

**ANNUAL STATEMENT**

**OF THE**

**Athene Annuity & Life Assurance Company**

**TO THE**

**Insurance Department**

**OF THE**

**STATE OF**

**FOR THE YEAR ENDED  
DECEMBER 31, 2017**

**LIFE AND ACCIDENT AND HEALTH**

**2017**

ANNUAL STATEMENT FOR THE YEAR 2017 OF THE Athene Annuity & Life Assurance Company

**ASSETS**

	Current Year			Prior Year
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	4 Net Admitted Assets
1. Bonds (Schedule D) .....	5,986,005,031		5,986,005,031	3,653,400,217
2. Stocks (Schedule D):				
2.1 Preferred stocks .....	26,750,000		26,750,000	18,000,000
2.2 Common stocks .....	1,245,852,725	37,854	1,245,814,871	1,252,093,540
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens .....	391,187,905		391,187,905	114,399,212
3.2 Other than first liens.....	638,009,525		638,009,525	718,503,500
4. Real estate (Schedule A):				
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 (\$ .....186,896,602 , Schedule E - Part 1), cash equivalents (\$ .....1,000,048 , Schedule E - Part 2) and short-term investments (\$ .....427,833,004 , Schedule DA) .....	615,729,655		615,729,655	258,604,577
6. Contract loans (including \$ ..... premium notes) .....	1,381,815		1,381,815	1,514,265
7. Derivatives (Schedule DB) .....	87,736,369		87,736,369	65,123,488
8. Other invested assets (Schedule BA) .....	930,211,726		930,211,726	1,051,831,441
9. Receivables for securities .....	3,300,711		3,300,711	2,563,651
10. Securities lending reinvested collateral assets (Schedule DL) .....				
11. Aggregate write-ins for invested assets .....	2,599,813		2,599,813	
12. Subtotals, cash and invested assets (Lines 1 to 11) .....	9,928,765,275	37,854	9,928,727,421	7,136,033,891
13. Title plants less \$ ..... charged off (for Title insurers only) .....				
14. Investment income due and accrued .....	50,979,226	470,034	50,509,192	36,153,920
15. Premiums and considerations:				
15.1 Uncollected premiums and agents' balances in the course of collection.....				
15.2 Deferred premiums and 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 .....	64,880,771		64,880,771	54,402,771
16.2 Funds held by or deposited with reinsured companies .....	2,628,443,465		2,628,443,465	2,740,263,425
16.3 Other amounts receivable under reinsurance contracts .....	493,431,126		493,431,126	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 .....	23,370,184		23,370,184	17,983,656
19. Guaranty funds receivable or on deposit .....	858,513		858,513	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 .....	167,030		167,030	63,395
24. Health care (\$ ..... ) and other amounts receivable .....	541,161	23,506	517,656	
25. Aggregate write-ins for other than invested assets .....	652,478	652,478		36,452
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25) .....	13,192,089,228	1,183,872	13,190,905,356	10,337,334,556
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts .....	14,213,512		14,213,512	13,321,980
28. Total (Lines 26 and 27) .....	13,206,302,739	1,183,872	13,205,118,867	10,350,656,536
<b>DETAILS OF WRITE-INS</b>				
1101. Derivative collateral asset .....	2,599,813		2,599,813	
1102. ....				
1103. ....				
1198. Summary of remaining write-ins for Line 11 from overflow page .....				
1199. Totals (Lines 1101 thru 1103 plus 1198)(Line 11 above) .....	2,599,813		2,599,813	
2501. Miscellaneous assets .....	652,478	652,478		36,452
2502. ....				
2503. ....				
2598. Summary of remaining write-ins for Line 25 from overflow page .....				
2599. Totals (Lines 2501 thru 2503 plus 2598)(Line 25 above) .....	652,478	652,478		36,452

ANNUAL STATEMENT FOR THE YEAR 2017 OF THE Athene Annuity & Life Assurance Company

**LIABILITIES, SURPLUS AND OTHER FUNDS**

	1 Current Year	2 Prior Year
1. Aggregate reserve for life contracts \$ .....7,364,718,604 (Exh. 5, Line 9999999) less \$ ..... included in Line 6.3 (including \$ .....5,915,713,898 Modco Reserve) .....	7,364,718,604	7,682,503,285
2. Aggregate reserve for accident and health contracts (including \$ ..... Modco Reserve) .....		
3. Liability for deposit-type contracts (Exhibit 7, Line 14, Col. 1) (including \$ .....3,215,149,933 Modco Reserve) .....	3,274,516,206	514,036,733
4. Contract claims:		
4.1 Life (Exhibit 8, Part 1, Line 4.4, Col. 1 less sum of Cols. 9, 10 and 11) .....	17,338,623	20,794,678
4.2 Accident and health (Exhibit 8, Part 1, Line 4.4, sum of Cols. 9, 10 and 11) .....		
5. Policyholders' dividends \$ ..... and coupons \$ ..... due and unpaid (Exhibit 4, Line 10) .....		
6. Provision for policyholders' dividends and coupons payable in following calendar year - estimated amounts:		
6.1 Dividends apportioned for payment (including \$ ..... Modco) .....	38,416	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 (Exhibit 1, Part 1, Col. 1, sum of lines 4 and 14) .....		
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 \$ .....2,693,238 assumed and \$ .....573,188,053 ceded .....	575,881,291	481,165,863
9.4 Interest maintenance reserve (IMR, Line 6) .....	57,117,911	62,126,460
10. Commissions to agents due or accrued-life and annuity contracts \$ .....179,754 accident and health \$ .....689,629 and deposit-type contract funds \$ .....	869,383	930,740
11. Commissions and expense allowances payable on reinsurance assumed .....	10,487,903	11,719,538
12. General expenses due or accrued (Exhibit 2, Line 12, Col. 6) .....	1,928,928	1,525,600
13. Transfers to Separate Accounts due or accrued (net) (including \$ .....(5,581) accrued for expense allowances recognized in reserves, net of reinsured allowances) .....	(5,581)	(3,763)
14. Taxes, licenses and fees due or accrued, excluding federal income taxes (Exhibit 3, Line 9, Col. 5) .....	2,888,344	2,863,139
15.1 Current federal and foreign income taxes, including \$ ..... on realized capital gains (losses) .....	25,311,591	
15.2 Net deferred tax liability .....		
16. Unearned investment income .....	49,399	71,222
17. Amounts withheld or retained by company as agent or trustee .....	161,143	96,710
18. Amounts held for agents' account, including \$ ..... agents' credit balances .....		
19. Remittances and items not allocated .....	4,905,908	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 (AVR, Line 16, Col. 7) .....	200,065,765	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 .....	7,792,775	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 .....	6,032,144	127,249
24.09 Payable for securities .....	173,908,851	8,768
24.10 Payable for securities lending .....		
24.11 Capital notes \$ ..... and interest thereon \$ .....		
25. Aggregate write-ins for liabilities .....	119,240,612	80,674,966
26. Total liabilities excluding Separate Accounts business (Lines 1 to 25) .....	11,843,248,218	9,064,914,599
27. From Separate Accounts Statement .....	14,213,512	13,321,980
28. Total liabilities (Lines 26 and 27) .....	11,857,461,729	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 (Page 3, Line 33, Col. 2 plus Page 4, Line 51.1, Col. 1) .....	986,780,264	964,949,943
34. Aggregate write-ins for special surplus funds .....		
35. Unassigned funds (surplus) .....	358,376,873	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) .....	1,345,157,138	1,269,919,957
38. Totals of Lines 29, 30 and 37 (Page 4, Line 55) .....	1,347,657,138	1,272,419,957
39. Totals of Lines 28 and 38 (Page 2, Line 28, Col. 3) .....	13,205,118,867	10,350,656,536
<b>DETAILS OF WRITE-INS</b>		
2501. Derivative collateral liability .....	96,110,545	57,324,114
2502. Unclaimed funds .....	19,629,159	19,794,279
2503. Collateralized borrowing .....	3,500,908	3,527,449
2598. Summary of remaining write-ins for Line 25 from overflow page .....		29,124
2599. Totals (Lines 2501 thru 2503 plus 2598)(Line 25 above) .....	119,240,612	80,674,966
3101. ....		
3102. ....		
3103. ....		
3198. Summary of remaining write-ins for Line 31 from overflow page .....		
3199. Totals (Lines 3101 thru 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 thru 3403 plus 3498)(Line 34 above) .....		

**SUMMARY OF OPERATIONS**

	1 Current Year	2 Prior Year
1. Premiums and annuity considerations for life and accident and health contracts (Exhibit 1, Part 1, Line 20.4, Col. 1, less Col. 11) .....	51,207,186	24,268,836
2. Considerations for supplementary contracts with life contingencies .....	258,471	513,619
3. Net investment income (Exhibit of Net Investment Income, Line 17) .....	391,158,525	349,513,512
4. Amortization of Interest Maintenance Reserve (IMR, Line 5) .....	15,446,782	3,043,577
5. Separate Accounts net gain from operations excluding unrealized gains or losses .....		
6. Commissions and expense allowances on reinsurance ceded (Exhibit 1, Part 2, Line 26.1, Col. 1) .....	68,655,070	71,142,850
7. Reserve adjustments on reinsurance ceded .....	(830,810,140)	(700,083,721)
8. Miscellaneous Income:		
8.1 Income from fees associated with investment management, administration and contract guarantees from Separate Accounts .....	499,400	524,654
8.2 Charges and fees for deposit-type contracts .....		
8.3 Aggregate write-ins for miscellaneous income .....	143,089,573	149,880,273
9. Total (Lines 1 to 8.3) .....	(160,495,133)	(101,196,401)
10. Death benefits .....	236,137	729,955
11. Matured endowments (excluding guaranteed annual pure endowments) .....	118,163	83
12. Annuity benefits (Exhibit 8, Part 2, Line 6.4, Cols. 4 + 8) .....	55,045,803	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 .....	114,510,774	115,935,972
16. Group conversions .....		
17. Interest and adjustments on contract or deposit-type contract funds .....	49,544,149	30,859,194
18. Payments on supplementary contracts with life contingencies .....	1,334,384	474,967
19. Increase in aggregate reserves for life and accident and health contracts .....	(317,784,681)	(442,699,109)
20. Totals (Lines 10 to 19) .....	(96,995,270)	(240,820,570)
21. Commissions on premiums, annuity considerations, and deposit-type contract funds (direct business only) (Exhibit 1, Part 2, Line 31, Col. 1) .....	5,436,117	9,631,128
22. Commissions and expense allowances on reinsurance assumed (Exhibit 1, Part 2, Line 26.2, Col. 1) .....	22,764,858	16,840,720
23. General insurance expenses (Exhibit 2, Line 10, Cols. 1, 2, 3 and 4) .....	33,831,187	23,982,734
24. Insurance taxes, licenses and fees, excluding federal income taxes (Exhibit 3, Line 7, Cols. 1 + 2 + 3) .....	11,139,318	11,717,249
25. Increase in loading on deferred and uncollected premiums .....		
26. Net transfers to or (from) Separate Accounts net of reinsurance .....	(921,924)	(432,697)
27. Aggregate write-ins for deductions .....	(44,545,299)	10,624,016
28. Totals (Lines 20 to 27) .....	(69,291,013)	(168,457,420)
29. Net gain from operations before dividends to policyholders and federal income taxes (Line 9 minus Line 28) .....	(91,204,120)	67,261,020
30. Dividends to policyholders .....	32,740	33,225
31. Net gain from operations after dividends to policyholders and before federal income taxes (Line 29 minus Line 30) .....	(91,236,861)	67,227,795
32. Federal and foreign income taxes incurred (excluding tax on capital gains) .....	(28,673,632)	(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) .....	(62,563,229)	120,763,955
34. Net realized capital gains (losses) (excluding gains (losses) transferred to the IMR) less capital gains tax of \$ ..... 8,421,835 (excluding taxes of \$ ..... 29,653,120 transferred to the IMR) .....	86,819,214	(49,415,938)
35. Net income (Line 33 plus Line 34) .....	24,255,985	71,348,016
<b>CAPITAL AND SURPLUS ACCOUNT</b>		
36. Capital and surplus, December 31, prior year (Page 3, Line 38, Col. 2) .....	1,272,419,957	1,250,769,129
37. Net income (Line 35) .....	24,255,985	71,348,016
38. Change in net unrealized capital gains (losses) less capital gains tax of \$ ..... (43,897,175) .....	35,690,969	31,546,722
39. Change in net unrealized foreign exchange capital gain (loss) .....	(4,304,824)	16,041,902
40. Change in net deferred income tax .....	(38,510,647)	3,071,670
41. Change in nonadmitted assets .....	(648,007)	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 .....	(5,240,069)	(59,039,774)
45. Change in treasury stock (Page 3, Lines 36.1 and 36.2, Col. 2 minus Col. 1) .....		
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 .....	21,830,321	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 .....	54,958,330	(44,189,271)
52. Dividends to stockholders .....		
53. Aggregate write-ins for gains and losses in surplus .....	(12,794,878)	(15,498,564)
54. Net change in capital and surplus for the year (Lines 37 through 53) .....	75,237,181	21,650,828
55. Capital and surplus, December 31, current year (Lines 36 + 54) (Page 3, Line 38) .....	1,347,657,138	1,272,419,957
<b>DETAILS OF WRITE-INS</b>		
08.301. Funds withheld adjustment - assumed .....	142,937,333	141,524,098
08.302. Miscellaneous income .....	152,240	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 thru 08.303 plus 08.398)(Line 8.3 above) .....	143,089,573	149,880,273
2701. Transfer to IMR - ceded .....	(47,274,095)	9,122,890
2702. Transfer to IMR - assumed .....	2,997,803	3,454,112
2703. Transfer to IMR - MVA benefits .....	(355,553)	(1,955,825)
2798. Summary of remaining write-ins for Line 27 from overflow page .....	86,546	2,839
2799. Totals (Lines 2701 thru 2703 plus 2798)(Line 27 above) .....	(44,545,299)	10,624,016
5301. Correction of prior period error .....	(7,110,456)	(9,982,796)
5302. Tax sharing agreement .....	(5,684,422)	(5,515,768)
5303. ....		
5398. Summary of remaining write-ins for Line 53 from overflow page .....		
5399. Totals (Lines 5301 thru 5303 plus 5398)(Line 53 above) .....	(12,794,878)	(15,498,564)

