040,363
2701.	Funds Withheld Adjustment - Ceded	19,538,346	19,974,484	90,212,535
2702.	Transfer to IMR - Ceded	(11,417,318)	(5,182,511)	(26,244,093)
2703.	Transfer to IMR - MVA Benefits	(355,788)	(1,667,161)	(5,743,748)
2798.	Summary of remaining write-ins for Line 27 from overflow page	(8,987)	(6,787)	11,707
2799.	Totals (Lines 2701 through 2703 plus 2798)(Line 27 above)	7,756,253	13,118,025	58,236,401
5301.	SSAP 72 Surplus Reset	1,502,315,641		
5302.	Athene Re IV Tax Sharing Agreement		(6,702,338)	(4,295,204)
5303.	Correction of Prior Period Error			(23,921,611)
5398.	Summary of remaining write-ins for Line 53 from overflow page			
5399.	Totals (Lines 5301 through 5303 plus 5398)(Line 53 above)	1,502,315,641	(6,702,338)	(28,216,815)

CASH FLOW

		1 Current Year To Date	2 Prior Year To Date	3 Prior Year Ended December 31
	Cash from Operations			
1.	Premiums collected net of reinsurance	226,867,949	122,558,810	1,111,452,953
2.	Net investment income	653,853,110	334,995,533	1,669,876,168
3.	Miscellaneous income	155,672,918	116,737,257	590,139,216
4.	Total (Lines 1 to 3)	1,036,393,976	574,291,600	3,371,468,337
5.	Benefit and loss related payments	101,116,552	325,663,765	(408,643,434)
6.	Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts	184,964,578	105,022,632	346,490,540
7.	Commissions, expenses paid and aggregate write-ins for deductions	184,577,161	156,804,114	816,972,250
8.	Dividends paid to policyholders	3	(5,209)	141
9.	Federal and foreign income taxes paid (recovered) net of $ 21,202,408 tax on capital gains (losses)	(92,025,856)	(19,766,224)	(36,227,185)
10.	Total (Lines 5 through 9)	378,632,437	567,719,077	718,592,312
11.	Net cash from operations (Line 4 minus Line 10)	657,761,539	6,572,523	2,652,876,025
	Cash from Investments			
12.	Proceeds from investments sold, matured or repaid:			
	12.1 Bonds	1,568,830,972	1,844,568,272	5,856,842,181
	12.2 Stocks	10,976,000	4,740,000	15,440,000
	12.3 Mortgage loans	264,219,208	79,947,955	880,894,717
	12.4 Real estate	2,624,973		744,493
	12.5 Other invested assets	43,791,129	33,606,056	207,907,623
	12.6 Net gains or (losses) on cash, cash equivalents and short-term investments	(21,005)	15,265	2,641,309
	12.7 Miscellaneous proceeds	265,012,516	34,626,853	273,993
	12.8 Total investment proceeds (Lines 12.1 to 12.7)	2,155,433,794	1,997,504,401	6,964,744,316
13.	Cost of investments acquired (long-term only):			
	13.1 Bonds	2,519,519,993	1,277,427,209	8,546,513,085
	13.2 Stocks	2,256,000		16,108,225
	13.3 Mortgage loans	209,639,468	253,826,562	937,882,763
	13.4 Real estate			
	13.5 Other invested assets	125,334,130	51,746,211	260,668,954
	13.6 Miscellaneous applications	22,550,519	37,649,700	93,072,099
	13.7 Total investments acquired (Lines 13.1 to 13.6)	2,879,300,110	1,620,649,682	9,854,245,126
14.	Net increase (or decrease) in contract loans and premium notes	(8,124,610)	16,522,550	18,304,733
15.	Net cash from investments (Line 12.8 minus Line 13.7 and Line 14)	(715,741,706)	360,332,169	(2,907,805,544)
	Cash from Financing and Miscellaneous Sources			
16.	Cash provided (applied):			
	16.1 Surplus notes, capital notes			
	16.2 Capital and paid in surplus, less treasury stock			
	16.3 Borrowed funds			
	16.4 Net deposits on deposit-type contracts and other insurance liabilities	(49,690,528)	(28,960,548)	(114,867,136)
	16.5 Dividends to stockholders			
	16.6 Other cash provided (applied)	313,203,948	(52,463,231)	528,620,775
17.	Net cash from financing and miscellaneous sources (Line 16.1 through Line 16.4 minus Line 16.5 plus Line 16.6)	263,513,420	(81,423,778)	413,753,639
	RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS			
18.	Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17)	205,533,253	285,480,914	158,824,120
19.	Cash, cash equivalents and short-term investments:			
	19.1 Beginning of year	1,727,917,471	1,569,093,351	1,569,093,351
	19.2 End of period (Line 18 plus Line 19.1)	1,933,450,724	1,854,574,264	1,727,917,471

Note: Supplemental disclosures of cash flow information for non-cash transactions:

20.0001.	Capital contribution of stock compensation expense (financing)	6,013,417		13,772,240
20.0002.	Capital contribution of stock compensation expense (investing)	(587,326)		(1,915,124)
20.0003.	Capital contribution of stock compensation expense (operating)	(5,426,091)		(11,857,116)
20.0004.	Reinsurance activity settled in bonds (operating)	83,480,096	43,829,419	192,471,699
20.0005.	Reinsurance activity settled in bonds (investing)	(83,480,096)	(43,829,419)	(192,471,699)
20.0006.	Security exchanges - bond proceeds (investing)	98,657,707	72,067,052	319,662,169
20.0007.	Security exchanges - bonds acquired (investing)	(98,657,707)	(72,067,052)	(319,662,169)
20.0008.	Transfer from Schedule B to Schedule A - proceeds (investing)	2,053,427		3,446,863
20.0009.	Transfer from Schedule B to Schedule A - acquired (investing)	(2,053,427)		(3,446,863)
20.0010.	Transfer from Schedule D to Schedule BA - proceeds (investing)	134,033,354		27,632

