# QUARTERLY STATEMENT

OF THE

Athene Annuity & Life Assurance 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 1 Assets | 2 Nonadmitted Assets | 3 Net Admitted Assets (Cols. 1 - 2) | 4 December 31 Prior Year Net Admitted Assets |
|---|---|---|---|---|
| 1. Bonds | 4,119,326,719 | | 4,119,326,719 | 3,653,400,217 |
| 2. Stocks: | | | | |
| 2.1 Preferred stocks | 28,000,000 | | 28,000,000 | 18,000,000 |
| 2.2 Common stocks | 1,257,007,744 | 37,979 | 1,256,969,766 | 1,252,093,540 |
| 3. Mortgage loans on real estate: | | | | |
| 3.1 First liens | 163,271,098 | | 163,271,098 | 114,399,212 |
| 3.2 Other than first liens | 718,172,261 | | 718,172,261 | 718,503,500 |
| 4. Real estate: | | | | |
| 4.1 Properties occupied by the company (less $ encumbrances) | | | | |
| 4.2 Properties held for the production of income (less $ encumbrances) | | | | |
| 4.3 Properties held for sale (less $ encumbrances) | | | | |
| 5. Cash ($ 43,488,235 ), cash equivalents ($ 0 ) and short-term investments ($ 236,385,419 ) | 279,873,654 | | 279,873,654 | 258,604,577 |
| 6. Contract loans (including $ premium notes) | 1,436,723 | | 1,436,723 | 1,514,265 |
| 7. Derivatives | 72,064,236 | | 72,064,236 | 65,123,488 |
| 8. Other invested assets | 1,051,907,497 | | 1,051,907,497 | 1,051,831,441 |
| 9. Receivables for securities | 2,624,799 | | 2,624,799 | 2,563,651 |
| 10. Securities lending reinvested collateral assets | | | | |
| 11. Aggregate write-ins for invested assets | 95,813 | | 95,813 | |
| 12. Subtotals, cash and invested assets (Lines 1 to 11) | 7,693,780,545 | 37,979 | 7,693,742,566 | 7,136,033,891 |
| 13. Title plants less $ charged off (for Title insurers only) | | | | |
| 14. Investment income due and accrued | 42,201,284 | 6,081 | 42,195,203 | 36,153,920 |
| 15. Premiums and considerations: | | | | |
| 15.1 Uncollected premiums and agents' balances in the course of collection | | | | |
| 15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including $ earned but unbilled premiums) | | | | |
| 15.3 Accrued retrospective premiums ($ ) and contracts subject to redetermination ($ ) | | | | |
| 16. Reinsurance: | | | | |
| 16.1 Amounts recoverable from reinsurers | 58,037,215 | | 58,037,215 | 54,402,771 |
| 16.2 Funds held by or deposited with reinsured companies | 2,725,789,137 | | 2,725,789,137 | 2,740,263,425 |
| 16.3 Other amounts receivable under reinsurance contracts | 360,829,493 | | 360,829,493 | 333,927,477 |
| 17. Amounts receivable relating to uninsured plans | | | | |
| 18.1 Current federal and foreign income tax recoverable and interest thereon | | | | 17,839,713 |
| 18.2 Net deferred tax asset | 20,339,385 | | 20,339,385 | 17,983,656 |
| 19. Guaranty funds receivable or on deposit | 502,992 | | 502,992 | 629,859 |
| 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 | 163,769 | | 163,769 | 63,395 |
| 24. Health care ($ ) and other amounts receivable | 30,757 | 30,757 | | |
| 25. Aggregate write-ins for other than invested assets | 612,258 | 568,414 | 43,844 | 36,452 |
| 26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25) | 10,902,286,834 | 643,231 | 10,901,643,603 | 10,337,334,556 |
| 27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts | 13,821,072 | | 13,821,072 | 13,321,980 |
| 28. Total (Lines 26 and 27) | 10,916,107,906 | 643,231 | 10,915,464,675 | 10,350,656,536 |
| **DETAILS OF WRITE-INS** | | | | |
| 1101. Derivative collateral asset | 95,813 | | 95,813 | |
| 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) | 95,813 | | 95,813 | |
| 2501. Miscellaneous assets | 612,258 | 568,414 | 43,844 | 36,452 |
| 2502. | | | | |
| 2503. | | | | |
| 2598. Summary of remaining write-ins for Line 25 from overflow page | | | | |
| 2599. Totals (Lines 2501 through 2503 plus 2598)(Line 25 above) | 612,258 | 568,414 | 43,844 | 36,452 |