ANNUAL STATEMENT FOR THE YEAR 2017 OF THE Athene Annuity & Life Assurance Company

**CASH FLOW**

	1	2
	Current Year	Prior Year
<b>Cash from Operations</b>		
1. Premiums collected net of reinsurance .....	51,465,656	24,782,455
2. Net investment income .....	333,511,797	295,291,930
3. Miscellaneous income .....	65,886,564	58,601,231
4. Total (Lines 1 through 3) .....	450,864,018	378,675,615
5. Benefit and loss related payments .....	776,922,248	767,553,382
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts .....	(920,107)	(460,320)
7. Commissions, expenses paid and aggregate write-ins for deductions .....	70,124,772	59,049,322
8. Dividends paid to policyholders .....	38,923	43,422
9. Federal and foreign income taxes paid (recovered) net of \$ ..... tax on capital gains (losses) .....	(20,955,104)	(22,736,591)
10. Total (Lines 5 through 9) .....	825,210,732	803,449,216
11. Net cash from operations (Line 4 minus Line 10) .....	(374,346,714)	(424,773,601)
<b>Cash from Investments</b>		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds .....	1,332,665,051	1,178,713,280
12.2 Stocks .....	97,528,257	10,579,543
12.3 Mortgage loans .....	275,944,886	129,869,253
12.4 Real estate .....		
12.5 Other invested assets .....	359,342,257	183,005,373
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments .....	(997,793)	(2,419,065)
12.7 Miscellaneous proceeds .....	255,772,954	431
12.8 Total investment proceeds (Lines 12.1 to 12.7) .....	2,320,255,612	1,499,748,814
13. Cost of investments acquired (long-term only):		
13.1 Bonds .....	3,847,325,670	904,251,121
13.2 Stocks .....	26,546,749	1,337,912
13.3 Mortgage loans .....	470,506,726	219,213,516
13.4 Real estate .....		
13.5 Other invested assets .....	40,842,434	117,840,809
13.6 Miscellaneous applications .....	3,336,874	34,205,125
13.7 Total investments acquired (Lines 13.1 to 13.6) .....	4,388,558,452	1,276,848,483
14. Net increase (decrease) in contract loans and premium notes .....	(132,450)	(215,426)
15. Net cash from investments (Line 12.8 minus Line 13.7 minus Line 14) .....	(2,068,170,391)	223,115,758
<b>Cash from Financing and Miscellaneous Sources</b>		
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 .....	2,760,479,473	(45,285,403)
16.5 Dividends to stockholders .....		
16.6 Other cash provided (applied) .....	39,162,709	23,143,695
17. Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6) .....	2,799,642,182	(22,141,708)
<b>RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS</b>		
18. Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17) .....	357,125,077	(223,799,551)
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year .....	258,604,577	482,404,128
19.2 End of year (Line 18 plus Line 19.1) .....	615,729,655	258,604,577

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

20.0001. Capital contribution of stock compensation expense (financing) .....	21,830,321	17,217,152
20.0002. Capital contribution of stock compensation expense (investing) .....	(17,690,500)	(13,832,794)
20.0003. Capital contribution of stock compensation expense (operating) .....	(4,139,821)	(3,384,358)
20.0004. Reinsurance activity settled in bonds (operating) .....	55,307,550	119,293,893
20.0005. Assumed reinsurance activity settled in bonds (investing) .....	37,520,478	
20.0006. Ceded reinsurance activity settled in bonds (investing) .....	(92,828,028)	(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) .....	61,207,789	50,349,064
20.0010. Security exchanges - bonds acquired (investing) .....	(61,207,789)	(50,349,064)
20.0011. Schedule BA distribution other invested assets - proceeds (investing) .....	25,894,816	73,349,959
20.0012. Schedule BA distribution bonds - acquired (investing) .....	(175,382,482)	(73,349,959)
20.0013. Schedule BA distribution other invested assets - acquired (investing) .....	(25,894,816)	

ANNUAL STATEMENT FOR THE YEAR 2017 OF THE Athene Annuity & Life Assurance Company

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

20.0014. Schedule BA distribution bonds - proceeds (investing) .....	175,382,482	.....
--	-------------	-------

## 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 #	2017	2016
<b>NET INCOME</b>					
(1) State basis (Page 4, Line 35, Columns 1 & 2)	XXX	XXX	XXX	24,255,985	71,348,016
(2) State Prescribed Practices that are an increase/(decrease) from NAIC SAP:					
(3) State Permitted Practices that are an increase/(decrease) from NAIC SAP: Standard scenario on variable annuities	51	3	1	0	0
(4) NAIC SAP (1-2-3=4)	XXX	XXX	XXX	24,255,985	71,348,016
<b>SURPLUS</b>					
(5) State basis (Page 3, Line 38, Columns 1 & 2)	XXX	XXX	XXX	1,347,657,138	1,272,419,957
(6) State Prescribed Practices that are an increase/(decrease) from NAIC SAP:					
(7) State Permitted Practices that are an increase/(decrease) from NAIC SAP: Standard scenario on variable annuities	51	3	1	0	0
(8) NAIC SAP (5-6-7=8)	XXX	XXX	XXX	1,347,657,138	1,272,419,957

#### B. Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements in conformity with NAIC SAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ significantly from those estimates.

#### C. Accounting Policy

Life and accident and health premiums are recognized as income over the premium paying period of the related policies. Annuity considerations are recognized as revenue when received. Expenses incurred in connection with acquiring new insurance business, including acquisition costs such as sales commissions, are charged to operations as incurred.

The amount of dividends to be paid to policyholders is determined annually by the Company's Board of Directors. The aggregate amount of policyholders' dividends is related to actual interest, mortality, morbidity, and expense experience for the year and to the appropriate level of statutory surplus to be retained by the Company.

In addition, the Company uses the following accounting policies, as applicable:

- (1) Short-term investments are stated at amortized cost.
- (2) Bonds, other than loan-backed and structured securities, are stated at amortized cost or fair value based on their rating by the NAIC. Bonds held at amortized cost are amortized using the scientific interest method on a yield-to-worst basis.
- (3) Common stocks are stated at market value except that investments in stocks of subsidiaries and affiliates in which the Company has an interest of 20% or more are carried on the equity basis.
- (4) Preferred stocks are stated in accordance with the guidance provided in SSAP No. 32, *Preferred Stock*.
- (5) Mortgage loans on real estate are stated at amortized cost.
- (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 the recorded investment. Loan-backed and structured securities stated at amortized cost are amortized or accreted using the scientific interest method.
- (7) The Company carries investments in affiliated common stocks directly and indirectly owned at Statutory (insurance companies) or GAAP (non-insurance companies) net worth plus unamortized goodwill, if applicable, multiplied by the percent of the Company's ownership interest.
- (8) Investments in joint ventures, partnerships, or limited liability companies are valued at the US GAAP equity of the entity, adjusted for audited results upon receipt. Changes in US GAAP equity are recorded as an unrealized gain or loss in the Company's capital and surplus. These investments are valued based on the timeliness of information received, which ranges from recording timely to a lag of up to three months.
- (9) Call option derivative assets that hedge the growth in interest credited to the hedged policy as a direct result of changes in the related indices are recorded at fair value. Derivatives instruments used in hedging transactions that meet the criteria of a highly effective hedge shall be considered an effective hedge and are permitted to be valued and reported in a manner that is consistent with the hedged asset. All other derivatives are carried at fair value.

## NOTES TO FINANCIAL STATEMENTS

(10) The Company anticipates investment income as a factor in the premium deficiency reserve calculation, in accordance with SSAP No. 54, *Individual and Group Accident and Health Contracts*.

(11) The Company has ceded 100% the liabilities for losses and loss/claim adjustment expenses for accident and health contracts.

(12) The Company has not modified its capitalization policy from the prior period.

(13) The Company does not have any pharmaceutical rebate receivables.

D. Going Concern

Management's assessment of the relevant conditions through February 27, 2018 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**

During the current year's financial statement preparation, the Company discovered errors within prior period Annual Statements relating to the tax provision. After consideration of materiality and in accordance with SSAP No. 3, *Accounting Changes and Correction of Errors*, these corrections were recorded directly to surplus. The impact of the correction of the tax provision decreased surplus by \$7.1 million in 2017. This represented less than 1% of ending capital and surplus as of both December 31, 2017 and 2016.

**Note 3. Business Combinations and Goodwill: NONE**

**Note 4. Discontinued Operations: NONE**

**Note 5. Investments**

A. Mortgage Loans, including Mezzanine Real Estate Loans

(1) The maximum and minimum lending rates for new mortgage loans originated during 2017 were 10.32% and 2.00%, respectively.

(2) The maximum percentage of any one loan to the value of security at the time of the loan, exclusive of insured or guaranteed or purchase money mortgages was 546.47%.