Note: Supplemental disclosures of cash flow information for non-cash transactions:

20.0011. Transfer from Schedule D to Schedule BA - acquired (investing)	(134,033,354)		(27,632)
20.0012. Schedule BA distribution (operating)			5,335,374
20.0013. Schedule BA distribution - proceeds (investing)	666,574		19,086,712
20.0014. Schedule BA distribution - acquired (investing)	(666,574)		(24,422,086)

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies and Going Concern

A. Accounting Practices

The accompanying financial statements of **Athene Annuity and Life Company** (the Company) have been prepared in conformity with the accounting practices prescribed or permitted by the National Association of Insurance Commissioners (NAIC) and the State of Iowa.

The Insurance Division, Department of Commerce, of the State of Iowa (the Division) recognizes only statutory accounting practices prescribed or permitted by the State of Iowa for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under the Iowa Insurance Law. The NAIC's *Accounting Practices & Procedures Manual* (NAIC SAP) has been adopted as a component of prescribed or permitted practices by the State of Iowa. The Commissioner of Insurance has the right to permit other specific practices that deviate from prescribed practices.

Among the products issued by the Company are indexed universal life insurance and indexed annuities. These products allow a portion of the premium to earn interest based on certain indices, primarily the Standard & Poor's 500 Composite Stock Price Index. Call options, futures, variance swaps and total return swaps are purchased to hedge the growth in interest credited to the customer as a direct result of increases in the related indices. In 2006, the Commissioner of the Division issued Bulletin 06-01, *Accounting for Derivative Instruments Used to Hedge the Growth in Interest Credited for Index Products*, which prescribes that an insurer may elect to recognize changes in the fair value of derivative instruments purchased to hedge indexed products in the statement of operations. The Company has elected to apply Bulletin 06-01 to its futures, variance swaps and total return swaps, which resulted in a decrease of less than $0.1 million and $0.4 million to the Company's net income for the three months ended March 31, 2017 and for the year ended December 31, 2016, respectively. Application of Bulletin 06-01 does not impact the Company's statutory surplus amounts.

In 2009, the Commissioner of the Division promulgated Iowa Administrative Code (IAC) Section 191-97, *Accounting for Certain Derivative Instruments Used to Hedge the Growth in Interest Credited for Indexed Insurance Products and Accounting for the Indexed Insurance Products Reserve*, which prescribes that an insurer may elect (i) to use an amortized cost method to account for certain derivative instruments, such as call options, purchased to hedge the growth in interest credited to the customer on indexed insurance products and (ii) to utilize an indexed annuity reserve calculation methodology under which call options associated with the current index interest crediting term are valued at zero. The Company has elected to apply IAC Section 191-97 to its over the counter (OTC) call options and reserve liabilities. As a result, the Company's net income decreased by $17.7 million and $31.6 million for the three months ended March 31, 2017 and for the year ended December 31, 2016, respectively, and the Company's statutory surplus decreased by $35.2 million and $17.5 million as of March 31, 2017 and December 31, 2016, respectively.

The NAIC requires annuities issued by life insurance companies on or after January 1, 2015, to use the 2012 Individual Annuity Reserving (IAR) Mortality Table. In 2015, the Division promulgated IAC Section 43.3(5), which set an elective alternative effective date of January 1, 2016 for adoption of the 2012 IAR Mortality Table. The Company chose to use the Annuity 2000 Mortality Table for all annuities issued in 2015, which resulted in an increase of $0.2 million and a decrease of $1.2 million to the Company's net income for the three months ended March 31, 2017 and for the year ended December 31, 2016, respectively. The Company's statutory surplus increased by $1.7 million and $1.5 million as of March 31, 2017 and December 31, 2016, respectively.

The Company received a permitted practice from the Division which allowed the Company to record a surplus reset under SSAP No. 72, *Surplus and Quasi-Reorganizations,* during the quarter ended March 31, 2017. This approval is deemed a permitted practice as it was granted greater than six months following a change of control, which is the criteria outlined in SSAP No. 72. The acquisition of the Company by Athene Holding Ltd (AHL) on October 2, 2013 represented a 100% change of ultimate ownership as well as a substantive change in the operations of the Company. The surplus reset resulted in a reclassification between unassigned surplus and gross paid-in and contributed surplus of $1,502.3 million, which is equal to the negative unassigned surplus balance on October 2, 2013 immediately following the execution of all transactions which occurred as a result of the change in control. This permitted practice has no impact on the Company's net income or total capital and surplus.