# LIABILITIES, SURPLUS AND OTHER FUNDS

| | 1<br>Current<br>Statement Date | 2<br>December 31<br>Prior Year |
|---|---|---|
| 1. Aggregate reserve for life contracts $ 7,543,574,760 less $ included in Line 6.3 (including $ 6,060,760,030 Modco Reserve) | 7,543,574,760 | 7,682,503,285 |
| 2. Aggregate reserve for accident and health contracts (including $ Modco Reserve) | | |
| 3. Liability for deposit-type contracts (including $ 1,105,952,403 Modco Reserve) | 1,168,406,866 | 514,036,733 |
| 4. Contract claims: | | |
| 4.1 Life | 23,391,023 | 20,794,678 |
| 4.2 Accident and health | | |
| 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) | 44,598 | 44,598 |
| 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 $ accident and health premiums | | |
| 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 $ 5,287,480 assumed and $ 476,417,430 ceded | 481,704,910 | 481,165,863 |
| 9.4 Interest Maintenance Reserve | 61,872,694 | 62,126,460 |
| 10. Commissions to agents due or accrued-life and annuity contracts $ 317,212 , accident and health $ 440,394 and deposit-type contract funds $ | 757,606 | 930,740 |
| 11. Commissions and expense allowances payable on reinsurance assumed | 11,843,795 | 11,719,538 |
| 12. General expenses due or accrued | 2,233,158 | 1,525,600 |
| 13. Transfers to Separate Accounts due or accrued (net) (including $ (2,557) accrued for expense allowances recognized in reserves, net of reinsured allowances) | (2,557) | (3,763) |
| 14. Taxes, licenses and fees due or accrued, excluding federal income taxes | 2,918,143 | 2,863,139 |
| 15.1 Current federal and foreign income taxes, including $ on realized capital gains (losses) | 5,615,925 | |
| 15.2 Net deferred tax liability | | |
| 16. Unearned investment income | 68,486 | 71,222 |
| 17. Amounts withheld or retained by company as agent or trustee | 101,755 | 96,710 |
| 18. Amounts held for agents' account, including $ agents' credit balances | | |
| 19. Remittances and items not allocated | 3,586,720 | 4,295,692 |
| 20. Net adjustment in assets and liabilities due to foreign exchange rates | | |
| 21. Liability for benefits for employees and agents if not included above | | |
| 22. Borrowed money $ and interest thereon $ | | |
| 23. Dividends to stockholders declared and unpaid | | |
| 24. Miscellaneous liabilities: | | |
| 24.01 Asset valuation reserve | 207,401,555 | 194,825,696 |
| 24.02 Reinsurance in unauthorized and certified ($ ) companies | | |
| 24.03 Funds held under reinsurance treaties with unauthorized and certified ($ ) reinsurers | | |
| 24.04 Payable to parent, subsidiaries and affiliates | 8,422,804 | 7,107,423 |
| 24.05 Drafts outstanding | | |
| 24.06 Liability for amounts held under uninsured plans | | |
| 24.07 Funds held under coinsurance | | |
| 24.08 Derivatives | 2,577,160 | 127,249 |
| 24.09 Payable for securities | 3,344,205 | 8,768 |
| 24.10 Payable for securities lending | | |
| 24.11 Capital notes $ and interest thereon $ | | |
| 25. Aggregate write-ins for liabilities | 98,877,023 | 80,674,966 |
| 26. Total liabilities excluding Separate Accounts business (Lines 1 to 25) | 9,626,740,629 | 9,064,914,599 |
| 27. From Separate Accounts Statement | 13,821,072 | 13,321,980 |
| 28. Total liabilities (Lines 26 and 27) | 9,640,561,701 | 9,078,236,580 |
| 29. Common capital stock | 2,500,000 | 2,500,000 |
| 30. Preferred capital stock | | |
| 31. Aggregate write-ins for other than special surplus funds | | |
| 32. Surplus notes | | |
| 33. Gross paid in and contributed surplus | 972,382,675 | 964,949,943 |