(3) Taxes, assessments and any amounts advanced and not included in the mortgage loan total: NONE



NOTES TO FINANCIAL STATEMENTS

- (4) Age analysis of mortgage loans and identification of mortgage loans in which the insurer is a participant or co-lender in a mortgage Loan Agreement

	Farm	Residential		Commercial		Mezzanine	Total
		Insured	All Other	Insured	All Other		
<b>a. Current Year</b>							
1. Recorded Investment (All)							
(a) Current			276,781,137		77,171,662	638,009,525	991,962,324
(b) 30 - 59 Days Past Due			21,443,140		271,475		21,714,615
(c) 60 - 89 Days Past Due			6,896,607				6,896,607
(d) 90 - 179 Days Past Due			7,796,722				7,796,722
(e) 180+ Days Past Due			861,930				861,930
2. Accruing Interest 90 - 179 Days Past Due							
(a) Recorded Investment							
(b) Interest Accrued							
3. Accruing Interest 180+ Days Past Due							
(a) Recorded Investment							
(b) Interest Accrued							
4. Interest Reduced							
(a) Recorded Investment							
(b) Number of Loans							
(c) Percent Reduced							
5. Participant or Co-lender in a Mortgage Loan Agreement							
(a) Recorded Investment							
<b>b. Prior Year</b>							
1. Recorded Investment							
(a) Current			53,882,805		87,420,001	691,425,646	832,728,452
(b) 30 - 59 Days Past Due			174,261				174,261
(c) 60 - 89 Days Past Due							
(d) 90 - 179 Days Past Due							
(e) 180+ Days Past Due							
2. Accruing Interest 90 - 179 Days Past Due							
(a) Recorded Investment							
(b) Interest Accrued							
3. Accruing Interest 180+ Days Past Due							
(a) Recorded Investment							
(b) Interest Accrued							
4. Interest Reduced							
(a) Recorded Investment							
(b) Number of Loans							
(c) Percent Reduced							
5. Participant or Co-lender in a Mortgage Loan Agreement							
(a) Recorded Investment							

- (5) Investment in impaired loans with or without allowance for credit losses and impaired loans subject to a participant or co-lender mortgage loan agreement for which the reporting entity is restricted from unilaterally foreclosing on the mortgage loan: NONE

- (6) Investment in impaired loans – average recorded investment, interest income recognized, recorded investment on nonaccrual status and amount of interest income recognized using a cash-basis method of accounting: NONE

- (7) Allowance for credit losses

	Current Year	Prior Year
a) Balance at beginning of period		
b) Additions charged to operations	34,768	
c) Direct write-downs charged against the allowances		
d) Recoveries of amounts previously charged off		
e) Balance at end of period	34,768	

- (8) Mortgage loans derecognized as a result of foreclosure: NONE

- (9) The company recognizes interest income on impaired loans upon receipt. Cash receipts are applied first to interest and then to principal.

**B. Debt Restructuring**

	Current Year	Prior Year
(1) The total recorded investment in restructured loans, as of year end	855,523	256,914
(2) The realized capital losses related to these loans		
(3) Total contractual commitments to extend credit to debtors owning receivables whose terms have been modified in troubled debt restructurings		
(4) The Company does not accrue interest income on impaired loans. Net investment income reflects interest income on impaired loans only after the payment is received.		

**C. Reverse Mortgages: NONE**

## NOTES TO FINANCIAL STATEMENTS

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) Other-than-temporary impairment was recognized on the following securities due to the present value of the cash flows expected to be collected being less than the amortized cost basis.

1	2	3	4	5	6	7
CUSIP	Book/Adjusted Carrying Value Amortized Cost Before Current Period OTTI	Present Value of Projected Cash Flows	Recognized Other-Than-Temporary Impairment	Amortized Cost After Other-Than-Temporary Impairment	Fair Value at time of OTTI	Date of Financial Statement Where Reported
86359A-WU-3	1,428,351	729,640	698,711	729,640	729,640	03/31/2017
05949C-LW-4	86,955	0	86,955	0	0	09/30/2017
36197V-AJ-7	7,636,933	7,492,325	144,609	7,492,325	7,168,000	09/30/2017
41161P-L4-3	2,530,646	2,499,404	31,242	2,499,404	2,478,443	09/30/2017
41161P-L4-3	2,442,640	2,417,383	25,257	2,417,383	2,429,646	12/31/2017
<b>Total</b>	XXX	XXX	986,774	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 December 31, 2017.
  - a. The aggregate amount of unrealized losses:
    - 1. Less than 12 Months ..... 4,587,048
    - 2. 12 Months or Longer ..... 2,380,086
  - b. The aggregate related fair value of securities with unrealized losses:
    - 1. Less than 12 Months ..... 461,150,135
    - 2. 12 Months or Longer ..... 88,155,138
- (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. Dollar Repurchase Agreements and/or Securities Lending Transactions: NONE
- F. Repurchase Agreements Transactions Accounted for as Secured Borrowing: NONE
- G. Reverse Repurchase Agreements Transactions Accounted for as Secured Borrowing: NONE
- H. Repurchase Agreements Transactions Accounted for as a Sale: NONE
- I. Reverse Repurchase Agreements Transactions Accounted for as a Sale: NONE
- J. Real Estate: NONE
- K. Low-Income Housing Tax Credits: NONE

NOTES TO FINANCIAL STATEMENTS

L. Restricted Assets

(1) Restricted Assets (Including Pledged)

Restricted Asset Category	Gross (Admitted & Nonadmitted) Restricted						
	Current Year					6	7
	1	2	3	4	5		
	Total General Account (G/A)	G/A Supporting Separate Account (S/A) Activity (a)	Total S/A Restricted Assets	S/A Assets Supporting G/A Activity (b)	Total (1 plus 3)	Total From Prior Year	Increase/ (Decrease) (5 minus 6)
a. Subject to contractual obligation for which liability is not shown							
b. Collateral held under security lending agreements							
c. Subject to repurchase agreements							
d. Subject to reverse repurchase agreements							
e. Subject to dollar repurchase agreements							
f. Subject to dollar reverse repurchase agreements							
g. Placed under option contracts							
h. Letter stock or securities restricted as to sale - excluding FHLB capital stock							
i. FHLB capital stock							
j. On deposit with states	5,422,575				5,422,575	5,417,102	5,473
k. On deposit with other regulatory bodies							
l. Pledged collateral to FHLB (including assets backing funding agreements)							
m. Pledged as collateral not captured in other categories	1,189,995,656				1,189,995,656	1,087,420,832	102,574,824
n. Other restricted assets	24,535,015				24,535,015	30,800,343	(6,265,328)
<b>o. Total Restricted Assets</b>	<b>1,219,953,246</b>				<b>1,219,953,246</b>	<b>1,123,638,277</b>	<b>96,314,969</b>

(a) Subset of Column 1

(b) Subset of Column 3

Restricted Asset Category	Current Year			
	8	9	Percentage	
	Total Nonadmitted Restricted	Total Admitted Restricted (5 minus 8)	10 Gross (Admitted & Nonadmitted) Restricted to Total Assets (c)	11 Admitted Restricted to Total Admitted Assets (d)
a. Subject to contractual obligation for which liability is not shown			0.000	0.000
b. Collateral held under security lending agreements			0.000	0.000
c. Subject to repurchase agreements			0.000	0.000
d. Subject to reverse repurchase agreements			0.000	0.000
e. Subject to dollar repurchase agreements			0.000	0.000
f. Subject to dollar reverse repurchase agreements			0.000	0.000
g. Placed under option contracts			0.000	0.000
h. Letter stock or securities restricted as to sale - excluding FHLB capital stock			0.000	0.000
i. FHLB capital stock			0.000	0.000
j. On deposit with states		5,422,575	0.041	0.041
k. On deposit with other regulatory bodies			0.000	0.000
l. Pledged collateral to FHLB (including assets backing funding agreements)			0.000	0.000
m. Pledged as collateral not captured in other categories		1,189,995,656	9.011	9.012
n. Other restricted assets		24,535,015	0.186	0.186
<b>o. Total Restricted Assets</b>		<b>1,219,953,246</b>	<b>9.238</b>	<b>9.238</b>

(c) Column 5 divided by Asset Page, Column 1, Line 28

(d) Column 9 divided by Asset Page, Column 3, Line 28

NOTES TO FINANCIAL STATEMENTS

(2) Detail of Assets Pledged as Collateral Not Captured in Other Categories (Contracts That Share Similar Characteristics, Such as Reinsurance and Derivatives, Are Reported in the Aggregate)

Description of Assets	Gross (Admitted & Nonadmitted) Restricted					6	7	8	Percentage	
	Current Year								9	10
	1	2	3	4	5					
Total General Account (G/A)	G/A Supporting Separate Account (S/A) Activity (a)	Total S/A Restricted Assets	S/A Assets Supporting G/A Activity (b)	Total (1 plus 3)	Total From Prior Year	Increase/ (Decrease) (5 minus 6)	Total Current Year Admitted Restricted	Gross (Admitted & Nonadmitted) Restricted to Total Assets	Admitted Restricted to Total Admitted Assets	
Reinsurance Trust	1,187,395,843				1,187,395,843	1,087,420,832	99,975,011	1,187,395,843	8.991	8.992
Derivative Collateral	2,599,813				2,599,813		2,599,813	2,599,813	0.020	0.020
Total (c)	1,189,995,656				1,189,995,656	1,087,420,832	102,574,824	1,189,995,656	9.011	9.012

- (a) Subset of column 1
- (b) Subset of column 3
- (c) Total Line for Columns 1 through 7 should equal 5L(1)m Columns 1 through 7 respectively and Total Line for Columns 8 through 10 should equal 5L(1)m Columns 9 through 11 respectively.

(3) Detail of Other Restricted Assets (Contracts That Share Similar Characteristics, Such as Reinsurance and Derivatives, Are Reported in the Aggregate)

Description of Assets	Gross (Admitted & Nonadmitted) Restricted					6	7	8	Percentage	
	Current Year								9	10
	1	2	3	4	5					
Total General Account (G/A)	G/A Supporting Separate Account (S/A) Activity (a)	Total S/A Restricted Assets	S/A Assets Supporting G/A Activity (b)	Total (1 plus 3)	Total From Prior Year	Increase/ (Decrease) (5 minus 6)	Total Current Year Admitted Restricted	Gross (Admitted & Nonadmitted) Restricted to Total Assets	Admitted Restricted to Total Admitted Assets	
New York Tax Sharing Agreement Escrow	24,535,015				24,535,015	30,800,343	(6,265,328)	24,535,015	0.186	0.186
Total (c)	24,535,015				24,535,015	30,800,343	(6,265,328)	24,535,015	0.186	0.186

- (a) Subset of column 1
- (b) Subset of column 3
- (c) Total Line for Columns 1 through 7 should equal 5L(1)n Columns 1 through 7 respectively and Total Line for Columns 8 through 10 should equal 5L(1)n Columns 9 through 11 respectively.