A reconciliation of the Company's net income and statutory surplus between practices prescribed by the State of Iowa and NAIC SAP is shown below:

		SSAP #	F/S Page	F/S Line #	March 31, 2017	December 31, 2016
NET INCOME						
(1)	State basis (Page 4, Line 35, Columns 1 & 3)	XXX	XXX	XXX	24,734,764	99,626,810
(2)	State Prescribed Practices that increase/(decrease) NAIC SAP:					
	Derivative Instruments Bulletin 06-01	86	4	38	(30,743)	(359,774)
	Derivative Instruments and Equity Indexed Reserves IAC 191-97	86, 51	2, 3	7, 1	(17,740,284)	(31,642,904)
	2012 IAR Mortality Table for Annuities Issued in 2015 IAC 43.3(5)	51	3	1	216,615	(1,241,736)
(3)	State Permitted Practices that increase/(decrease) NAIC SAP:					
(4)	NAIC SAP (1-2-3=4)	XXX	XXX	XXX	42,289,176	132,871,224
SURPLUS						
(5)	State basis (Page 3, Line 38, Columns 1 & 2)	XXX	XXX	XXX	1,115,090,756	1,113,339,043
(6)	State Prescribed Practices that increase/(decrease) NAIC SAP:					
	Derivative Instruments and Equity Indexed Reserves IAC 191-97	86, 51	2, 3	7, 1	(35,237,580)	(17,497,296)
	2012 IAR Mortality Table for Annuities Issued in 2015 IAC 43.3(5)	51	3	1	1,710,872	1,494,257
(7)	State Permitted Practices that increase/(decrease) NAIC SAP:					
	SSAP No. 72 Surplus Reset	72	3	33, 35	0	0
(8)	NAIC SAP (5-6-7=8)	XXX	XXX	XXX	1,148,617,464	1,129,342,082

B. Use of Estimates in the Preparation of the Financial Statements: No Change

C. Accounting Policy

(1) – (5) No Change

NOTES TO FINANCIAL STATEMENTS

(6) Loan-backed and structured securities are stated at amortized cost or fair market value based on their rating by the NAIC. Changes to estimated cash flows on the securities are accounted for retrospectively for securities that are highly rated at the time of purchase and in which the security cannot be contractually prepaid or settled in such a way that the Company would not recover substantially all of our recorded investment. The prospective method is used for those securities where an other than temporary impairment has been taken, the security is not highly rated at the time of purchase, securities where receipt of all contractual principal cash flows is not expected, or those securities that can be contractually prepaid or settled in such a way that the Company would not recover substantially all of our recorded investment.

(7) – (13) No Change

D. Going Concern

Management's assessment of the relevant conditions through May 12, 2017 do not give rise to substantial doubt of the Company's ability to continue as a going concern.

Note 2. Accounting Changes and Corrections of Errors: NONE

Note 3. Business Combinations and Goodwill: No Change

Note 4. Discontinued Operations: NONE

Note 5. Investments

A. Mortgage Loans, including Mezzanine Real Estate Loans: No Change

B. Debt Restructuring: No Change

C. Reverse Mortgages: NONE

D. Loan-Backed Securities

(1) Prepayment assumptions for loan-backed bonds and structured securities were obtained from broker dealer survey values or internal estimates.

(2) No other-than-temporary impairment was recognized due to the intent to sell or inability or lack of intent to retain the investment for a period of time sufficient to recover the amortized cost basis.

(3) No other-than-temporary impairment was recognized due to the present value of the cash flows expected to be collected being less than the amortized cost basis.

(4) The following table shows the gross unrealized losses and fair values of loan-backed securities, which have not been impaired to fair value, aggregated by length of time that individual securities have been in a continuous unrealized loss position as of March 31, 2017:

a. The aggregate amount of unrealized losses:
1. Less than 12 Months 42,920,602
2. 12 Months or Longer 76,444,159
b. The aggregate related fair value of securities with unrealized losses:
1. Less than 12 Months 1,986,623,209
2. 12 Months or Longer 2,422,913,966

(5) A full analysis of all relevant qualitative considerations was completed in reaching the conclusion that the impairments were not other-than-temporary, including the intent and ability to hold the investment for a period of time sufficient to allow for a recovery in value. Specific events that may influence the operations of the issuer and impaired earnings potential are reviewed in addition to length of time and extent to which the fair value has been less than cost.

E. Repurchase Agreements and/or Securities Lending Transactions: NONE

F. Real Estate

(2) a. During 2017, the Company recognized an impairment on one of its real estate LLCs held for sale as discussed below.

b. The Company recognized an impairment of $0.7 million on AREI (CBP), LLC in accordance with SSAP No. 90, *Impairment or Disposal of Real Estate Investments.* Fair value was determined by a third party.

c. The total impairment is aggregated within Net Realized Capital Gains (Losses) in the Statement of Operations Line 34.

(3) During 2017, the Company sold its AREI (Boyette), LLC real estate held on Schedule A for $2.6 million. A loss of $0.3 million was recognized as a result of the sale. The loss is aggregated within Net Realized Capital Gains (Losses) in the Statement of Operations Line 34.

During 2017, the Company acquired AREI (Norwood), LLC and AREI (US Forest), LLC real estate and classified as held for sale on Schedule A in accordance with SSAP No. 40R, *Real Estate Investments.* In conjunction with the planned sale, the assets are held at the lower of cost or market value and are not depreciated in accordance with SSAP No. 90.