| 34. Aggregate write-ins for special surplus funds | | |
| 35. Unassigned funds (surplus) | 300,020,299 | 304,970,014 |
| 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 $ in Separate Accounts Statement) | 1,272,402,974 | 1,269,919,957 |
| 38. Totals of Lines 29, 30 and 37 | 1,274,902,974 | 1,272,419,957 |
| 39. Totals of Lines 28 and 38 (Page 2, Line 28, Col. 3) | 10,915,464,675 | 10,350,656,536 |
| **DETAILS OF WRITE-INS** | | |
| 2501. Derivative collateral liability | 74,406,056 | 57,324,114 |
| 2502. Unclaimed funds | 20,937,343 | 19,794,279 |
| 2503. Collateralized borrowing | 3,506,200 | 3,527,449 |
| 2598. Summary of remaining write-ins for Line 25 from overflow page | 27,424 | 29,124 |
| 2599. Totals (Lines 2501 through 2503 plus 2598)(Line 25 above) | 98,877,023 | 80,674,966 |
| 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<br>Current Year<br>To Date | 2<br>Prior Year<br>To Date | 3<br>Prior Year Ended<br>December 31 |
|---|---|---|---|---|
| 1. | Premiums and annuity considerations for life and accident and health contracts | 1,059,035 | 4,709,416 | 24,268,836 |
| 2. | Considerations for supplementary contracts with life contingencies | 54,845 | 227,938 | 513,619 |
| 3. | Net investment income | 83,578,499 | 99,713,199 | 349,513,512 |
| 4. | Amortization of Interest Maintenance Reserve (IMR) | 2,090,469 | 1,552,612 | 3,043,577 |
| 5. | Separate Accounts net gain from operations excluding unrealized gains or losses | | | |
| 6. | Commissions and expense allowances on reinsurance ceded | 10,729,743 | 15,048,250 | 71,142,850 |
| 7. | Reserve adjustments on reinsurance ceded | (234,062,739) | (229,418,506) | (700,083,721) |
| 8. | Miscellaneous Income: | | | |
| | 8.1 Income from fees associated with investment management, administration and contract guarantees from Separate Accounts | 143,751 | 151,609 | 524,654 |
| | 8.2 Charges and fees for deposit-type contracts | | | |
| | 8.3 Aggregate write-ins for miscellaneous income | 50,344,366 | 40,635,637 | 149,880,273 |
| 9. | Totals (Lines 1 to 8.3) | (86,062,031) | (67,379,844) | (101,196,401) |
| 10. | Death benefits | 15,111 | 338,442 | 729,955 |
| 11. | Matured endowments (excluding guaranteed annual pure endowments) | | | 83 |
| 12. | Annuity benefits | 14,021,774 | 15,030,860 | 53,878,367 |
| 13. | Disability benefits and benefits under accident and health contracts | | | |
| 14. | Coupons, guaranteed annual pure endowments and similar benefits | | | |
| 15. | Surrender benefits and withdrawals for life contracts | 29,429,809 | 30,553,421 | 115,935,972 |
| 16. | Group conversions | | | |
| 17. | Interest and adjustments on contract or deposit-type contract funds | 11,173,054 | 7,591,969 | 30,859,194 |
| 18. | Payments on supplementary contracts with life contingencies | 172,364 | 62,067 | 474,967 |
| 19. | Increase in aggregate reserves for life and accident and health contracts | (138,928,525) | (153,084,681) | (442,699,109) |
| 20. | Totals (Lines 10 to 19) | (84,116,412) | (99,507,921) | (240,820,570) |
| 21. | Commissions on premiums, annuity considerations, and deposit-type contract funds (direct business only) | 851,670 | 2,551,242 | 9,631,128 |
| 22. | Commissions and expense allowances on reinsurance assumed | 2,727,228 | 3,465,132 | 16,840,720 |
| 23. | General insurance expenses | 9,294,134 | 5,320,679 | 23,982,734 |
| 24. | Insurance taxes, licenses and fees, excluding federal income taxes | 3,147,797 | 2,914,247 | 11,717,249 |
| 25. | Increase in loading on deferred and uncollected premiums | | | |
