

**QUARTERLY STATEMENT**

**OF THE**

**Athene Annuity and Life Company**

**TO THE**

**Insurance Department**

**OF THE**

**STATE OF**

**FOR THE QUARTER ENDED  
MARCH 31, 2018**

**LIFE AND ACCIDENT AND HEALTH**

**2018**

STATEMENT AS OF MARCH 31, 2018 OF THE Athene Annuity and Life Company

**ASSETS**

	Current Statement Date			4 December 31 Prior Year Net Admitted Assets
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	
1. Bonds .....	39,837,045,174		39,837,045,174	38,988,956,533
2. Stocks:				
2.1 Preferred stocks .....	100,555,975		100,555,975	99,055,975
2.2 Common stocks .....	420,023,602		420,023,602	402,043,544
3. Mortgage loans on real estate:				
3.1 First liens .....	3,609,328,044		3,609,328,044	3,759,406,453
3.2 Other than first liens.....	1,216,601,181		1,216,601,181	1,056,900,553
4. Real estate:				
4.1 Properties occupied by the company (less \$ encumbrances) .....				
4.2 Properties held for the production of income (less \$ ..... encumbrances) .....	9,388,542		9,388,542	9,388,542
4.3 Properties held for sale (less \$ encumbrances) .....	10,120,190		10,120,190	10,120,190
5. Cash (\$ .....81,240,716 ), cash equivalents (\$ ..... ) and short-term investments (\$ .....1,719,143,075 ) .....	1,800,383,791		1,800,383,791	3,176,100,220
6. Contract loans (including \$ ..... premium notes) .....	205,007,071		205,007,071	210,007,248
7. Derivatives .....	558,611,353		558,611,353	538,873,546
8. Other invested assets .....	1,827,408,150	5	1,827,408,144	1,759,688,365
9. Receivables for securities .....	48,194,052		48,194,052	29,028,154
10. Securities lending reinvested collateral assets .....				
11. Aggregate write-ins for invested assets .....	119,360,046		119,360,046	81,823,229
12. Subtotals, cash and invested assets (Lines 1 to 11) .....	49,762,027,170	5	49,762,027,165	50,121,392,552
13. Title plants less \$ ..... charged off (for Title insurers only) .....				
14. Investment income due and accrued .....	440,071,218	138,970	439,932,248	435,422,321
15. Premiums and considerations:				
15.1 Uncollected premiums and agents' balances in the course of collection .....	2,878		2,878	2,049
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$ ..... earned but unbilled premiums) .....	8,849,718		8,849,718	8,862,199
15.3 Accrued retrospective premiums (\$ ..... ) and contracts subject to redetermination (\$ ..... ) .....				
16. Reinsurance:				
16.1 Amounts recoverable from reinsurers .....	213,207,617		213,207,617	159,277,853
16.2 Funds held by or deposited with reinsured companies .....				
16.3 Other amounts receivable under reinsurance contracts .....	1,053,213,447		1,053,213,447	1,489,144,846
17. Amounts receivable relating to uninsured plans .....				
18.1 Current federal and foreign income tax recoverable and interest thereon .....				18,611,932
18.2 Net deferred tax asset .....				
19. Guaranty funds receivable or on deposit .....	42,528		42,528	42,528
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 .....	115,604		115,604	294,329
24. Health care (\$ ..... ) and other amounts receivable .....	5,861,163	4,789,653	1,071,510	1,240,453
25. Aggregate write-ins for other than invested assets .....	364,573,312	10,215,054	354,358,258	349,975,052
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25) .....	51,847,964,654	15,143,681	51,832,820,973	52,584,266,116
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts .....	2,585,110,178		2,585,110,178	2,349,017,849
28. Total (Lines 26 and 27)	54,433,074,832	15,143,681	54,417,931,151	54,933,283,965
<b>DETAILS OF WRITE-INS</b>				
1101. Derivative Collateral Asset .....	119,360,046		119,360,046	81,823,229
1102. ....				
1103. ....				
1198. Summary of remaining write-ins for Line 11 from overflow page .....				
1199. Totals (Lines 1101 through 1103 plus 1198)(Line 11 above)	119,360,046		119,360,046	81,823,229
2501. Corporate Owned Life Insurance (COLI) .....	353,647,194		353,647,194	349,471,527
2502. Miscellaneous Assets .....	10,277,860	9,566,796	711,064	503,525
2503. Prepaid Expenses .....	648,258	648,258		
2598. Summary of remaining write-ins for Line 25 from overflow page .....				
2599. Totals (Lines 2501 through 2503 plus 2598)(Line 25 above)	364,573,312	10,215,054	354,358,258	349,975,052