(4) Changes to Plan of Sale: NONE

(5) Retail Land Sales: NONE

(6) Participating Mortgage Loan Features: NONE

G. Investments in Low Income Housing Tax Credits: NONE

H. Restricted Assets: No Change

I. Working Capital Finance Investments: NONE

J. Offsetting and Netting of Assets and Liabilities: NONE

K. Structured Notes: NONE

L. 5* Securities: No Change

NOTES TO FINANCIAL STATEMENTS

Note 6. Joint Ventures, Partnerships and Limited Liability Companies: No Change

Note 7. Investment Income: No Change

Note 8. Derivative Instruments: No Change

Note. 9. Income Taxes: No Change

Note 10. Information Concerning Parent, Subsidiaries, Affiliates and Other Related Parties

A, B, C. Some employees of Athene Employee Services LLC participate in one or more Share Award Agreements (the Agreements) sponsored by AHL, an indirect parent of the Company, for which the Company has no legal obligation. Salary expense of Athene Employee Services LLC is partially allocated to the Company through the Shared Services Agreement. Under SSAP 104R, *Share-Based Payments,* the stock compensation expense associated with the Agreements that would have been allocated to the Company is required to be recorded as a capital contribution to the reporting entity. The Company has allocated the stock compensation expense associated with the Agreements based on the same methodology as the Shared Services Agreement. In accordance with SSAP 104R, the Company incurred expense and recorded a capital contribution under the Agreements totaling $6.0 million and $13.8 million for the three months ended March 31, 2017 and for the year ended December 31, 2016, respectively, which includes amounts contributed by the Company to downstream insurance subsidiaries.

D - N. No Change

Note 11. Debt

A. No Change

B. FHLB Agreements

(1) The Company is a member of the FHLB of Des Moines. Through its membership, the Company has issued funding agreements to the FHLB of Des Moines in exchange for cash resulting in a liability of $422.6 million as of March 31, 2017. The Company uses these funds in an investment spread strategy, consistent with its other investment spread operations. As such, the Company applies SSAP No. 52, *Deposit-Type Contracts,* accounting treatment to these funds, consistent with its other deposit-type contracts. It is not part of the Company's strategy to utilize these funds for operations, and any funds obtained from the FHLB of Des Moines for use in general operations would be accounted for consistent with SSAP No. 15, *Debt and Holding Company Obligations*, as borrowed money. The table below indicates the amount of FHLB of Des Moines stock purchased, collateral pledged, assets and liabilities related to the agreement with FHLB of Des Moines.

The Company must provide appropriate collateral to borrow under the arrangements described above. The borrowing capacity available to the Company under the short-term borrowing arrangement and long-term advances is largely a factor of the Company's ability to post eligible collateral, as well as internal limits such as single-holder exposure limits (10% of the entity's balance sheet liabilities) and NAIC capital requirements.

There were no borrowings outstanding under the short-term federal funds borrowing arrangement as of March 31, 2017 and December 31, 2016. The Company did not incur any interest expense on the short-term federal funds borrowing arrangement for the three months ended March 31, 2017 and for the year ended December 31, 2016. There were no long-term advances outstanding as of March 31, 2017 and December 31, 2016. No collateral has been pledged on these advances for the three months ended March 31, 2017 and for the year ended December 31, 2016. The Company did not incur any interest expense on the long-term advances for the three months ended March 31, 2017 and for the year ended December 31, 2016.

(2) FHLB Capital Stock

a. Aggregate Totals

	1 Total 2+3	2 General Account	3 Separate Accounts
1. Current Year			
(a) Membership Stock - Class A			
(b) Membership Stock - Class B	10,000,000	10,000,000	
(c) Activity Stock	16,904,000	16,904,000	
(d) Excess Stock			
(e) Aggregate Total (a+b+c+d)	26,904,000	26,904,000	
(f) Actual or estimated Borrowing Capacity as Determined by the Insurer	4,200,000,000	XXX	XXX
2. Prior Year-end			
(a) Membership Stock - Class A			
(b) Membership Stock - Class B	10,000,000	10,000,000	
(c) Activity Stock	25,624,000	25,624,000	
(d) Excess Stock			
(e) Aggregate Total (a+b+c+d)	35,624,000	35,624,000	
(f) Actual or estimated Borrowing Capacity as Determined by the Insurer	4,300,000,000	XXX	XXX

11B(2)a1(f) should be equal to or greater than 11B(4)a1(d)
11B(2)a2(f) should be equal to or greater than 11B(4)a2(d)

b. Membership Stock (Class A and B) Eligible and Not Eligible for Redemption

	1	2	Eligible for Redemption			
	Current Year Total (2+3+4+5+6)	Not Eligible for Redemption	3 Less Than 6 Months	4 6 Months to Less Than 1 Year	5 1 to Less Than 3 Years	6 3 to 5 Years
Membership Stock						
1. Class A						
2. Class B	10,000,000	10,000,000				

11B(2)b1 Current Year Total (Column 1) should equal 11B(2)a1(a) Total (Column 1)
11B(2)b2 Current Year Total (Column 1) should equal 11B(2)a1(b) Total (Column 1)

NOTES TO FINANCIAL STATEMENTS

(3) Collateral Pledged to FHLB

a. Amount Pledged as of Reporting Date

	1 Fair Value	2 Carrying Value	3 Aggregate Total Borrowing
1. Current Year Total General and Separate Accounts Total Collateral Pledged (Lines 2+3)	934,607,758	894,843,056	422,600,000
2. Current Year General Account Total Collateral Pledged	934,607,758	894,843,056	10,000,000
3. Current Year Separate Accounts Total Collateral Pledged			412,600,000
4. Prior Year-end Total General and Separate Accounts Total Collateral Pledged	1,006,367,454	984,796,516	640,600,000