| 26. | Net transfers to or (from) Separate Accounts net of reinsurance | (66,734) | (124,826) | (432,697) |
| 27. | Aggregate write-ins for deductions | (10,070,116) | 5,141,007 | 10,624,016 |
| 28. | Totals (Lines 20 to 27) | (78,232,433) | (80,240,441) | (168,457,420) |
| 29. | Net gain from operations before dividends to policyholders and federal income taxes (Line 9 minus Line 28) | (7,829,598) | 12,860,597 | 67,261,020 |
| 30. | Dividends to policyholders | 8,363 | 1,311 | 33,225 |
| 31. | Net gain from operations after dividends to policyholders and before federal income taxes (Line 29 minus Line 30) | (7,837,960) | 12,859,286 | 67,227,795 |
| 32. | Federal and foreign income taxes incurred (excluding tax on capital gains) | 2,104,297 | 5,202,321 | (53,536,160) |
| 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) | (9,942,257) | 7,656,965 | 120,763,955 |
| 34. | Net realized capital gains (losses) (excluding gains (losses) transferred to the IMR) less capital gains tax of $ (8,207,096) (excluding taxes of $ 6,411,443 transferred to the IMR) | 10,838,661 | (6,039,553) | (49,415,938) |
| 35. | Net income (Line 33 plus Line 34) | 896,403 | 1,617,412 | 71,348,016 |
| | **CAPITAL AND SURPLUS ACCOUNT** | | | |
| 36. | Capital and surplus, December 31, prior year | 1,272,419,957 | 1,250,769,129 | 1,250,769,129 |
| 37. | Net income (Line 35) | 896,403 | 1,617,412 | 71,348,016 |
| 38. | Change in net unrealized capital gains (losses) less capital gains tax of $ 5,819,364 | 8,922,307 | (14,123,210) | 31,546,722 |
| 39. | Change in net unrealized foreign exchange capital gain (loss) | (4,159,103) | 7,304,083 | 16,041,902 |
| 40. | Change in net deferred income tax | 8,175,093 | 4,363,695 | 3,071,670 |
| 41. | Change in nonadmitted assets | (107,366) | 38,308 | 1,152,975 |
| 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 | (12,575,859) | (9,380,235) | (59,039,774) |
| 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 | 7,432,732 | | 17,217,152 |
| | 51.2 Transferred to capital (Stock Dividend) | | | |
| | 51.3 Transferred from capital | | | |
| | 51.4 Change in surplus as a result of reinsurance | 115,160 | 33,154,089 | (44,189,271) |
| 52. | Dividends to stockholders | | | |
| 53. | Aggregate write-ins for gains and losses in surplus | (6,216,349) | (8,553,078) | (15,498,564) |
| 54. | Net change in capital and surplus for the year (Lines 37 through 53) | 2,483,017 | 14,421,062 | 21,650,828 |
| 55. | Capital and surplus, as of statement date (Lines 36 + 54) | 1,274,902,974 | 1,265,190,191 | 1,272,419,957 |
| | **DETAILS OF WRITE-INS** | | | |
| 08.301. | Funds withheld adjustment - assumed | 50,314,914 | 40,585,461 | 141,524,098 |
| 08.302. | Miscellaneous income | 29,452 | 50,175 | 8,356,175 |
| 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) | 50,344,366 | 40,635,637 | 149,880,273 |
| 2701. | Transfer to IMR - ceded | (11,728,232) | 4,585,123 | 9,122,890 |
| 2702. | Transfer to IMR - assumed | 1,675,429 | 915,591 | 3,454,112 |
| 2703. | Transfer to IMR - MVA benefits | (17,463) | (360,289) | (1,955,825) |
| 2798. | Summary of remaining write-ins for Line 27 from overflow page | 150 | 582 | 2,839 |
| 2799. | Totals (Lines 2701 through 2703 plus 2798)(Line 27 above) | (10,070,116) | 5,141,007 | 10,624,016 |
| 5301. | Correction of prior period error | | (8,553,078) | (9,982,796) |
| 5302. | Tax sharing agreement | (6,216,349) | | (5,515,768) |
| 5303. | | | | |
| 5398. | Summary of remaining write-ins for Line 53 from overflow page | | | |
| 5399. | Totals (Lines 5301 through 5303 plus 5398)(Line 53 above) | (6,216,349) | (8,553,078) | (15,498,564) |