STATEMENT AS OF MARCH 31, 2018 OF THE Athene Annuity and Life Company

**LIABILITIES, SURPLUS AND OTHER FUNDS**

	1 Current Statement Date	2 December 31 Prior Year
1. Aggregate reserve for life contracts \$ 43,520,988,787 less \$ included in Line 6.3 (including \$ 34,831,616,610 Modco Reserve)	43,520,988,787	43,240,460,487
2. Aggregate reserve for accident and health contracts (including \$ 3,066,086 Modco Reserve)	5,134,942	5,382,796
3. Liability for deposit-type contracts (including \$ 402,658,829 Modco Reserve)	500,858,186	521,821,966
4. Contract claims:		
4.1 Life	264,455,046	234,203,585
4.2 Accident and health	23,450	14,132
5. Policyholders' dividends \$ and coupons \$ due and unpaid		
6. Provision for policyholders' dividends and coupons payable in following calendar year - estimated amounts:		
6.1 Dividends apportioned for payment (including \$ Modco)		
6.2 Dividends not yet apportioned (including \$ Modco)		
6.3 Coupons and similar benefits (including \$ Modco)		
7. Amount provisionally held for deferred dividend policies not included in Line 6		
8. Premiums and annuity considerations for life and accident and health contracts received in advance less \$ discount; including \$ 7,256 accident and health premiums	7,256	4,628
9. Contract liabilities not included elsewhere:		
9.1 Surrender values on canceled contracts		
9.2 Provision for experience rating refunds, including the liability of \$ accident and health experience rating refunds of which \$ is for medical loss ratio rebate per the Public Health Service Act		
9.3 Other amounts payable on reinsurance, including \$ assumed and \$ 1,788,546,621 ceded	1,788,546,621	2,137,442,635
9.4 Interest Maintenance Reserve	117,817,066	120,206,620
10. Commissions to agents due or accrued-life and annuity contracts \$ 10,295,035, accident and health \$ and deposit-type contract funds \$	10,295,035	8,887,290
11. Commissions and expense allowances payable on reinsurance assumed	2,241	2,241
12. General expenses due or accrued	14,534,937	12,233,187
13. Transfers to Separate Accounts due or accrued (net) (including \$ (145) accrued for expense allowances recognized in reserves, net of reinsured allowances)	748,275,401	671,373,538
14. Taxes, licenses and fees due or accrued, excluding federal income taxes	10,545,770	9,464,094
15.1 Current federal and foreign income taxes, including \$ on realized capital gains (losses)	5,584,191	
15.2 Net deferred tax liability	9,953,820	16,886,240
16. Unearned investment income	440,416	327,550
17. Amounts withheld or retained by company as agent or trustee	8,802,472	5,080,821
18. Amounts held for agents' account, including \$ 1,284,463 agents' credit balances	1,284,463	1,581,067
19. Remittances and items not allocated	102,340,233	75,724,525
20. Net adjustment in assets and liabilities due to foreign exchange rates		
21. Liability for benefits for employees and agents if not included above	42,581,597	43,647,206
22. Borrowed money \$ and interest thereon \$		
23. Dividends to stockholders declared and unpaid		
24. Miscellaneous liabilities:		
24.01 Asset valuation reserve	580,857,622	560,834,859
24.02 Reinsurance in unauthorized and certified (\$ ) companies		
24.03 Funds held under reinsurance treaties with unauthorized and certified (\$ ) reinsurers	1,431,009,067	1,449,285,954
24.04 Payable to parent, subsidiaries and affiliates	24,868,640	20,013,267
24.05 Drafts outstanding		
24.06 Liability for amounts held under uninsured plans		
24.07 Funds held under coinsurance		
24.08 Derivatives	97,913,189	67,810,242
24.09 Payable for securities	365,530,928	83,136,860
24.10 Payable for securities lending		
24.11 Capital notes \$ and interest thereon \$		
25. Aggregate write-ins for liabilities	1,144,940,129	2,282,774,076
26. Total liabilities excluding Separate Accounts business (Lines 1 to 25)	50,797,591,507	51,568,599,864
27. From Separate Accounts Statement	2,437,107,691	2,200,475,445
28. Total liabilities (Lines 26 and 27)	53,234,699,198	53,769,075,309
29. Common capital stock	10,000,000	10,000,000
30. Preferred capital stock		
31. Aggregate write-ins for other than special surplus funds		
32. Surplus notes		
33. Gross paid in and contributed surplus	930,359,018	927,979,325
34. Aggregate write-ins for special surplus funds		
35. Unassigned funds (surplus)	242,872,935	226,229,331
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 \$ 148,002,487 in Separate Accounts Statement)	1,173,231,953	1,154,208,655
38. Totals of Lines 29, 30 and 37	1,183,231,953	1,164,208,655
39. Totals of Lines 28 and 38 (Page 2, Line 28, Col. 3)	54,417,931,151	54,933,283,965
<b>DETAILS OF WRITE-INS</b>		
2501. Derivative Collateral Liability	1,091,223,423	2,227,195,423
2502. Unclaimed Funds	20,924,845	18,802,686
2503. Amount Due Reinsurer	14,555,990	10,975,144
2598. Summary of remaining write-ins for Line 25 from overflow page	18,235,871	25,800,823
2599. Totals (Lines 2501 through 2503 plus 2598)(Line 25 above)	1,144,940,129	2,282,774,076
3101.		
3102.		
3103.		
3198. Summary of remaining write-ins for Line 31 from overflow page		
3199. Totals (Lines 3101 through 3103 plus 3198)(Line 31 above)		
3401.		
3402.		
3403.		
3498. Summary of remaining write-ins for Line 34 from overflow page		
3499. Totals (Lines 3401 through 3403 plus 3498)(Line 34 above)		