11B(3)a1 (Columns 1, 2 and 3) should be equal to or less than 11B(3)b1 (Columns 1, 2 and 3 respectively)
11B(3)a2 (Columns 1, 2 and 3) should be equal to or less than 11B(3)b2 (Columns 1, 2 and 3 respectively)
11B(3)a3 (Columns 1, 2 and 3) should be equal to or less than 11B(3)b3 (Columns 1, 2 and 3 respectively)
11B(3)a4 (Columns 1, 2 and 3) should be equal to or less than 11B(3)b4 (Columns 1, 2 and 3 respectively)

b. Maximum Amount Pledged During Reporting Period

	1 Fair Value	2 Carrying Value	3 Amount Borrowed at Time of Maximum Collateral
1. Current Year Total General and Separate Accounts Maximum Collateral Pledged (Lines 2+3)	1,006,367,454	984,796,516	640,600,000
2. Current Year General Account Maximum Collateral Pledged	1,006,367,454	984,796,516	41,400,000
3. Current Year Separate Accounts Maximum Collateral Pledged			599,200,000
4. Prior Year-end Total General and Separate Accounts Maximum Collateral Pledged	1,362,518,498	1,328,925,984	1,026,600,000

(4) Borrowing from FHLB

a. Amount as of Reporting Date

	1 Total 2+3	2 General Account	3 Separate Accounts	4 Funding Agreements Reserves Established
1. Current Year				
(a) Debt				XXX
(b) Funding Agreements	422,600,000	10,000,000	412,600,000	422,600,000
(c) Other				XXX
(d) Aggregate Total (a+b+c)	422,600,000	10,000,000	412,600,000	422,600,000
2. Prior Year-end				
(a) Debt				XXX
(b) Funding Agreements	640,600,000	41,400,000	599,200,000	640,600,000
(c) Other				XXX
(d) Aggregate Total (a+b+c)	640,600,000	41,400,000	599,200,000	640,600,000

b. Maximum Amount During Reporting Period (Current Year)

	1 Total 2+3	2 General Account	3 Separate Accounts
1. Debt			
2. Funding Agreements	640,600,000	41,400,000	599,200,000
3. Other			
4. Aggregate Total (Lines 1+2+3)	640,600,000	41,400,000	599,200,000

11B(4)b4 (Columns 1, 2 and 3) should be equal to or greater than 11B(4)a1(d) (Columns 1, 2 and 3 respectively)

c. FHLB - Prepayment Obligations

	Does the company have prepayment obligations under the following arrangements (YES/NO)?
1. Debt	NO
2. Funding Agreements	YES
3. Other	NO

Note 12. Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences and Other Postretirement Benefit Plans: No Change

Note 13. Capital and Surplus, Shareholders' Dividend Restrictions and Quasi-Reorganizations

(1) – (11) No Change

(12) - (13) Quasi-reorganization: As discussed in Note 1, during the quarter ended March 31, 2017 the Company has recorded a surplus reset under SSAP No. 72 in the amount of $1,502.3 million, resulting in a reclassification between unassigned surplus and gross paid-in and contributed surplus.

Note 14. Liabilities, Contingencies and Assessments

A. Contingent Commitments: No Change

B. Assessments: No Change

C. Gain Contingencies: NONE

D. Claims Related Extra Contractual Obligation and Bad Faith Losses Stemming from Lawsuits: NONE

E. Joint and Several Liabilities: NONE

NOTES TO FINANCIAL STATEMENTS

F. All Other Contingencies

On June 12, 2015, a putative class action complaint was filed in the United States District Court, Northern District of California, captioned Rachel Silva and Don Hudson, on behalf of Themselves and All Others Similarly Situated v. Aviva PLC, Athene Annuity and Life Company f/k/a Aviva Life and Annuity Company, Athene USA Corporation f/k/a Aviva USA Corporation, AHL, Athene Asset Management, L.P., Apollo Global Management, LLC. The complaint, which is analogous to complaints recently filed against other large insurance companies, primarily alleges that captive reinsurance and other transactions had the effect of misrepresenting the financial condition of the Company. The suit asserts claims of violation of the Racketeer Influenced and Corrupt Organizations Act (RICO) and seeks compensatory damages, trebled, in an amount to be determined. Defendants' motion to transfer the case to the United States District Court for the Southern District of Iowa was granted on March 29, 2016. On May 24, 2016, plaintiff filed an amended complaint removing plaintiff Silva and defendant Aviva plc from the litigation. Defendants filed a motion to dismiss the amended complaint that is fully briefed. On November 14, 2016, the Court stayed consideration of the motion to dismiss pending a ruling from the Eighth Circuit in a case alleging similar claims against another insurance company which will likely affect the disposition of our motion. *See Ludwick v. Harbinger Grp., Inc.*, 161 F. Supp. 3d 769 (W.D. Mo. 2016), *appeal docketed*, No. 16-1561 (8th Cir.). The Company believes that it has meritorious defenses to the claims set forth in the complaint and intends to vigorously defend the litigation and is seeking dismissal of the complaint. In light of the inherent uncertainties involved in the matter aforementioned, reasonably possible losses, if any, cannot be estimated at this time.