# CASH FLOW

| | 1<br>Current Year<br>To Date | 2<br>Prior Year<br>To Date | 3<br>Prior Year Ended<br>December 31 |
|---|---|---|---|
| **Cash from Operations** | | | |
| 1. Premiums collected net of reinsurance | 1,113,880 | 4,937,355 | 24,782,455 |
| 2. Net investment income | 70,205,236 | 76,543,472 | 295,291,930 |
| 3. Miscellaneous income | 10,193,791 | 11,428,920 | 58,601,231 |
| 4. Total (Lines 1 to 3) | 81,512,907 | 92,909,747 | 378,675,615 |
| 5. Benefit and loss related payments | 252,116,653 | 191,072,478 | 767,553,382 |
| 6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts | (67,940) | (130,669) | (460,320) |
| 7. Commissions, expenses paid and aggregate write-ins for deductions | 13,774,593 | 14,276,057 | 59,049,322 |
| 8. Dividends paid to policyholders | 8,363 | 9,060 | 43,422 |
| 9. Federal and foreign income taxes paid (recovered) net of $ ........ tax on capital gains (losses) | (23,146,994) | (26,948,149) | (22,736,591) |
| 10. Total (Lines 5 through 9) | 242,684,674 | 178,278,777 | 803,449,216 |
| 11. Net cash from operations (Line 4 minus Line 10) | (161,171,767) | (85,369,030) | (424,773,601) |
| **Cash from Investments** | | | |
| 12. Proceeds from investments sold, matured or repaid: | | | |
| 12.1 Bonds | 211,312,379 | 441,133,224 | 1,178,713,280 |
| 12.2 Stocks | | 10,580,000 | 10,579,543 |
| 12.3 Mortgage loans | 2,421,629 | 48,217,695 | 129,869,253 |
| 12.4 Real estate | | | |
| 12.5 Other invested assets | 27,875,871 | 16,157,966 | 183,005,373 |
| 12.6 Net gains or (losses) on cash, cash equivalents and short-term investments | 38,509 | 12,654 | (2,419,065) |
| 12.7 Miscellaneous proceeds | 30,566,812 | 87,422,194 | 431 |
| 12.8 Total investment proceeds (Lines 12.1 to 12.7) | 272,215,200 | 603,523,733 | 1,499,748,814 |
| 13. Cost of investments acquired (long-term only): | | | |
| 13.1 Bonds | 670,840,704 | 335,724,889 | 904,251,121 |
| 13.2 Stocks | 10,000,000 | | 1,337,912 |
| 13.3 Mortgage loans | 50,615,234 | 90,753,068 | 219,213,516 |
| 13.4 Real estate | | | |
| 13.5 Other invested assets | 18,068,141 | 47,709,757 | 117,840,809 |
| 13.6 Miscellaneous applications | 7,097,709 | 11,004,975 | 34,205,125 |
| 13.7 Total investments acquired (Lines 13.1 to 13.6) | 756,621,790 | 485,192,688 | 1,276,848,483 |
| 14. Net increase (or decrease) in contract loans and premium notes | (77,542) | 12,972 | (215,426) |
| 15. Net cash from investments (Line 12.8 minus Line 13.7 and Line 14) | (484,329,048) | 118,318,073 | 223,115,758 |
| **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 | 654,370,133 | 3,634,050 | (45,285,403) |
| 16.5 Dividends to stockholders | | | |
| 16.6 Other cash provided (applied) | 12,399,759 | 693,462 | 23,143,695 |
| 17. Net cash from financing and miscellaneous sources (Line 16.1 through Line 16.4 minus Line 16.5 plus Line 16.6) | 666,769,892 | 4,327,512 | (22,141,708) |
| **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) | 21,269,077 | 37,276,555 | (223,799,551) |
| 19. Cash, cash equivalents and short-term investments: | | | |
| 19.1 Beginning of year | 258,604,577 | 482,404,128 | 482,404,128 |
| 19.2 End of period (Line 18 plus Line 19.1) | 279,873,654 | 519,680,683 | 258,604,577 |