(4) Collateral Received and Reflected as Assets Within the Reporting Entity's Financial Statements

Collateral Assets	1	2	3	4
	Book/Adjusted Carrying Value (BACV)	Fair Value	% of BACV to Total Assets (Admitted and Nonadmitted)*	% of BACV to Total Admitted Assets **
a. Cash, Cash Equivalents and Short-Term Investments	96,110,545	96,110,545	0.729 %	0.729 %
b. Schedule D, Part 1			0.000 %	0.000 %
c. Schedule D, Part 2, Section 1			0.000 %	0.000 %
d. Schedule D, Part 2, Section 2			0.000 %	0.000 %
e. Schedule B	3,500,908	2,728,928	0.027 %	0.027 %
f. Schedule A			0.000 %	0.000 %
g. Schedule BA, Part 1			0.000 %	0.000 %
h. Schedule DL, Part 1			0.000 %	0.000 %
i. Other			0.000 %	0.000 %
j. Total Collateral Assets (a+b+c+d+e+f+g+h+i)	99,611,453	98,839,474	0.755 %	0.755 %

\* Column 1 divided by Asset Page, Line 26 (Column 1)  
 \*\* Column 1 divided by Asset Page, Line 26 (Column 3)

	1	2
	Amount	% of Liability to Total Liabilities *
k. Recognized Obligation to Return Collateral Asset	99,611,453	0.841 %

\* Column 1 divided by Liability Page, Line 26 (Column 1)

M. Working Capital Finance Investments: NONE

N. Offsetting and Netting of Assets and Liabilities: NONE

O. Structured Notes: NONE

P. 5\* Securities

Investment	Number of 5* Securities		Aggregate BACV		Aggregate Fair Value	
	Current Year	Prior Year	Current Year	Prior Year	Current Year	Prior Year
(1) Bonds - AC	1		2,228,563		2,228,563	
(2) LB&SS - AC						
(3) Preferred Stock - AC						
(4) Preferred Stock - FV						
(5) Total (1+2+3+4)	1		2,228,563		2,228,563	

AC - Amortized Cost FV - Fair Value

Q. Short Sales: NONE

## NOTES TO FINANCIAL STATEMENTS

### R. Prepayment Penalty and Acceleration Fees

	<u>General Account</u>	<u>Separate Account</u>
1. Number of CUSIPs .....	5	.....
2. Aggregate Amount of Investment Income .....	1,849,916	.....

### Note 6. Joint Ventures, Partnerships and Limited Liability Companies

- A. The Company has no investments in Joint Ventures, Partnerships, or Limited Liability Companies representing more than 10% of its Admitted Assets.
- B. The Company recognized other-than-temporary impairments of \$11.9 million as of December 31, 2017 and \$15.5 million as of December 31, 2016. The impairments were based on an assessment that future cash flows of affected limited partnerships would be less than the cost basis of the limited partnership. Fair value is determined by statements received from the partnerships and limited liability companies.

### Note 7. Investment Income

- A. Due and accrued income was excluded from investment income on the following basis: All investment income due and accrued with amounts that are over 90 days past due with the exception of mortgage loans in default.
- B. The total amount excluded was \$0.5 million as of December 31, 2017 and \$0 million as of December 31, 2016.

### Note 8. Derivative Instruments

- A, B, C. The Company utilizes derivative instruments which may include the following:

**Options:** The Company has issued fixed indexed products. These contracts credit interest based on certain indices, primarily the Standard & Poor's 500® Composite Stock Price Index. Over-the-counter (OTC) option contracts, call options and call spreads are purchased to hedge the growth in interest credited to the customer as a direct result of increases in the related indices. Upon exercise, the Company will receive the fair value of the call option. The parties with whom the Company enters into OTC option contracts are highly rated financial institutions where contracts are supported by collateral, which minimizes the credit risk associated with such contracts.

**Futures:** Under exchange-traded futures contracts, the Company agrees to purchase a specified number of contracts with other parties and to post variation margin on a daily basis in an amount equal to the difference in the daily fair values of those contracts. Futures contracts are purchased to hedge the growth in interest credited to the customer as a direct result of increases in the related indices. The clearing brokers with whom the Company enters into exchange-traded futures are regulated futures commission merchants who are members of a trading exchange.

Futures are recorded at fair value of margin on deposit with the clearing broker and changes in this margin on deposit are recognized in the summary of operations through realized gain or loss.

**Currency Swaps:** The Company has certain foreign currency swaps to reduce the risk from fluctuations in foreign currency exchange rates associated with its assets denominated in foreign currencies. With a foreign currency swap transaction, the Company agrees with another party to exchange, at specified intervals, the difference between one currency and another at a forward exchange rate calculated by reference to an agreed upon principal amount. The principal amount of each currency is exchanged at the inception and termination of the currency swap by each party.

The currency swaps that qualify for hedge accounting in accordance with SSAP No. 86, *Derivatives*, are recorded in a manner consistent with the hedged asset or liability. The change in the value of the hedged item due to fluctuations in foreign exchange rates is recorded as unrealized capital gains or losses until the time of sale. As such, the qualifying currency swap also records the change in value associated with fluctuations in foreign currency exchange rates in unrealized capital gains and losses.

**Forwards:** The Company uses foreign exchange forward contracts to hedge certain invested assets against movement in foreign currency. The price is agreed upon at the time of the contract and payment for such a contract is made at a specified future date. Foreign exchange forward contracts are utilized in non-qualifying hedging relationships.

**Total Return Swaps:** The Company purchases total return swaps to gain exposure and benefit from a reference asset without actually having to own it. Total return swaps are contracts in which one party makes payments based on a set rate, either fixed or variable, while the other party makes payments based on the return of the underlying asset, which includes both the income it generates and any capital gains.

See Note 1 for further explanation of the accounting policy for derivatives.

- D. There were no derivative contracts with financing premiums.
- E. There were no gains or losses recognized in unrealized gains or losses during the reporting period representing the component of the derivative's instrument's gain or loss excluded from the assessment of hedge effectiveness.
- F. There were no net gains or losses recognized in unrealized gains or losses during the reporting period resulting from derivatives that no longer qualify for hedge accounting.
- G. There are no derivatives accounted for as cash flow hedges of a forecasted transaction.
- H. There were no derivative contracts with premium cost.

NOTES TO FINANCIAL STATEMENTS

Note 9. Income Taxes

A. The components of the net deferred tax asset/(liability) at the end of current period are as follows:

(1)

	2017			2016			Change		
	(1) Ordinary	(2) Capital	(3) (Col. 1 + 2) Total	(4) Ordinary	(5) Capital	(6) (Col. 4 + 5) Total	(7) (Col. 1 - 4) Ordinary	(8) (Col. 2 - 5) Capital	(9) (Col. 7 + 8) Total
(a) Gross Deferred Tax Asset.....	138,688,462	85,288	138,773,750	185,345,216	1,147,269	186,492,485	(46,656,754)	(1,061,981)	(47,718,735)
(b) Statutory Valuation Allowance Adjustment .....									
(c) Adjusted Gross Deferred Tax Assets (1a - 1b) .....	138,688,462	85,288	138,773,750	185,345,216	1,147,269	186,492,485	(46,656,754)	(1,061,981)	(47,718,735)
(d) Deferred Tax Assets Nonadmitted .....									
(e) Subtotal Net Admitted Deferred Tax Asset (1c - 1d) .....	138,688,462	85,288	138,773,750	185,345,216	1,147,269	186,492,485	(46,656,754)	(1,061,981)	(47,718,735)
(f) Deferred Tax Liabilities .....	78,844,866	36,558,700	115,403,566	101,363,027	67,145,802	168,508,829	(22,518,161)	(30,587,102)	(53,105,263)
(g) Net Admitted Deferred Tax Asset/(Net Deferred Tax Liability) (1e - 1f) .....	59,843,596	(36,473,412)	23,370,184	83,982,189	(65,998,533)	17,983,656	(24,138,593)	29,525,121	5,386,528

(2)

	2017			2016			Change		
	(1) Ordinary	(2) Capital	(3) (Col. 1 + 2) Total	(4) Ordinary	(5) Capital	(6) (Col. 4 + 5) Total	(7) (Col. 1 - 4) Ordinary	(8) (Col. 2 - 5) Capital	(9) (Col. 7 + 8) Total
Admission Calculation Components SSAP No. 101									
(a) Federal Income Taxes Paid In Prior Years Recoverable Through Loss Carrybacks. ....	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(b) Adjusted Gross Deferred Tax Assets Expected To Be Realized (Excluding The Amount Of Deferred Tax Assets From 2(a) above) After Application of the Threshold Limitation. (The Lesser of 2(b)1 and 2(b)2 Below) .....	65,382,339		65,382,339	37,260,220		37,260,220	28,122,119		28,122,119
1. Adjusted Gross Deferred Tax Assets Expected to be Realized Following the Balance Sheet Date. ....	65,382,339		65,382,339	37,260,220		37,260,220	28,122,119		28,122,119
2. Adjusted Gross Deferred Tax Assets Allowed per Limitation Threshold. ....	XXX	XXX	195,676,078	XXX	XXX	188,165,445	XXX	XXX	7,510,633
(c) Adjusted Gross Deferred Tax Assets (Excluding The Amount Of Deferred Tax Assets From 2(a) and 2(b) above) Offset by Gross Deferred Tax Liabilities. ....	73,306,123	85,288	73,391,411	148,084,996	1,147,269	149,232,265	(74,778,873)	(1,061,981)	(75,840,854)
(d) Deferred Tax Assets Admitted as the result of application of SSAP No. 101. Total (2(a) + 2(b) + 2(c)) .....	138,688,462	85,288	138,773,750	185,345,216	1,147,269	186,492,485	(46,656,754)	(1,061,981)	(47,718,735)

(3)

	2017	2016
a. Ratio Percentage Used To Determine Recovery Period And Threshold Limitation Amount. ....	968.1%	947.0%
b. Amount Of Adjusted Capital And Surplus Used To Determine Recovery Period And Threshold Limitation In 2(b)2 Above. ....	1,919,036,748	1,762,667,424

(4)

	2017		2016		Change	
	(1) Ordinary	(2) Capital	(3) Ordinary	(4) Capital	(5) (Col. 1 - 3) Ordinary	(6) (Col. 2 - 4) Capital
Impact of Tax Planning Strategies:						
(a) Determination of adjusted gross deferred tax assets and net admitted deferred tax assets, by tax character as a percentage.						
1. Adjusted Gross DTAs amount from Note 9A1(c) .....	138,688,462	85,288	185,345,216	1,147,269	(46,656,754)	(1,061,981)
2. Percentage of adjusted gross DTAs by tax character attributable to the impact of tax planning strategies .....	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
3. Net Admitted Adjusted Gross DTAs amount from Note 9A1(e) .....	138,688,462	85,288	185,345,216	1,147,269	(46,656,754)	(1,061,981)
4. Percentage of net admitted adjusted gross DTAs by tax character admitted because of the impact of tax planning strategies .....	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

## NOTES TO FINANCIAL STATEMENTS

b. Do the Company's tax-planning strategies include the use of reinsurance? ..... Yes [ ] No [ X ]

B. DTLs that were not recognized in the current period:

As of December 31, 2017 and December 31, 2016, no unrecognized DTLs exist.

No unrecognized DTL exists for temporary differences related to investments in foreign subsidiaries or foreign corporate joint ventures that are essentially permanent in duration.