On July 27, 2015, a putative class action complaint was filed in the United States District Court, District of Massachusetts against the Company. An amended complaint (Complaint) was filed on December 18, 2015. The Complaint alleges a putative class action on behalf of all purchasers of structured settlement annuities that Aviva or its predecessors delivered to purchasers from April 1, 2003 to the present. The Complaint alleges that the Aviva entities (Aviva London Assignment Corporation, Aviva Life Insurance Company, CGU International Insurance, plc) sold structured settlement annuities to the public on the basis that they were backed by CGU International Insurance, plc, which was alleged as a source of great financial strength. The Complaint further alleges that the Aviva entities used this capital maintenance agreement to enhance the sales volume and raise the price of the annuities. The Complaint claims that, as a result of Aviva's sale to AHL, the capital maintenance agreement terminated. According to the Complaint, no notice was provided to the owners of the structured settlement annuities, and the termination of the capital maintenance agreement creates the breach of contract and other causes of action. On January 22, 2016, Defendants Aviva London Assignment Corporation, Aviva Life Insurance Company, AHL, Athene London Assignment Corporation, and Athene Annuity and Life Company answered the Complaint. Defendant Aviva International Insurance Ltd.'s motion to dismiss for lack of personal jurisdiction was subsequently denied. The parties are currently engaged in discovery. The Company believes the allegations are unfounded and it has meritorious defenses to the claims set forth in the Complaint and intends to vigorously defend the litigation. In light of the inherent uncertainties involved in the matter aforementioned, reasonably possible losses, if any, cannot be estimated at this time.

On April 6, 2016, the U.S. Department of Labor (DOL) issued a new regulation more broadly defining the circumstances under which a person is considered to be a fiduciary by reason of giving investment advice or recommendations to an employee benefit plan or a plan's participants or to individual retirement account (IRA) holders. In addition to releasing the investment advice regulation, the DOL: (1) issued a new prohibited transaction class exemption titled the "Best Interest Contract Exemption" (BICE), to be used in connection with the sale of fixed indexed annuities or variable annuities, and (2) updated the previous prohibited transaction class exemption 84-24, to be used in connection with the sale of traditional fixed rate annuities.

To satisfy the requirements under the BICE on January 1, 2018, a "Financial Institution" (defined under the rule as a registered investment adviser, bank, registered broker-dealer, or insurance company) must, among other things, accept fiduciary responsibility for the recommendations of the producer and, in the case of a retirement investor that is sold an IRA, enter into a contract with the retirement investor. To assist in understanding the regulation, the DOL, on October 27, 2016, issued its first in a series of frequently asked questions followed by its second series released on January 13, 2017, responding to questions submitted by various retirement market participants impacted by the regulation. The frequently asked questions, among other things, clarified that an insurance-only licensed producer can meet the best interest requirements even though he or she is limited to selling insurance products. In addition, the DOL clarified that an insurance carrier that acts as the Financial Institution will only act as such with respect to the sale of that insurance carrier's products. The DOL issued the Proposed Best Interest Contract Exemption for Insurance Intermediaries on January 19, 2017, in an attempt to provide a separate exemption for Insurance Marketing Organizations (IMOs) to act at a Financial Institution for the sale of insurance products. The proposed rule sets forth various requirements, including a minimum annual premium volume requirement and reserve or errors and omissions coverage requirements, limiting the availability of the exemption to only very large IMOs in the industry. As of the date of this publication, a final version of this exemption has not been published.

On February 3, 2017, the President of the United States issued an executive memorandum directing the DOL to examine the fiduciary rule to determine whether the fiduciary rule has harmed or is likely to cause harm to investors by limiting access to certain retirement products or related financial advice, whether the fiduciary rule has resulted in dislocations in the retirement services industry that may adversely affect investors or retirees, or whether the fiduciary rule is likely to cause increased litigation and increased costs for investors and retirees. In direct response to the President's Memorandum, the acting secretary of the DOL stated that the DOL will consider its legal options to delay the applicability date of the rule in order to comply with the Memorandum. The DOL published a final amendment to the rule on April 5, 2017, delaying the April 10, 2017 applicability date to June 9, 2017. In addition to delaying the applicability date, the amendment changed some of the terms of the exemptions. The DOL also issued a second comment deadline requesting comments by April 17, 2017 in response to the three items President Trump requested the DOL review in his February 3, 2017 executive memorandum. We continue to monitor the situation and will move forward in preparation to meet the June 9, 2017 applicability date with the new requirements and full implementation on January 1, 2018, assuming the regulation remains unchanged.

In addition to the cases previously discussed, the Company is routinely involved in litigation and other proceedings, reinsurance claims and regulatory proceedings arising in the ordinary course of its business. At present, no contingencies related to pending litigation and regulatory matters are considered material in relation to the financial position of the Company.

Note 15. Leases: No Change

Note 16. Information about Financial Instruments with Off-Balance Sheet Risk and Financial Instruments with Concentrations of Credit Risk: No Change

Note 17. Sale, Transfer and Servicing of Financial Assets and Extinguishment of Liabilities: NONE

Note 18. Gain or Loss to the Reporting Entity from Uninsured Plans and the Uninsured Portion of Partially Insured Plans: NONE

Note 19. Direct Premium Written/Produced by Managing General Agents/Third Party Administrators: NONE

NOTES TO FINANCIAL STATEMENTS

Note 20. Fair Value Measurement

A.

(1) Fair Value Measurements at Reporting Date

Description for each class of asset or liability	(Level 1)	(Level 2)	(Level 3)	Total
a. Assets at fair value				
Bonds: Corporates		190,138		190,138
Bonds: RMBS		736,983		736,983
Bonds: ABS		2		2
Common stocks: Unaffiliated		26,904,000		26,904,000
Derivative assets: Currency Swaps		4,536,111		4,536,111
Derivative assets: Interest Rate Swaps	53,693	223,508		277,201
Derivative assets: Total Return Swaps		244,491		244,491
Derivative assets: Variance Swaps		548,057		548,057
Derivative assets: Futures	10,156,532			10,156,532
Derivative assets: Forwards		2,226		2,226
Separate account assets: Variable products		36,502,013		36,502,013
Total assets at fair value	10,210,225	69,887,529		80,097,754

Description for each class of asset or liability	(Level 1)	(Level 2)	(Level 3)	Total
b. Liabilities at fair value				
Derivative liabilities: Interest Rate Swaps	67,389	297,968		365,357
Derivative liabilities: Futures	743,536			743,536
Derivative liabilities: Forwards		3,027,188		3,027,188
Separate account liabilities: Variable products		36,502,013		36,502,013
Total liabilities at fair value	810,925	39,827,169		40,638,094

There were no transfers between Level 1 or Level 2 of the fair value hierarchy during the quarter ended March 31, 2017.