## STATEMENT AS OF MARCH 31, 2018 OF THE Athene Annuity and Life Company

**SUMMARY OF OPERATIONS**

	1 Current Year To Date	2 Prior Year To Date	3 Prior Year Ended December 31
1. Premiums and annuity considerations for life and accident and health contracts	186,594,540	225,940,694	1,533,886,635
2. Considerations for supplementary contracts with life contingencies	788,733	975,883	3,409,074
3. Net investment income	912,569,868	710,704,205	2,952,220,487
4. Amortization of Interest Maintenance Reserve (IMR)	3,009,675	2,706,156	12,484,107
5. Separate Accounts net gain from operations excluding unrealized gains or losses	(410,385)	333,939	8,030,178
6. Commissions and expense allowances on reinsurance ceded	179,593,954	150,810,624	775,073,607
7. Reserve adjustments on reinsurance ceded	(449,898,267)	(29,772,645)	655,284,862
8. Miscellaneous Income:			
8.1 Income from fees associated with investment management, administration and contract guarantees from Separate Accounts	1,973,465	126,622	2,403,724
8.2 Charges and fees for deposit-type contracts			
8.3 Aggregate write-ins for miscellaneous income	4,186,524	6,216,279	23,426,162
9. Totals (Lines 1 to 8.3)	838,408,108	1,068,041,757	5,966,218,836
10. Death benefits	356,739	(1,155,350)	(141,204)
11. Matured endowments (excluding guaranteed annual pure endowments)			
12. Annuity benefits	67,374,137	50,544,222	177,702,613
13. Disability benefits and benefits under accident and health contracts	20,017	80,501	722,296
14. Coupons, guaranteed annual pure endowments and similar benefits			
15. Surrender benefits and withdrawals for life contracts	141,952,989	126,123,116	500,684,758
16. Group conversions			
17. Interest and adjustments on contract or deposit-type contract funds	6,056,526	5,953,246	20,335,674
18. Payments on supplementary contracts with life contingencies	2,268,967	766,535	7,838,717
19. Increase in aggregate reserves for life and accident and health contracts	306,325,916	675,272,587	3,731,008,167
20. Totals (Lines 10 to 19)	524,355,292	857,584,856	4,438,151,022
21. Commissions on premiums, annuity considerations, and deposit-type contract funds (direct business only)	123,467,398	109,149,232	497,997,472
22. Commissions and expense allowances on reinsurance assumed	72,548	71,018	311,053
23. General insurance expenses	65,194,207	63,984,081	260,757,208
24. Insurance taxes, licenses and fees, excluding federal income taxes	15,989,111	12,441,243	47,066,329
25. Increase in loading on deferred and uncollected premiums			
26. Net transfers to or (from) Separate Accounts net of reinsurance	42,741,491	(1,242,852)	435,692,868
27. Aggregate write-ins for deductions	12,081,714	7,756,252	59,331,138
28. Totals (Lines 20 to 27)	783,901,761	1,049,743,830	5,739,307,090
29. Net gain from operations before dividends to policyholders and federal income taxes (Line 9 minus Line 28)	54,506,347	18,297,927	226,911,746
30. Dividends to policyholders	(490)	3	3
31. Net gain from operations after dividends to policyholders and before federal income taxes (Line 29 minus Line 30)	54,506,837	18,297,925	226,911,743