C. Current income taxes incurred consist of the following major components:

	(1)	(2)	(3)
	2017	2016	(Col. 1 - 2) Change
1. Current Income Tax			
(a) Federal .....	(28,673,632)	(53,536,160)	24,862,528
(b) Foreign .....			
(c) Subtotal .....	(28,673,632)	(53,536,160)	24,862,528
(d) Federal income tax on net capital gains .....	38,074,955	30,881,194	7,193,761
(e) Utilization of capital loss carry-forwards .....			
(f) Federal taxes allocated to prior period adjustments .....	7,110,456	9,982,796	(2,872,340)
(g) Federal and foreign income taxes incurred .....	16,511,779	(12,672,170)	29,183,949
2. Deferred Tax Assets:			
(a) Ordinary:			
(1) Discounting of unpaid losses .....			
(2) Unearned premium reserve .....			
(3) Policyholder reserves .....	58,069,203	43,573,338	14,495,865
(4) Investments .....	10,100,823	40,151,100	(30,050,277)
(5) Deferred acquisition costs .....	16,113,264	26,543,197	(10,429,933)
(6) Policyholder dividends accrual .....	8,067	15,609	(7,542)
(7) Fixed Assets .....			
(8) Compensation and benefits accrual .....			
(9) Pension accrual .....			
(10) Receivables - nonadmitted .....	141,873	174,260	(32,387)
(11) Net operating loss carry-forward .....	35,096,326	51,016,159	(15,919,833)
(12) Tax credit carry-forward .....	124,567	30,876	93,691
(13) Other (including items <5% of total ordinary tax assets) .....	19,034,339	23,840,677	(4,806,338)
(99) Subtotal .....	138,688,462	185,345,216	(46,656,754)
(b) Statutory valuation allowance adjustment .....			
(c) Nonadmitted .....			
(d) Admitted ordinary deferred tax assets (2a99 - 2b - 2c) .....	138,688,462	185,345,216	(46,656,754)
(e) Capital:			
(1) Investments .....	85,288	1,147,269	(1,061,981)
(2) Net capital loss carry-forward .....			
(3) Real estate .....			
(4) Other (including items <5% of total ordinary tax assets) .....			
(99) Subtotal .....	85,288	1,147,269	(1,061,981)
(f) Statutory valuation allowance adjustment .....			
(g) Nonadmitted .....			
(h) Admitted capital deferred tax assets (2e99 - 2f - 2g) .....	85,288	1,147,269	(1,061,981)
(i) Admitted deferred tax assets (2d + 2h) .....	138,773,750	186,492,485	(47,718,735)
3. Deferred Tax Liabilities:			
(a) Ordinary:			
(1) Investments .....	45,856,498	100,935,349	(55,078,851)
(2) Fixed assets .....			
(3) Deferred and uncollected premium .....			
(4) Policyholder reserves .....	32,416,470		32,416,470
(5) Other (including items <5% of total ordinary tax liabilities) .....	571,898	427,678	144,220
(99) Subtotal .....	78,844,866	101,363,027	(22,518,161)
(b) Capital:			
(1) Investments .....	36,558,700	67,145,802	(30,587,102)
(2) Real estate .....			
(3) Other (including items <5% of total capital tax liabilities) .....			
(99) Subtotal .....	36,558,700	67,145,802	(30,587,102)
(c) Deferred tax liabilities (3a99 + 3b99) .....	115,403,566	168,508,829	(53,105,263)
4. Net deferred tax assets/liabilities (2i - 3c) .....	23,370,184	17,983,656	5,386,528

Due to a change in the statutory tax rate, DTAs and DTLs decreased by \$92.4 million and \$76.9 million, respectively, resulting in a net decrease in the DTA of \$15.5 million. In accordance with the guidance provided by the NAIC, this decrease has been reported through change in net deferred income tax and change in net unrealized gains and losses within the Summary of Operations as applicable.

The change in net deferred taxes is comprised of the following (this analysis is exclusive of the tax effect of unrealized capital gain (losses) as the deferred taxes on unrealized gains (losses) are reported separately from the Change in Net Deferred Income Taxes in the surplus section of the Annual Statement)

Change in Net Deferred Income Tax:

	2017	2016	Change
Adjusted gross deferred tax assets	138,773,750	186,492,485	(47,718,735)
Total deferred tax liabilities	(115,403,566)	(168,508,829)	53,105,263
Net deferred tax assets (liabilities)	23,370,184	17,983,656	5,386,528
Tax effect of unrealized gains (losses)			(43,897,175)
Change in net deferred income tax			(38,510,647)

## NOTES TO FINANCIAL STATEMENTS

- D. The Provision for federal income taxes incurred is different from that would be obtained by applying the statutory federal income tax rate to income before income taxes. Among the more significant book to tax adjustments were the following:

Reconciliation of Federal Income Tax Rate to Actual Effective Rate:

	2017	Effective Tax Rate
Provision computed at statutory rate	\$1,401,466	35.0%
Permanent differences		
IMR	8,625,599	215.4%
Nondeductible expenses	32,620	0.8%
Other permanent adjustments	4,751,081	118.8%
Non-admitted assets	(226,772)	-5.7%
Affiliated expenses	3,008,601	75.1%
Specific reserves in surplus	(12,169)	-0.3%
Prior year true-up and adjustments	(13,774,011)	-344.0%
Unrealized gain ceded	12,945,724	323.3%
Reinsurance adjustment A-791	(1,048,561)	-26.2%
Impact of tax rate change on cumulative unrealized gains	23,821,770	594.9%
Tax rate change	15,497,078	387.0%
Total	<u>\$55,022,426</u>	<u>1,374.1%</u>
Federal and foreign income tax benefit	\$(28,673,632)	-716.1%
Federal taxes allocated to prior period adjustments	7,110,456	950.9%
Realized capital gains (losses) tax	38,074,955	177.6%
Change in net deferred income taxes	38,510,647	961.7%
Total statutory income taxes	<u>\$55,022,426</u>	<u>1,374.1%</u>

- E. The Company has the following carry forwards at December 31, 2017:

(1) The Company has tax attribute carry forwards as follows:

Year Incurred	Operations Loss Deductions	
	Amount	Expiring
2016	\$ 21,364,910	2031
2014	\$ 20,172,751	2029
2013 2nd short period	\$ 26,262,764	2028
2013 1st short period	\$ 89,479,224	2027
2010	\$ 9,845,717	2024
Year Incurred	General Business Credits	
	Amount	Expiring
2016	\$ 24	2036
2015	\$ 38	2035
Year Incurred	Foreign Tax Credit	
	Amount	Expiring
2016	\$ 76,239	2026
2015	\$ 30,876	2025
2014	\$ 17,390	2024
Year Incurred	Charitable Contributions	
	Amount	Expiring
2016	\$ 1,786	2021
2015	\$ 1,643	2020
2014	\$ 125	2019
2013 2nd short period	\$ 114,485	2018

(2) There are no Federal Income Taxes available for recoupment in the event of future net losses.

(3) There are no aggregate amount of deposits reported as admitted assets under Section 6603 of the Internal Revenue Code as of December 31, 2017 and 2016.

- F. The Company is included in a consolidated federal income tax return. The Company has a written tax sharing agreement that has been approved by the Company's Board of Directors, which sets forth the manner in which the total combined federal income tax is allocated to each entity which is a party to the consolidation. Allocation of tax benefits is based on separate returns. Losses are paid at the time they can be used in the consolidated return or on a separate return basis. Intercompany tax balances are settled quarterly.

Under the tax sharing agreement, any tax period of the affiliated group must be calculated in accordance with NY Circular Letter 1979-33. The tax charge to each New York insurer under the agreement shall not be more than it would have paid if it had filed on a separate return basis. As a result, for any tax attributes a New York insurer can use on a separate return basis not currently utilized by the consolidated group, the future tax benefit of those tax attributes are transferred to AADE until such time they can be utilized by the consolidated group.

The Company is consolidated with the following entities for tax purposes:

Athene Annuity and Life Company  
 Athene Annuity & Life Assurance Company of New York  
 Athene Life Insurance Company of New York  
 Structured Annuity Reinsurance Company  
 Athene Re USA IV, Inc.



## NOTES TO FINANCIAL STATEMENTS

## G. Federal or Foreign Income Tax Loss Contingencies

The Company does not have any tax loss contingencies for which it is reasonably possible that the total tax liability will significantly increase within twelve months of the reporting date.

**Note 10. Information Concerning Parent, Subsidiaries and Affiliates**

A, B, C. The Company's various affiliated relationships, agreements and transactions are discussed within Notes 10A through 10F and the 2017 affiliated transactions are disclosed in Schedule Y, part 2.

The Company cedes a quota share on multiple treaties of funding agreement and annuity business to Athene Life Re, Ltd. (ALRe), a Bermuda-domiciled affiliate. The Company also assumes a quota share of annuity business from indirect subsidiary Athene Annuity & Life Assurance Company of New York and a quota share of annuities from indirect subsidiary Structured Annuity Reinsurance Company. See disclosures in Schedule S and Schedule Y, part 2.

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 No. 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 No. 104R, the Company incurred expense and recorded a capital contribution under the Agreements totaling \$21.8 million and \$17.2 million in 2017 and 2016, respectively, which includes amounts contributed by the Company to downstream insurance subsidiaries.

On December 8, 2016, the Company sold intellectual property to Athene USA Corporation (AUSA), the direct parent of the Company. At the time of the sale, the intellectual property had a carrying value of \$0 and a fair value of \$8.1 million, which resulted in the Company recognizing a gain of \$8.1 million on sale. This gain was recorded within Aggregate write-ins for miscellaneous income in Statement of Operations Line 8.3.

D. As of December 31, 2017 and 2016, respectively, the Company reported \$0.2 million and \$0.1 million receivable due from affiliates and \$7.8 million and \$7.1 million due to affiliates. All intercompany balances shown as payable to or receivable from parent, subsidiaries and affiliates are settled within 45 days of their incurrence under the terms of the intercompany expense sharing agreements.

E. In connection with a \$50.0 million funding agreement issued on September 2, 2011 by the Company's direct subsidiary, Athene Life Insurance Company (ALIC), to UBS AG, London Branch (UBS), the Company had entered into a pledge and security agreement, a guaranty and a securities account control agreement, each with UBS (collectively, the Security Documents), pursuant to which the Company guaranteed ALIC's obligations under the funding agreement in favor of UBS and pledged a note issued by UBS. The funding agreement to UBS was paid off on the termination date of September 2, 2016, and therefore the Company was relieved of its obligations under the Security Documents. In connection with the funding agreement and the Company's agreement to enter into and perform its obligations under the Security Documents, ALIC paid the Company a fee of \$37,500 in 2016.

F. The Company participates in an investment management agreement with Athene Asset Management, L.P. (AAM), an affiliate, under which AAM has agreed to provide asset management services in exchange for management fees. The Company pays 21 basis points (bps) per annum on the Company's managed assets. In addition, the Company pays subadvisor fees to AAM and Apollo affiliates. The Company incurred AAM and Apollo affiliates investment expenses and subadvisor fees of \$26.7 million and \$30.8 million in 2017 and 2016, respectively.

The Company participates in a Shared Services and Cost Sharing Agreement with certain other affiliated companies pursuant to which each party thereto agreed to provide certain financial, legal and other services to the other parties. The Company incurred related expenses under these agreements totaling \$13.2 million and \$15.0 million in 2017 and 2016, respectively.

G. The operating results and financial position of the Company as reported in these financial statements would not be significantly different from those that would have been obtained if the Company were autonomous.

H. Amounts deducted from the value of an upstream intermediate entity or ultimate parent: NONE

I. The Company does not hold an investment in a subsidiary, controlled or affiliated company (SCA) that exceeds 10% of admitted assets.

J. The Company did not recognize any impairment write downs for its investment in SCAs during the statement period.

K. The Company does not hold an investment in a foreign insurance subsidiary.

L. As an audit will not be performed, the Company nonadmitted its investment in wholly-owned subsidiary holding company, P.L. Assigned Services, Inc. The amount nonadmitted was less than \$0.1 million at both December 31, 2017 and December 31, 2016.