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

| | | | |
|---|---|---|---|
| 20.0001. Capital contribution of stock compensation expense (financing) | 7,432,732 | | 17,217,152 |
| 20.0002. Capital contribution of stock compensation expense (investing) | (6,027,048) | | (13,832,794) |
| 20.0003. Capital contribution of stock compensation expense (operating) | (1,405,683) | | (3,384,358) |
| 20.0004. Reinsurance activity settled in bonds (operating) | | 44,921,859 | 119,293,893 |
| 20.0005. Assumed reinsurance activity settled in bonds (investing) | 6,017,838 | | |
| 20.0006. Ceded reinsurance activity settled in bonds (investing) | (6,017,838) | (44,921,859) | (119,293,893) |
| 20.0007. Transfer from Schedule D to Schedule BA - proceeds (investing) | 4,095,995 | | 35,942 |
| 20.0008. Transfer from Schedule D to Schedule BA - acquired (investing) | (4,095,995) | | (35,942) |
| 20.0009. Security exchanges - bond proceeds (investing) | | 19,380,644 | 50,349,064 |

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

| | | | |
|---|---|---|---|
| 20.0010. Security exchanges - bonds acquired (investing) | | (19,380,644) | (50,349,064) |
| 20.0011. Schedule BA distribution of bonds - proceeds (investing) | | | 73,349,959 |
| 20.0012. Schedule BA distribution of bonds - acquired (investing) | | | (73,349,959) |

# NOTES TO FINANCIAL STATEMENTS

**Note 1. Summary of Significant Accounting Policies and Going Concern**

A. Accounting Practices

The accompanying financial statements of **Athene Annuity & Life Assurance 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 Delaware.

The Department of Insurance of the State of Delaware (the Department) recognizes only statutory accounting practices prescribed or permitted by the State of Delaware for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under the Delaware 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 Delaware. The Department has the right to permit other specific practices that deviate from prescribed practices.

Effective December 31, 2014, the Company received a permitted practice to use the standard scenario to determine the reserve on its variable annuity policies and thus did not calculate the stochastic scenario reserve as required under Actuarial Guideline 43. The Company does not believe this difference in valuation method has any impact on the calculated reserves. Therefore, the Company's net income and statutory surplus are not affected as a result of this permitted practice.