(2) Fair Value Measurements in (Level 3) of the Fair Value Hierarchy

Description for each class of asset or liability	Beginning Balance at 01/01/2017	Transfers into Level 3	Transfers out of Level 3	Total gains and (losses) included in Net Income	Total gains and (losses) included in Surplus	Purchases	Issuances	Sales	Settlements	Ending Balance at 03/31/2017
a. Assets										
Bonds: CMBS	461,106		(459,588)	(10,324)	8,806					
Total Assets	461,106		(459,588)	(10,324)	8,806					

Transfers out of Level 3 are represented by NAIC Class 6 securities which are carried at lower of cost or fair value resulting in periodic transfers into and out of Level 3 financial instruments which are characterized as carried at fair value.

(3) Transfers between fair value hierarchy levels are recognized at the end of the period in which the transfer occurs.

(4) The following discussion describes the valuation methodologies and inputs used for assets and liabilities measured and disclosed at fair value. The techniques utilized in estimating the fair values of financial instruments are reliant on the assumptions used.

Fair value estimates are based on quoted market prices when available. When quoted market prices are not available, the Company utilizes commercially available pricing vendors that utilize observable market inputs, like recent trading activity, to derive fair value. When vendor prices are not available, fair value is generally estimated using discounted cash flow analyses, incorporating current market inputs for similar financial instruments with comparable terms and credit quality (matrix pricing). In instances where there is little or no market activity for the same or similar instruments, the Company estimates the fair value using methods, models and assumptions that management believes market participants would use to determine a current transaction price. These valuation techniques involve some level of management estimation and judgment which becomes significant with increasingly complex instruments or pricing models. Where appropriate, adjustments are included to reflect risk inherent in a particular methodology, model or input employed.

The Company's financial assets and liabilities carried at estimated fair value have been classified, for disclosure purposes, based on a hierarchy defined by current accounting guidance. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's or a liability's classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3).

The levels of the fair value hierarchy are as follows:
Level 1 - Unadjusted quoted prices for identical assets or liabilities in an active market.

Level 2 - Quoted prices for inactive markets or valuation techniques that require observable direct or indirect inputs for substantially the full term of the asset or liability.

Level 2 inputs include the following:
1. Quoted prices for similar assets or liabilities in active markets,
2. Observable inputs other than quoted market prices, and
3. Observable inputs derived principally from market data through correlation or other means.

Level 3 - Prices or valuation techniques with unobservable inputs significant to the overall fair value estimate. These valuations use critical assumptions not readily available to market participants. Level 3 valuations are based on market standard valuation methodologies, including discounted cash flows, matrix pricing, or other similar techniques.

Assets and liabilities are valued as discussed below in part C.

B. Other Fair Value Disclosures: NONE

NOTES TO FINANCIAL STATEMENTS

C. Aggregate fair value for all financial instruments and the level within the fair value hierarchy in which the fair value measurements in their entirety fall.

Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	(Level 1)	(Level 2)	(Level 3)	Not Practicable (Carrying Value)
Assets - Bonds	39,073,542,285	37,575,918,326	7,127,877	37,668,395,615	1,398,018,793	
Assets - Preferred stocks	64,793,916	59,708,225		64,793,916		
Assets - Common stocks unaffiliated	26,904,000	26,904,000		26,904,000		
Assets - Mortgage loans - first liens	3,817,773,971	3,729,781,674			3,817,773,971	
Assets - Mortgage loans - other than first liens	597,230,409	593,484,462			597,230,409	
Assets - Policy loans	224,736,382	224,736,382		224,736,382		
Assets - Cash and short - term investments	1,933,445,809	1,933,450,724	1,877,749,095	55,696,714		
Assets - Derivative assets	1,627,892,768	527,391,252	10,697,208	1,617,195,560		
Assets - Derivative collateral assets	32,895,944	32,895,944	32,895,944			
Assets - Other invested assets	1,510,753,740	1,512,352,194		172,565,993	1,338,187,747	
Assets - Separate account: variable products	36,502,013	36,502,013		36,502,013		
Liabilities - Deposit type contracts	595,465,406	570,905,939		10,381,419	585,083,987	
Liabilities - Collateralized borrowings	10,707,280	10,518,599			10,707,280	
Liabilities - Derivative liabilities	16,810,880	8,383,971	810,925	8,904,711	7,095,244	
Liabilities - Derivative collateral liability	1,606,190,072	1,606,190,072	1,606,190,072			
Liabilities - Separate account: variable products	36,502,013	36,502,013		36,502,013		

Bonds and short-term investments – The Company obtains the fair value for most marketable, public bonds without an active market from several commercial pricing services. These are classified as Level 2 assets. The pricing services incorporate a variety of market observable information in their valuation techniques, including benchmark yields, broker-dealer quotes, credit quality, issuer spreads, bids, offers, and other reference data. If the Company cannot value a public bond with a commercial pricing vendor, the Company obtains broker quotes (or utilizes an internally-developed model) and these securities are considered to be Level 3. The Company values privately placed bonds based on the credit quality and duration of comparable marketable securities, which may be securities of another issuer. In some instances, the Company uses a matrix-based pricing model. These models consider the current level of risk-free interest rates, corporate spreads, credit quality of the issuer, and cash flow characteristics of the security. Privately placed fixed maturity securities are classified as Level 2 or 3.