M. Subsidiary, Controlled or Affiliated (SCA) Investments

## (1) Balance Sheet Value (Admitted and Nonadmitted) All SCAs (Except 8bi Entities)

SCA Entity	Percentage of SCA Ownership	Gross Amount	Admitted Amount	Nonadmitted Amount
a. SSAP No. 97 8a Entities				
<b>Total SSAP No. 97 8a Entities</b>	<b>XXX</b>			
b. SSAP No. 97 8b(ii) Entities				
<b>Total SSAP No. 97 8b(ii) Entities</b>	<b>XXX</b>			
c. SSAP No. 97 8b(iii) Entities				
P.L. Assigned Services, Inc.	100%	37,854		37,854
<b>Total SSAP No. 97 8b(iii) Entities</b>	<b>XXX</b>	<b>37,854</b>		<b>37,854</b>
d. SSAP No. 97 8b(iv) Entities				
<b>Total SSAP No. 97 8b(iv) Entities</b>	<b>XXX</b>			
<b>e. Total SSAP No. 97 8b Entities (except 8bi entities) (b+c+d)</b>	<b>XXX</b>	<b>37,854</b>		<b>37,854</b>
<b>f. Aggregate Total (a+ e)</b>	<b>XXX</b>	<b>37,854</b>		<b>37,854</b>

## NOTES TO FINANCIAL STATEMENTS

(2) NAIC Filing Response Information

SCA Entity (Should be same entities as shown in M(1) above.)	Type of NAIC Filing *	Date of Filing to the NAIC	NAIC Valuation Amount	NAIC Response Received Y/N	NAIC Disallowed Entities Valuation Method, Resubmission Required Y/N	Code **
a. SSAP No. 97 8a Entities						
Total SSAP No. 97 8a Entities	XXX	XXX		XXX	XXX	XXX
b. SSAP No. 97 8b(ii) Entities						
Total SSAP No. 97 8b(ii) Entities	XXX	XXX		XXX	XXX	XXX
c. SSAP No. 97 8b(iii) Entities P.L. Assigned Services, Inc.	S1	11/7/2017	37,854	N	N	N/A
Total SSAP No. 97 8b(iii) Entities	XXX	XXX	37,854	XXX	XXX	XXX
d. SSAP No. 97 8b(iv) Entities						
Total SSAP No. 97 8b(iv) Entities	XXX	XXX		XXX	XXX	XXX
e. Total SSAP No. 97 8b Entities (except 8bi entities) (b+c+d)	XXX	XXX	37,854	XXX	XXX	XXX
f. Aggregate Total (a+e)	XXX	XXX	37,854	XXX	XXX	XXX

\* S1 - Sub-1, S2 - Sub-2 or RDF - Resubmission of Disallowed Filing

\*\* I - Immaterial or M - Material

As an audit is not conducted for P.L. Assigned Services, Inc. the investment is fully nonadmitted on the Company's balance sheet.

N. Investment in Insurance SCAs

The Company owns all of the outstanding capital stock of Athene Annuity and Life Company (AAIA), a life insurance company domiciled in the State of Iowa. AAIA in turn owns all of the outstanding capital stock of Athene Re USA IV, Inc. (Athene Re IV), a special purpose financial captive life insurance company domiciled in the State of Vermont.

(1) In 2006, the Commissioner of the Iowa Insurance Division, Department of Commerce, of the State of Iowa (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. AAIA has elected to apply Bulletin 06-01 to its futures, variance swaps and total return swaps. Under NAIC SAP, changes in fair value of such derivative instruments would be recorded directly to surplus. Application of Bulletin 06-01 does not impact AAIA's statutory surplus.

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. AAIA has elected to apply IAC Section 191-97 to its over the counter (OTC) call options and reserve liabilities. Under NAIC SAP, derivative call options would be carried at fair value with changes in fair value recorded directly to surplus and the reserves would change in relation to the movements in fair value of the derivative call options with changes recorded through income.

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. AAIA has elected to use the Annuity 2000 Mortality Table for annuities issued between January 1, 2015 and December 31, 2015.

AAIA received a permitted practice from the Division which allowed AAIA 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 AAIA 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 AAIA. The surplus reset resulted in a reclassification between unassigned surplus and gross paid-in and contributed surplus, 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 AAIA's net income or total capital and surplus.

Athene Re IV, with the explicit permission of the Commissioner of the Vermont Department of Financial Regulation of the State of Vermont, has included as an admitted asset the value of a letter of credit serving as collateral for reinsurance credit taken by AAIA in connection with reinsurance agreements entered into between Athene Re IV and AAIA. Under NAIC SAP, the letter of credit would not otherwise be treated as an admitted asset.

(2) The monetary effect on net income and surplus as a result of using an accounting practice that differed from NAIC Statutory Accounting Practices and Procedures (NAIC SAP), the amount of the investment in the insurance SCA per audited statutory equity and amount of the investment if the insurance SCA had completed statutory financial statements in accordance with the AP&P Manual is as follows:

SCA Entity (Investments in Insurance SCA Entities)	Monetary Effect on NAIC SAP		Amount of Investment	
	Net Income Increase (Decrease)	Surplus Increase (Decrease)	Per Audited Statutory Equity	If the Insurance SCA Had Completed Statutory Financial Statements *
Athene Annuity and Life Company	98,332,010	(63,517,326)	1,164,208,656	1,227,725,982
Athene Re USA IV, Inc.	0	152,500,000	25,010,943	0

\* Per AP&P Manual (without permitted or prescribed practices)

As of the issue date of this report, the 2017 statutory audits of Athene Annuity and Life Company and Athene Re IV have not been completed.

## NOTES TO FINANCIAL STATEMENTS

- (3) If AAIA was not allowed to apply Bulletin 06-01, IAC 191-97, and IAC 43.3 (5), its risk-based capital would still have been in excess of regulatory requirements. If Athene Re IV had not been permitted to include the letters of credit in surplus, its risk-based capital would have been below Mandatory Control Level.

### Note 11. Debt

- A. AUSA is the holder of a five-year, Unsecured Revolving Promissory Note dated May 1, 2016 (the Promissory Note) with a maximum principal amount not to exceed \$200,000,000, among AUSA and certain of its subsidiaries, including the Company. The Promissory Note was approved by the Delaware Department of Insurance. Interest shall accrue on the principal balance from time to time outstanding at a rate per annum equal to 1 month London Interbank Offered Rate + 162.5 bps. The Company shall pay such interest in arrears quarterly on the last day of each March, June, September and December, on any day any portion of the principal balance is repaid or prepaid. No amount has been drawn under the Promissory Note by the Company as of December 31, 2017 or 2016.
- B. FHLB Agreements: NONE

### 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

- (1) At December 31, 2017, the Company has authorized and issued 5,000 shares of \$500 par common stock which are outstanding and owned by AUSA. The Company received additional paid-in capital of \$21.8 million from its parent as discussed previously in Note 10 relating to stock compensation expense in accordance with SSAP No. 104R.
- (2) Preferred stock: NONE
- (3) Delaware insurance law states that the maximum dividend payment over a 12-month period may not, without prior approval from the Insurance Commissioner, be paid from a source other than earned surplus or exceed the greater of the prior year's net statutory gain from operations or 10% of policyholders' surplus. In 2012, Athene Holding Ltd. (AHL), the Company's parent, entered into a Collateral Maintenance Agreement to provide capital support to the Company such that AHL is obligated to maintain the Company's capital and surplus in an amount sufficient to maintain the Company's Total Adjusted Capital to be at least 200% of Company Action Level Risk Based Capital as those terms are defined in the insurance laws of Delaware as of October 1, 2012. The agreement also provides that the Company will not pay any dividends if such dividends would cause the Company Action Level Risk Based Capital ratio to fall below 200% unless approved by the Delaware Department of Insurance.
- (4) No dividends were paid during the year.
- (5) Within the limitations presented in item (3), above, the Company may pay dividends in 2018 of \$134.5 million. However, another regulation requiring the Company to hold surplus in excess of investment in subsidiaries effectively limits the amount that the Company can dividend while staying in compliance with such state regulations. Pursuant to such regulations and requirements, the Company could dividend up to \$103.4 million as of December 31, 2017.
- (6) The unassigned surplus is held for the benefit of the Company's shareholder.
- (7) Unpaid advances to surplus: NONE
- (8) No shares of stock are held by the Company, including stock of affiliated companies, for special purposes.
- (9) Changes in balances of special surplus: NONE
- (10) The portion of the unassigned funds (surplus) represented or reduced by unrealized gains and (losses), net of capital gains tax is \$35.7 million at December 31, 2017.
- (11) Surplus Notes: NONE
- (12) and (13) Quasi-reorganization: NONE

### Note 14. Liabilities, Contingencies and Assessments

#### A. Contingent Commitments

- (1) As of December 31, 2017 the Company has unfunded commitments to invest in certain bond and partnership interests. The total unfunded commitments are \$452.3 million.
- (2) Guarantees: NONE
- (3) Compilation of guarantee obligations: NONE

#### B. Assessments

- (1) Based on the 2017 National Organization of Life and Health Insurance Guaranty Associations (NOLHGA) Report, the Company has identified insolvencies. The Company fulfilled premium-based guaranty funds assessments of \$0.3 million during the current period. It is expected that the identified insolvencies will result in retrospective premium-based guaranty fund assessments against the Company. During 2017, future estimated costs to be assessed against the Company, from identified insolvencies from the NOLHGA Report were increased by \$0.2 million, which has been credited to operations in the current period and the liability established.
- (2)
- |   |         |
|---|---------|
| a. Assets recognized from paid and accrued premium tax offsets and policy surcharges prior year-end .....   | 629,858 |
| b. Decreases current year:  |         |
| Paid premium tax offset applied.....  | 139,612 |
| Change in accrued premium tax offset.....   | 368,267 |
| d. Assets recognized from paid and accrued premium tax offsets and policy surcharges current year-end ..... | 858,513 |
- (3) The Company does not have guaranty fund liabilities or assets related to assessments from insolvencies of entities that wrote long-term care contracts.

## NOTES TO FINANCIAL STATEMENTS

- 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 July 18, 2017 a putative class action Complaint was filed in the United States District Court for the Northern District of Georgia, Atlanta Division by Jon Bruce Hughes, Individually and on Behalf of all Others Similarly Situated against Athene Annuity & Life Assurance Company. Plaintiff filed an Amended Complaint July 20, 2017, which added Athene's Third-Party Administrator, McCamish, as a named Defendant. The Company and McCamish have filed Motions to Dismiss that are fully briefed, but the Court has yet to set a hearing. The Court has entered a Stipulated Order that extends court deadlines while the parties engage in settlement discussions for monetary relief that is immaterial to the Company. 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 September 12, 2016, Jack Holzer and Mary Bruesch-Holzer, filed suit in Jackson County, Missouri against several defendants including the Company, as successor-in-interest to Business Men's Assurance Company of America (BMA). Mr. Holzer allegedly sustained injuries due to asbestos exposure from 1966-1973 while working in an office building in Kansas City, Missouri then owned by BMA. Plaintiffs assert strict liability and negligence claims against the Company, and the Company is the last remaining material defendant. The Company is insured for costs, fees and compensatory damages under several primary and excess general liability policies issued to BMA, and has rights to indemnity for costs, fees and damages, including punitive damages. The matter is calendared for trial on March 6, 2018. The Company does not currently expect this matter to have a material impact on the financial statements. However, in light of the inherent uncertainties involved in this matter, it is possible that the ultimate outcome could have a material impact on the Company's financial statements.

The Company's indirect subsidiary, Athene Life Insurance Company of New York (ALICNY), has experienced increased service and administration complaints related to the conversion and administration of the block of life insurance business reinsured to First Allmerica Financial Life Insurance Company (FAFLIC) or otherwise administered by FAFLIC on behalf of ALICNY. On April 5, 2017, ALICNY received notification from the New York Department of Financial Services (NYDFS) that it planned to undertake a market conduct examination of ALICNY for the period of January 1, 2012 through March 31, 2017, relating to the treatment of policyholders subject to the conversion of the block of life insurance to FAFLIC. On November 15, 2017, ALICNY received notification from the NYDFS that its examination of ALICNY had resulted in the identification of a significant number of asserted violations of New York insurance law associated with the life block. On January 30, 2018, ALICNY received a draft report of the Market Conduct Examination from the NYDFS that identified in more detail the violations asserted in the November 15, 2017 letter as well as certain other lesser violations. ALICNY and FAFLIC are currently in discussions with the NYDFS to resolve this matter, but there is no assurance that ALICNY will be able to resolve this matter in a favorable manner to ALICNY. The amount of any such fines, penalties or payments arising from the Market Conduct Examination cannot be estimated with reasonable certainty, but it is possible that such amounts may be material and may impact the Company's capital and surplus through its carrying value of subsidiaries.