A reconciliation of the Company's net income and statutory surplus between practices prescribed by the State of Delaware 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 | 896,403 | 71,348,016 |
| (2) | State Prescribed Practices that increase/(decrease) NAIC SAP | | | | | |
| (3) | State Permitted Practices that increase/(decrease) NAIC SAP: Standard scenario on variable annuities | 51 | 3 | 1 | 0 | 0 |
| (4) | NAIC SAP (1-2-3=4) | XXX | XXX | XXX | 896,403 | 71,348,016 |
| SURPLUS | | | | | | |
| (5) | State basis (Page 3, Line 38, Columns 1 & 2) | XXX | XXX | XXX | 1,274,902,974 | 1,272,419,957 |
| (6) | State Prescribed Practices that increase/(decrease) NAIC SAP | | | | | |
| (7) | State Permitted Practices that increase/(decrease) NAIC SAP: Standard scenario on variable annuities | 51 | 3 | 1 | 0 | 0 |
| (8) | NAIC SAP (5-6-7=8) | XXX | XXX | XXX | 1,274,902,974 | 1,272,419,957 |

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

C. Accounting Policies

(1) – (5) No Change

(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:** NONE

**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.

# NOTES TO FINANCIAL STATEMENTS

(3)

| 1<br>CUSIP | 2<br>Book/Adjusted Carrying Value Amortized Cost Before Current Period OTTI | 3<br>Present Value of Projected Cash Flows | 4<br>Recognized Other-Than-Temporary Impairment | 5<br>Amortized Cost After Other-Than-Temporary Impairment | 6<br>Fair Value at time of OTTI | 7<br>Date of Financial Statement Where Reported |
|---|---|---|---|---|---|---|
| 86359A-WU-3 .... | ..........1,428,351 | ............. 729,640 | ..............698,711 | ............. 729,640 | ..............729,640 | ........ 03/31/2017 |
| Total | XXX | XXX | 698,711 | XXX | XXX | XXX |

(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 .............. 3,328,878
   2. 12 Months or Longer ............ 14,129,934
b. The aggregate related fair value of securities with unrealized losses:
   1. Less than 12 Months .......... 243,939,133
   2. 12 Months or Longer .......... 331,114,392

(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: 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: NONE

**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 and Affiliates**

A, B, C. Some employees of Athene Employee Services LLC participate in one or more Share Award Agreements (the Agreements) sponsored by Athene Holding Ltd., an indirect parent of the Company, for which the Company has no legal obligation. Salary expense of Athene Employee Services LLC is 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 $7.4 million and $17.2 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:** No Change

**Note 12. Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences and Other Postretirement Benefit Plans:** NONE

**Note 13. Capital and Surplus, Shareholders' Dividend Restrictions and Quasi-Reorganizations:** No Change

**Note 14. Liabilities, Contingencies and Assessments**

A. Contingent Commitments: No Change

B. Assessments: No Change

C. Gain Contingencies: NONE

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

E. Joint and Several Liabilities: NONE

F. All Other Contingencies

On April 6, 2016, the U.S. Department of Labor (DOL) issued a new regulation addressing when a person providing investment advice with respect to an employee benefit plan or individual retirement account (IRA) is considered a fiduciary under the Employee Retirement Income Security Act of 1974, as amended, and for other purposes. The DOL regulations, which have an amended applicability date of June 9, 2017, and full compliance date of January 1, 2018, will subject the Company and its producers to new disclosure and compliance requirements related to the existing annuity block of business.

# NOTES TO FINANCIAL STATEMENTS

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 applicability date to June 9th, 2017. In addition to comments on the delay, the DOL 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. Since the Company is not issuing new business, the rule will not have an impact on sales and is not expected to have a material impact on its operating expenses.