Preferred stocks and common stocks unaffiliated – The Company values equity securities, typically private equity or equity securities not traded on an exchange, using several commercial pricing services and are classified as Level 2 assets. In addition, unaffiliated common stocks include FHLB stock, which is carried at fair value which is presumed to be par because it can only be redeemed by the bank.

Mortgage loans – The Company estimates mortgage loans on a monthly basis using discounted cash flow analysis and rates being offered for similar loans to borrowers with similar credit ratings. Loans with similar characteristics are aggregated for purposes of the calculations. The discounted cash flow model uses unobservable inputs, including estimates of discount rates and loan prepayments. Mortgage loans are classified as Level 3.

Policy loans – The fair value of policy loans classified as Level 2 is equal to the carrying value of the loans, which are collateralized by the cash surrender value of the associated insurance contracts.

Derivatives – Derivative contracts can be exchange traded or over-the-counter. Over-the-counter derivatives are valued using valuation models or an income approach using third-party broker valuations. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, measures of volatility, prepayment rates, and correlation of the inputs. The Company considers and incorporates counterparty credit risk in the valuation process through counterparty credit rating requirements and monitoring of overall exposure. The Company also evaluates and includes its own nonperformance risk in valuing derivatives. The majority of the Company's derivatives trade in liquid markets; therefore, the Company can verify model inputs and model selection does not involve significant management judgment and are classified within Level 2. If the Company cannot verify model inputs and model selection does involve significant management judgment, the derivatives are classified as Level 3.

Other invested assets – Within other invested assets, partnerships are valued based on net asset value information provided by the general partner or related asset manager. These partnership interests usually include multiple underlying investments for which either observable market prices or other valuation methods are used to determine the fair value. The investments are classified as Level 3 due to the limited market activity and price transparency inherent in the market for such investments. Other than partnerships, other invested assets may include surplus notes and other investments with bond or stock characteristics and the Company values these using several commercial pricing services and are classified as Level 2 assets. If the Company cannot value with a commercial pricing vendor, the Company obtains broker quotes (or utilizes an internally-developed model) and are considered to be Level 3 assets.

Deposit-type contracts – Deposit-type contracts classified as Level 3 include single premium immediate annuities (SPIA) and supplemental contracts. Fair value of SPIA and supplemental contracts are calculated by discounting best estimate cash flows based on mortality and market interest rate assumptions. Fair value of guaranteed investment contracts/funding agreements are calculated by discounting future cash flows using market rates on the valuation date, and are classified as Level 2.

Collateralized borrowings – The Company estimates collateralized borrowings using discounted cash flow analysis and rates being offered for similar collateral to borrowers with similar credit ratings. The discounted cash flow model uses unobservable inputs, including estimates of discount rates and prepayments. Collateralized borrowings are classified as Level 3.

Separate account assets and liabilities (variable products) – Separate account assets and liabilities classified as Level 2 are valued based on the fair value of the underlying funds. Fair values and changes in the fair values of the underlying funds accrue directly to the policy owners and are not included in the Company's revenues and expenses or surplus.

D. Not Practicable to Estimate Fair Value: NONE

Note 21. Other Items

A. Extraordinary Items: NONE

B. Troubled Debt Restructuring: NONE

C. Other Disclosures and Unusual Items

On February 11, 2017, the Company novated 5,992 life policies with statutory policy reserves of $117.7 million to Accordia Life and Annuity Company (Accordia). These policies were previously 100% ceded to Accordia through a coinsurance agreement entered into in 2013, and therefore the novation had no impact on the Company's income or capital and surplus position.

D. Business Interruption Insurance Recoveries: NONE

E. State Transferable and Non-transferable Tax Credits: No Change

NOTES TO FINANCIAL STATEMENTS

F. Subprime-Mortgage-Related Risk Exposure: No Change

G. Retained Assets: NONE

H. Insurance-Linked Securities (ILS) Contracts: NONE

Note 22. Events Subsequent

Subsequent events have been considered through May 12, 2017 for the statutory statement dated March 31, 2017. There have been no Type I or Type II events subsequent to the close of the books and accounts for this statement that have a material effect on the financial condition of the Company.

Note 23. Reinsurance: No Change

Note 24. Retrospectively Rated Contracts & Contracts Subject to Redetermination: NONE

Note 25. Change in Incurred Losses and Loss Adjustment Expenses: NONE

Note 26. Intercompany Pooling Arrangements: NONE

Note 27. Structured Settlements: NONE

Note 28. Health Care Receivables: NONE

Note 29. Participating Policies: No Change

Note 30. Premium Deficiency Reserves: NONE

Note 31. Reserves for Life Contracts and Annuity Contracts: No Change

Note 32. Analysis of Annuity Actuarial Reserves and Deposit Type Liabilities by Withdrawal Characteristics: No Change

Note 33. Premium and Annuity Considerations Deferred and Uncollected: No Change

Note 34. Separate Accounts: No Change

Note 35. Loss/Claim Adjustment Expenses: NONE