On April 6, 2016, the Department of Labor (DOL) issued the fiduciary rule which imposes upon third parties who sell annuities within Employee Retirement Income Security Act of 1974 (as amended, ERISA) plans or to individual retirement account (IRA) holders a fiduciary duty to retirement investors. The requirements of the fiduciary rule were originally scheduled to begin to be implemented on April 10, 2017, with full implementation on January 1, 2018. The DOL delayed the applicability date of the fiduciary rule for 60-days to June 9, 2017 and, in addition to delaying the applicability date, the DOL adjusted the exemption requirements that apply to sales in the interim period starting June 9, 2017 until the full compliance date of January 1, 2018. On July 6, 2017, the DOL issued a request for information (RFI) regarding the fiduciary rule. The DOL indicated that the information gathered from the responses to the RFI "could form the basis of new exemptions or changes/revisions". Along with the request for comments about the fiduciary rule and its impact, the DOL asked for commentary regarding the potential impact of extending the January 1, 2018 full compliance date. At the end of November 2017, the DOL published an amendment to the rule extending the full compliance date from January 1, 2018 to July 1, 2019. 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.

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:** NONE

**Note 16. Information About Financial Instruments With Off-Balance Sheet Risk and Financial Instruments With Concentrations of Credit Risk**

- (1) The table below summarizes the face amount of the Company's financial instruments with off-balance sheet risk.

	ASSETS		LIABILITIES	
	2017	2016	2017	2016
a. Swaps .....		21,720,000	43,159,656	
b. Futures .....	451	362		
c. Options & Forwards .....	2,080,933,246	2,194,727,796	53,044,881	13,461,264
d. Total .....	2,080,933,697	2,216,448,158	96,204,537	13,461,264

- (2) The Company's futures, swaps, options, and forwards have off-balance sheet risk. See Note 8 for information regarding the Company's derivative instruments.
- (3) The Company is exposed to credit-related losses in the event of nonperformance by counterparties on derivative instruments. The Company does not anticipate non-performance by any of these counterparties. Purchasing instruments from financial institutions with high credit ratings minimizes the credit risk associated with such instruments. The amount of exposure is represented by the fair value (market value) at the reporting date less any posted collateral. Collateral support documents are negotiated to further reduce this exposure where deemed necessary. Exchange-traded derivatives are affected through a regulated exchange and positions are marked to market daily.
- (4) The counterparty may be required to post collateral for any derivative contracts that are entered. The amount of collateral that is required is determined by the market value and credit threshold of the counterparty.

The current credit exposure of the Company's derivative contracts is limited to the fair value at the reporting date less collateral held. Credit risk is managed by entering into transactions with creditworthy counterparties and obtaining collateral where appropriate and customary. The Company also attempts to minimize its exposure to credit risk through the use of various credit monitoring techniques. 100% of the net credit exposure for the Company from derivative contracts is with investment-grade counterparties.

**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

## NOTES TO FINANCIAL STATEMENTS

**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	Net Asset Value (NAV) Included in Level 2
<b>a. Assets at fair value</b>					
Common stock: Unaffiliated.....	898,244	670,847	44	1,569,135	
Derivative assets: Options .....		85,723,440		85,723,440	
Derivative assets: Futures .....	947,872			947,872	
Derivative assets: Forwards .....		1,065,056		1,065,056	
Separate account assets: Variable products .....		14,213,512		14,213,512	
<b>Total assets at fair value</b>	<b>1,846,116</b>	<b>101,672,855</b>	<b>44</b>	<b>103,519,015</b>	

Description for each class of asset or liability	(Level 1)	(Level 2)	(Level 3)	Total	Net Asset Value (NAV) Included in Level 2
<b>b. Liabilities at fair value</b>					
Derivative liabilities: Currency Swaps .....		3,155,270		3,155,270	
Derivative liabilities: Total Return Swaps .....		11,362		11,362	
Derivative liabilities: Options .....		158,035		158,035	
Derivative liabilities: Forwards .....		696,449		696,449	
Separate account liabilities: Variable products .....		14,207,931		14,207,931	
<b>Total liabilities at fair value</b>		<b>18,229,047</b>		<b>18,229,047</b>	

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

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

Description	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 12/31/2017
<b>a. Assets</b>										
Common Stock: Unaffiliated .....				40	4					44
<b>Total Assets</b>				<b>40</b>	<b>4</b>					<b>44</b>

(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)	Net Asset Value (NAV) Included in Level 2
Assets - Bonds	6,205,704,392	5,986,005,031	2,234,969	5,408,786,606	794,682,817		
Assets - Preferred Stocks	30,160,535	26,750,000		30,160,535			
Assets - Common stocks unaffiliated	1,569,135	1,569,135	898,244	670,847	44		
Assets - Mortgage loans - first liens	406,431,340	391,187,905			406,431,340		
Assets - Mortgage loans - other than first liens	632,301,401	638,009,525			632,301,401		
Assets - Cash, cash equivalents and short-term investments	615,721,027	615,729,655	534,345,087	81,375,940			
Assets - Policy loans	1,381,815	1,381,815		1,381,815			
Assets - Derivative assets	87,736,369	87,736,369	947,873	86,788,496			
Assets - Derivative collateral asset	2,599,813	2,599,813	2,599,813				
Assets - Other invested assets	930,211,726	930,211,726			930,211,726		
Assets - Separate account assets: variable products	14,213,512	14,213,512		14,213,512			
Liabilities - Collateralized borrowing	2,728,928	3,500,908			2,728,928		
Liabilities - Derivative liabilities	6,720,107	6,032,144		6,720,107			
Liabilities - Deposit-type contracts	3,339,183,096	3,274,516,206		3,195,356,662	143,826,434		
Liabilities - Derivative collateral liability	96,110,545	96,110,545	96,110,545				

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.

Preferred stocks and common stocks unaffiliated – The Company values equity securities, typically private equities or equity securities not traded on an exchange, using several commercial pricing services or an internal model. The securities priced by a commercial pricing service are classified as Level 2 and the securities priced by an internal model are classified as Level 3.

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 (variable products) – Separate account assets 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**

- A. Extraordinary Items: NONE
- B. Troubled Debt Restructuring: NONE
- C. Other Disclosures and Unusual Items: NONE
- D. Business Interruption Insurance Recoveries: NONE

## NOTES TO FINANCIAL STATEMENTS

**E. State Transferable and Non-transferable Tax Credits**

- (1) Carrying Value of Transferable and Non-transferable State Tax Credits Gross of any Related Tax Liabilities and Total Unused Transferable and Non-transferable State Tax Credits by State and in Total

(1) Description of State Transferable and Non-transferable Tax Credits	(2) State	(3) Carrying Value	(4) Unused Amount
Guaranty Fund Assessment Credits .....	Various...	507,222	507,222
21F1999 - Total .....		507,222	507,222

- (2) The Company estimates the utilization of the remaining transferable and non-transferable state tax credits by projecting future premium taking into account policy growth and rate changes, projecting future tax liability based on projected premium, tax rates and tax credits, and comparing projected future tax liability to the availability of remaining tax credits.

- (3) Impairment Loss: NONE

- (4) State Tax Credits Admitted and Nonadmitted

	Total Admitted	Total Nonadmitted
a. Transferable .....		
b. Non-transferable .....	507,222	

**F. Subprime-Mortgage -Related Risk Exposure**

- (1) The Company engages in direct lending to the subprime markets. The Company's exposure to subprime risk is primarily limited to whole mortgage loans and investments within the fixed maturity investment portfolio in the form of securities collateralized by mortgages that have characteristics of subprime lending.

The Company generally defines subprime whole mortgage loans as borrowers with impaired credit history and lower FICO scores. In 2017 and 2016, the Company invested in residential whole loans which consisted of borrowers with lower FICO scores. The price paid for the residential loans factored in the consideration of the borrower's ability to repay along with the overall credit profile of the loan. The Company will continue to monitor the performance of the subprime residential mortgage loans along with performance expectations.

The Company's portfolio also contains residential mortgage backed securities that include subprime mortgage exposure. The risk of such defaults is generally higher in the case of subprime mortgages. The acquisition value of these residential mortgage backed securities factored in the consideration of that default risk. Quarterly, we monitor and evaluate the undiscounted expected future cash flows associated with these residential mortgage backed securities based on updates to key assumptions.

- (2) Direct exposure through investments in subprime mortgage loans

	(1) Book/Adjusted Carrying Value (excluding interest)	(2) Fair Value	(3) Value of Land and Buildings	(4) Other-Than- Temporary Impairment Losses Recognized	(5) Default Rate
a. Mortgages in the process of foreclosure .....	66,240	31,130	42,750		
b. Mortgages in good standing .....	49,554,885	55,213,331	64,783,527		
c. Mortgages with restructure terms .....					
d. Total .....	49,621,125	55,244,461	64,826,277		

- (3) Direct exposure through other investments

	(1) Actual Cost	(2) Book/Adjusted Carrying Value (excluding interest)	(3) Fair Value	(4) Other-Than- Temporary Impairment Losses Recognized
a. Residential mortgage backed securities .....	132,752,282	141,184,779	158,672,953	
b. Commercial mortgage backed securities .....				
c. Collateralized debt obligations .....				
d. Structured securities .....				
e. Equity investment in SCAs * .....				
f. Other assets .....				
g. Total .....	132,752,282	141,184,779	158,672,953	

\* These investments comprise 0% of the company's invested assets.

- (4) Underwriting exposure to subprime mortgage risk through Mortgage Guaranty or Financial Guaranty insurance coverage: NONE

**G. Retained Assets: NONE**

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

**Note 22. Events Subsequent**

Subsequent events have been considered through February 27, 2018 for the statutory statement dated December 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.

## NOTES TO FINANCIAL STATEMENTS

**Note 23. Reinsurance**

Gains on cession of in-force blocks of business are to be accounted for in accordance with Appendix A-791 of the NAIC Accounting Practices and Procedures Manual which requires that any increase in surplus (net of federal income tax) resulting from reinsurance agreements entered into or amended which involve the reinsurance of business issued prior to the effective date of the agreements shall be identified separately as a surplus item by the ceding company. Subsequent recognition of the surplus increase as income shall be reflected on a net of tax basis as earnings emerge from the business reinsured. As a result of the historical cession of business to Protective, the Company previously recorded a deferred gain at inception through surplus. Based on the emergence of earnings from the reinsured business in 2017 and 2016, \$3.0 million and \$21.4 million, respectively, was amortized into income.

Effective August 1, 2017, the Company entered into a variable quota share coinsurance agreement with The Lincoln National Life Insurance Company (LNL) to assume a percentage of LNL's multi-year guaranteed annuity and fixed indexed annuity business issued on or after the effective date of the treaty. On the same date, the Company entered into a modified coinsurance agreement to retrocede 80% of the assumed business to ALRe. Assumed reserves from LNL totaled \$210.9 million at December 31, 2017, and the ceded modified coinsurance reserves to ALRe totaled \$168.7 million.

Effective January 1, 2016, the Company entered into a variable quota share coinsurance agreement with Royal Neighbors of America (RNA) to assume a percentage of RNA's multi-year guaranteed annuity business issued on or after the effective date of the treaty. Effective January 1, 2016, the Company amended the existing modified coinsurance agreement with ALRe to include the RNA assumed business. Assumed reserves were \$27.7 million and \$27.1 million at December 31, 2017 and 2016 respectively, of which \$22.2 million and \$21.6 million represented modified coinsurance reserves ceded to ALRe.