**Note 15. Leases:** NONE

**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 Extinguishments 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

**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 | | | | |
| Common stock unaffiliated | 62,948,190 | | | 62,948,190 |
| Derivative assets: Currency Swaps | | 117,361 | | 117,361 |
| Derivative assets: Options | | 71,718,495 | | 71,718,495 |
| Derivative assets: Futures | 218,986 | | | 218,986 |
| Derivative assets: Forwards | | 9,394 | | 9,394 |
| Separate account assets: Variable products | | 13,821,072 | | 13,821,072 |
| Total assets at fair value | 63,167,176 | 85,666,322 | | 148,833,498 |

| Description for each class of asset or liability | (Level 1) | (Level 2) | (Level 3) | Total |
|---|---|---|---|---|
| b. Liabilities at fair value | | | | |
| Derivative liabilities: Total Return Swaps | | 24,085 | | 24,085 |
| Derivative liabilities: Forwards | | 2,553,075 | | 2,553,075 |
| Separate account liabilities: Variable products | | 13,821,072 | | 13,821,072 |
| Total liabilities at fair value | | 16,398,232 | | 16,398,232 |

There were no transfers between Level 1, Level 2, or Level 3 of the fair value hierarchy during the quarter ended March 31, 2017.

(2) Fair Value Measurements in (Level 3) of the Fair Value Hierarchy: NONE

(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.

Asset 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 | 4,285,275,106 | 4,119,326,719 | 2,251,181 | 3,666,647,981 | 616,375,944 | |
| Assets - Preferred stocks | 30,649,710 | 28,000,000 | | 30,649,710 | | |
| Assets - Common stocks unaffiliated | 62,948,190 | 62,948,190 | 62,948,190 | | | |
| Assets - Mortgage loans - first liens | 166,099,040 | 163,271,098 | | | 166,099,040 | |
| Assets - Mortgage loans - other than first liens | 719,194,189 | 718,172,261 | | | 719,194,189 | |
| Assets - Cash and short-term investments | 279,864,938 | 279,873,654 | 217,933,789 | 41,581,149 | 20,350,000 | |
| Assets - Policy loans | 1,436,723 | 1,436,723 | | 1,436,723 | | |
| Assets - Derivative assets | 72,064,236 | 72,064,236 | 218,986 | 71,845,250 | | |
| Assets - Derivative collateral asset | 95,813 | 95,813 | 95,813 | | | |
| Assets - Other invested assets | 1,052,604,721 | 1,051,907,497 | | 4,790,741 | 1,047,813,980 | |
| Assets - Separate account assets: variable products | 13,821,072 | 13,821,072 | | 13,821,072 | | |
| Liabilities - Collateralized borrowing | 3,569,093 | 3,506,200 | | | 3,569,093 | |
| Liabilities - Derivative liabilities | 2,577,160 | 2,577,160 | | 2,577,160 | | |
| Liabilities - Deposit type contracts | 1,183,617,018 | 1,168,406,866 | | 1,039,111,310 | 144,505,708 | |
| Liabilities - Derivative collateral liability | 74,406,056 | 74,406,056 | 74,406,056 | | | |
| Liabilities - Separate account liabilities: variable products | 13,821,072 | 13,821,072 | | 13,821,072 | | |

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 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. Short-term private notes are classified as Level 3 with value held at cost and cost approximates fair value.

Preferred stocks – The Company values equity securities, typically private equities or equity securities not traded on an exchange, using several commercial pricing services and are classified as Level 2 assets.

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, credit 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 are 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. These 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 attempts to value these using commercial pricing services, which would be 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.

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

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.

Deposit-type contracts – Deposit-type contracts are classified as Level 3 include single premium immediate annuities (SPIA), supplemental contracts, and group pension contracts. Fair value of SPIA, supplemental contracts, and group pension 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.

D. Not Practical to Estimate Fair Value: NONE

**Note 21. Other Items:** No Change

# NOTES TO FINANCIAL STATEMENTS

**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 books and accounts for this statement that will 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. Premiums and Annuity Considerations Deferred and Uncollected:** NONE

**Note 34. Separate Accounts:** No Change

**Note 35. Loss/Claim Adjustment Expenses:** NONE