32. Federal and foreign income taxes incurred (excluding tax on capital gains)	(4,773,986)	(13,609,690)	(73,122,463)
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)	59,280,823	31,907,615	300,034,206
34. Net realized capital gains (losses) (excluding gains (losses) transferred to the IMR) less capital gains tax of \$ 9,028,984 (excluding taxes of \$ 1,969,855 transferred to the IMR)	(33,761,394)	(7,172,851)	(60,703,393)
35. Net income (Line 33 plus Line 34)	25,519,429	24,734,764	239,330,813
<b>CAPITAL AND SURPLUS ACCOUNT</b>			
36. Capital and surplus, December 31, prior year	1,164,208,655	1,113,339,043	1,113,339,043
37. Net income (Line 35)	25,519,429	24,734,764	239,330,813
38. Change in net unrealized capital gains (losses) less capital gains tax of \$ 10,684,807	39,527,385	9,498,990	73,359,951
39. Change in net unrealized foreign exchange capital gain (loss)	5,441,680	(5,055,087)	13,927,223
40. Change in net deferred income tax	17,617,227	7,905,900	(36,067,213)
41. Change in nonadmitted assets	(8,585,025)	(4,547,475)	1,518,189
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	(20,022,764)	(22,165,031)	(86,890,180)
45. Change in treasury stock			
46. Surplus (contributed to) withdrawn from Separate Accounts during period			
47. Other changes in surplus in Separate Accounts Statement	(129,531)		85,365
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	2,379,693	(1,496,302,224)	(1,484,669,601)
51.2 Transferred to capital (Stock Dividend)			
51.3 Transferred from capital			
51.4 Change in surplus as a result of reinsurance	(21,494,947)	(14,633,765)	(183,114,076)
52. Dividends to stockholders			
53. Aggregate write-ins for gains and losses in surplus	(21,229,850)	1,502,315,641	1,513,389,143
54. Net change in capital and surplus for the year (Lines 37 through 53)	19,023,298	1,751,714	50,869,613
55. Capital and surplus, as of statement date (Lines 36 + 54)	1,183,231,953	1,115,090,756	1,164,208,655
<b>DETAILS OF WRITE-INS</b>			
08.301. COLI Income	4,175,668	6,203,794	23,371,216
08.302. Miscellaneous Income	10,856	12,485	54,946
08.303.			
08.398. Summary of remaining write-ins for Line 8.3 from overflow page			
08.399. Totals (Lines 08.301 through 08.303 plus 08.398) (Line 8.3 above)	4,186,524	6,216,279	23,426,162
2701. Funds Withheld Adjustment - Ceded	18,867,467	19,538,346	83,159,221
2702. Transfer to IMR - Ceded	(6,715,587)	(11,417,318)	(22,285,349)
2703. Transfer to IMR - MVA Benefits	(74,699)	(355,788)	(1,612,390)
2798. Summary of remaining write-ins for Line 27 from overflow page	4,533	(8,987)	69,656
2799. Totals (Lines 2701 through 2703 plus 2798)(Line 27 above)	12,081,714	7,756,252	59,331,138
5301. Correction of Prior Period Error	(21,307,811)		11,592,419
5302. Athene Re IV Tax Sharing Agreement	77,961		(518,917)
5303. SSAP 72 Surplus Reset		1,502,315,641	1,502,315,641
5398. Summary of remaining write-ins for Line 53 from overflow page			
5399. Totals (Lines 5301 through 5303 plus 5398)(Line 53 above)	(21,229,850)	1,502,315,641	1,513,389,143