**A. Ceded Reinsurance Report**

## Section 1 - General Interrogatories

- (1) Are any of the reinsurers, listed in Schedule S as nonaffiliated, owned in excess of 10% or controlled, either directly or indirectly, by the Company or by any representative, officer, trustee, or director of the Company? NO
- (2) Have any policies issued by the Company been reinsured with a company chartered in a country other than the United States (excluding U.S. Branches of such companies) which is owned in excess of 10% or controlled directly or indirectly by an insured, a beneficiary, a creditor or any other person not primarily engaged in the insurance business? NO

## Section 2 - Ceded Reinsurance Report - Part A

- (1) Does the Company have any reinsurance agreements in effect under which the reinsurer may unilaterally cancel any reinsurance for reasons other than for nonpayment of premium or other similar credits? YES
- a. If yes, what is the estimated amount of the aggregate reduction in surplus of a unilateral cancellation by the reinsurer as of the date of this statement, for those agreements in which cancellation results in a net obligation of the Company to the reinsurer, and for which such obligation is not presently accrued? Where necessary, the Company may consider the current or anticipated experience of the business reinsured in making this estimate. \$ 0
- b. What is the total amount of reinsurance credits taken, whether as an asset or as a reduction of liability, for these agreements in this statement? \$256,727
- (2) Does the Company have any reinsurance agreements in effect such that the amount of losses paid or accrued through the statement date may result in a payment to the reinsurer of amounts which, in aggregate and allowing for offset of mutual credits from other reinsurance agreements with the same reinsurer, exceed the total direct premium collected under the reinsured policies? NO

## Section 3 - Ceded Reinsurance Report - Part B

- (1) What is the estimated amount of the aggregate reduction in surplus, (for agreements other than those under which the reinsurer may unilaterally cancel for reasons other than for nonpayment of premium or other similar credits that are reflected in Section 2 above) of termination of all reinsurance agreements, by either party, as of the date of this statement? Where necessary, the company may consider the current or anticipated experience of the business reinsured in making this estimate. \$0
- (2) Have any new agreements been executed or existing agreements amended, since January 1 of the year of this statement, to include policies or contracts which were in-force or which had existing reserves established by the Company as of effective date of the agreement? NO

B. Uncollectible Reinsurance: NONE

C. Commutation of Ceded Reinsurance: NONE

D. Certified Reinsurer Downgraded or Status Subject to Revocation: NONE

E. Variable Annuity Reinsurance with an Affiliated Captive Reinsurer: NONE

F. Reserve Credits Taken on Variable Annuity Reinsurance with an Affiliated Captive Reinsurer: NONE

G. Ceding Entities That Utilize Captive Reinsurers to Assume Reserves Subject to the XXX/AXXX Captive Framework: NONE

**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**

- A. Participating policies were less than 1% of the total life insurance inforce as of December 31, 2017.
- B. The method of accounting for policyholder dividends is based upon dividends credited annually to policyholders on their policy anniversary date plus the change from the prior period on one year's projected dividend liability on policies in force at the statement date. Source data is produced from the Company's policy administration system.
- C. The amount of dividend expense incurred was less than \$0.1 million as of each December 31, 2017 and December 31, 2016.



NOTES TO FINANCIAL STATEMENTS

D. There was no additional income allocated to participating policyholders.

**Note 30. Premium Deficiency Reserves:** NONE

**Note 31. Reserves for Life Contracts and Annuity Contracts**

- (1) The Company waives deduction of deferred fractional premiums upon death of insured and returns any portion of the final premium for the period beyond the date of death. Reserves for these benefits are included in Exhibit 5, Life Insurance. Reserve for surrender values in excess of reserves, if any, as legally computed are reported in Exhibit 5, Miscellaneous Reserves.
- (2) Extra premiums are charged according to underwriting classifications. For Debit-Ordinary substandard policies, reserves are calculated using the same interest rate as for standard policies but using multiples of standard rates of mortality. For regular Ordinary substandard policies, reserves are calculated by computing the regular reserve for the plan and adding one-half (1/2) of the extra premium charge for the year to that reserve.
- (3) As of December 31, 2017 the Company had \$373.5 million of insurance in force for which the gross premiums are less than the net premiums according to the standard of valuation set by the State of Delaware. The reserves to cover this insurance totaled \$2.5 million and are reported in Exhibit 5, Life Insurance and Exhibit 5, Miscellaneous Reserves.
- (4) On Page 7 both the Tabular Interest per Line 4 and the Tabular Less Actual Reserve Released per Line 5 have been determined by formula as described in the instructions for Page 7. On Page 7 the Tabular Cost per Line 9 has been determined by formula as described in the instructions for Page 7 (or, alternatively, from the basic data for the calculation of policy reserves).
- (5) The tabular interest on Deposit-type Contracts is the amount actually credited or accrued to the funds during the year.
- (6) The significant changes in reserves shown on the Other Increases (net) line on Page 7, Line 7 and on the Other net change in reserves line on Exhibit 7, Line 4 as of December 31, 2017 are as follows:

1 ITEM	2 Total	3 Industrial Life	ORDINARY			7 Credit Life Group and Individual	GROUP	
			4 Life Insurance	5 Individual Annuities	6 Supple- mentary Contracts		8 Life Insurance	9 Annuities
Exhibit 7 - Funding agreement day 1 discounted cash flow gain.....	(28,114,736)			(28,114,736)				
Exhibit 7 - Funding agreement currency translation adjustment.....	16,951,296			16,951,296				
Exhibit 7 - Reclass SPIA's to supplemental contracts.....				(18,769,803)	18,769,803			
Page 7 - Reclass SPIA's to supplemental contracts.....				(14,374,034)	14,374,034			
<b>Total</b>	<b>(11,163,440)</b>			<b>(44,307,277)</b>	<b>33,143,837</b>			

**Note 32. Analysis of Annuity Actuarial Reserves and Deposit Type Liabilities by Withdrawal Characteristics**

	(1) General Account	(2) Separate Account with Guarantees	(3) Separate Account Nonguaranteed	(4) Total	(5) % of Total
<b>A. Subject to discretionary withdrawal:</b>					
(1) With market value adjustment .....	3,019,678,058			3,019,678,058	28.3%
(2) At book value less current surrender charge of 5% or more .....	576,436,589			576,436,589	5.4%
(3) At fair value .....		3,109,181		3,109,181	0.0%
(4) Total with market value adjustment or at fair value (Total of 1 through 3) .....	3,596,114,647	3,109,181		3,599,223,828	33.7%
(5) At book value without adjustment (minimal or no charge or adjustment) .....	3,039,113,048			3,039,113,048	28.5%
<b>B. Not subject to discretionary withdrawal .....</b>	<b>4,025,964,651</b>			<b>4,025,964,651</b>	<b>37.8%</b>
<b>C. Total (gross: direct + assumed) .....</b>	<b>10,661,192,346</b>	<b>3,109,181</b>		<b>10,664,301,527</b>	<b>100.0%</b>
<b>D. Reinsurance ceded .....</b>	<b>31,702,961</b>			<b>31,702,961</b>	
<b>E. Total (net)* (C) - (D) .....</b>	<b>10,629,489,385</b>	<b>3,109,181</b>		<b>10,632,598,566</b>	

\* Reconciliation of total annuity actuarial reserves and deposit fund liabilities.

F. Life & Accident & Health Annual Statement:	Amount
1. Exhibit 5, Annuities Section, Total (net) .....	7,304,712,488
2. Exhibit 5, Supplementary Contracts with Life Contingencies Section, Total (net) .....	50,260,691
3. Exhibit 7, Deposit-Type Contracts, Line 14, Column 1 .....	3,274,516,206
4. Subtotal .....	10,629,489,385
Separate Accounts Annual Statement:	
5. Exhibit 3, Line 0299999, Column 2 .....	3,109,181
6. Exhibit 3, Line 0399999, Column 2 .....	
7. Policyholder dividend and coupon accumulations .....	
8. Policyholder premiums .....	
9. Guaranteed interest contracts .....	
10. Other contract deposit funds .....	
11. Subtotal .....	3,109,181
12. Combined Total .....	10,632,598,566

**Note 33. Premiums and Annuity Considerations Deferred and Uncollected:** NONE

## NOTES TO FINANCIAL STATEMENTS

**Note 34. Separate Accounts**

A. Separate Account Activity

- (1) The Company utilizes separate accounts to record and account for assets and liabilities from the variable universal life and variable annuity product lines.
- (2) In accordance with the products recorded within the separate account, all assets are considered legally insulated from the general account claims.

As of December 31, 2017 and 2016 the Company's separate account statement included legally insulated assets of \$14.2 million and \$13.3 million, respectively. The assets legally insulated from the general account as of December 31, 2017 are attributed to the following products:

	(1)	(2)
Product/Transaction	Legally Insulated Assets	Separate Account Assets (Not Legally Insulated)
Variable Universal Life Insurance .....	11,088,481	.....
Variable Annuities .....	3,125,031	.....
<b>Total</b> .....	<b>14,213,512</b>	.....

- (3) The Company currently has two products that guarantee a minimum death benefit. The Company's general account has not paid towards the separate account guarantees for the past five years. The separate account has not paid risk charges for the past five years.
- (4) There are no securities lending transactions in the separate account.

B. General Nature and Characteristics of Separate Accounts Business

Separate accounts are utilized to record and account for two lines of business - Variable Annuities and Variable Universal Life.

The Company previously sold variable annuity and variable universal life products with a non-guaranteed return. The Company stopped marketing these products at the beginning of 2009. The net investment experience of these separate accounts is credited directly to the policyholder and can be positive or negative. The assets and liabilities of these accounts are carried at fair market value. This business is included in non-guaranteed separate accounts in the following table.

Information regarding the Separate Accounts of the Company is as follows. All amounts are for separate accounts as of or for the year ended December 31, 2017.

	(1)	(2)	(3)	(4)	(5)
	Indexed	Nonindexed Guarantee Less than/equal to 4%	Nonindexed Guarantee More than 4%	Nonguaranteed Separate Accounts	Total
(1) Premiums, considerations or deposits as of the end of current period .....				416,382	416,382
Reserves as of the end of current period					
(2) For accounts with assets at:					
a. Fair value .....				14,207,931	14,207,931
b. Amortized cost .....					
c. Total reserves* .....				14,207,931	14,207,931
(3) By withdrawal characteristics:					
a. Subject to discretionary withdrawal:					
1. With market value adjustment .....					
2. At book value without market value adjustment and with current surrender charge of 5% or more ..					
3. At fair value .....				14,207,931	14,207,931
4. At book value without market value adjustment and with current surrender charge less than 5% ..					
5. Subtotal .....				14,207,931	14,207,931
b. Not subject to discretionary withdrawal .....					
c. Total .....				14,207,931	14,207,931
*Line 2(c) should equal Line 3(c).					
(4) Reserves for Asset Default Risk in Lieu of AVR .....					

C. Reconciliation of Net Transfers To or (From) Separate Accounts

(1) Transfers as reported in the Summary of Operations of the Separate Accounts Statement:	
a. Transfers to Separate Accounts (Page 4, Line 1.4) .....	416,382
b. Transfers from Separate Accounts (Page 4, Line 10) .....	1,338,306
c. Net transfers to or (From) Separate Accounts (a) - (b) .....	(921,924)
(2) Reconciling Adjustments:	
.....	
.....	
(3) Transfers as Reported in the Summary of Operations of the Life, Accident & Health Annual Statement (1c) + (2) = (Page 4, Line 26) .....	(921,924)

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