## STATEMENT AS OF MARCH 31, 2018 OF THE Athene Annuity and Life Company

**CASH FLOW**

	1 Current Year To Date	2 Prior Year To Date	3 Prior Year Ended December 31
<b>Cash from Operations</b>			
1. Premiums collected net of reinsurance .....	187,453,840	226,867,949	1,537,915,221
2. Net investment income .....	875,008,085	653,853,110	2,724,388,270
3. Miscellaneous income .....	185,573,477	155,672,918	682,722,828
4. Total (Lines 1 to 3) .....	1,248,035,402	1,036,393,976	4,945,026,319
5. Benefit and loss related payments .....	595,289,926	101,116,552	(216,701,576)
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts .....	(34,160,371)	184,964,578	502,583,845
7. Commissions, expenses paid and aggregate write-ins for deductions .....	197,682,096	184,577,161	789,165,162
8. Dividends paid to policyholders .....	(490)	3	3
9. Federal and foreign income taxes paid (recovered) net of \$ ..... tax on capital gains (losses) .....	(18,611,933)	(92,025,856)	(79,384,578)
10. Total (Lines 5 through 9) .....	740,199,227	378,632,437	995,662,854
11. Net cash from operations (Line 4 minus Line 10) .....	507,836,175	657,761,539	3,949,363,465
<b>Cash from Investments</b>			
12. Proceeds from investments sold, matured or repaid:			
12.1 Bonds .....	1,857,786,789	1,568,830,972	6,949,580,161
12.2 Stocks .....	11,157,810	10,976,000	25,976,000
12.3 Mortgage loans .....	393,901,953	264,219,208	1,295,228,844
12.4 Real estate .....		2,624,973	8,291,994
12.5 Other invested assets .....	65,398,577	43,791,129	202,331,587
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments .....	1,136,635	(21,005)	(4,526,505)
12.7 Miscellaneous proceeds .....	282,583,205	265,012,516	57,773,402
12.8 Total investment proceeds (Lines 12.1 to 12.7) .....	2,611,964,969	2,155,433,794	8,534,655,484
13. Cost of investments acquired (long-term only):			
13.1 Bonds .....	2,719,453,135	2,519,519,993	9,393,177,496
13.2 Stocks .....	23,658,756	2,256,000	61,241,518
13.3 Mortgage loans .....	402,503,658	209,639,468	1,744,728,697
13.4 Real estate .....			
13.5 Other invested assets .....	116,971,769	125,334,130	496,905,651
13.6 Miscellaneous applications .....	81,751,280	22,550,519	101,338,577
13.7 Total investments acquired (Lines 13.1 to 13.6) .....	3,344,338,598	2,879,300,110	11,797,391,939
14. Net increase (or decrease) in contract loans and premium notes .....	(5,000,178)	(8,124,610)	(22,853,743)
15. Net cash from investments (Line 12.8 minus Line 13.7 and Line 14) .....	(727,373,451)	(715,741,706)	(3,239,882,712)
<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 .....	(20,963,780)	(49,690,528)	(98,774,501)
16.5 Dividends to stockholders .....			
16.6 Other cash provided (applied) .....	(1,135,215,374)	313,203,948	837,476,498
17. Net cash from financing and miscellaneous sources (Line 16.1 through Line 16.4 minus Line 16.5 plus Line 16.6) .....	(1,156,179,154)	263,513,420	738,701,997
<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) .....	(1,375,716,429)	205,533,253	1,448,182,749
19. Cash, cash equivalents and short-term investments:			
19.1 Beginning of year .....	3,176,100,220	1,727,917,471	1,727,917,471
19.2 End of period (Line 18 plus Line 19.1) .....	1,800,383,791	1,933,450,724	3,176,100,220

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

20.0001. Capital contribution of stock compensation expense (financing) .....	2,379,693	6,013,417	17,646,040
20.0002. Capital contribution of stock compensation expense (investing) .....	(129,696)	(587,326)	(1,494,451)
20.0003. Capital contribution of stock compensation expense (operating) .....	(2,249,997)	(5,426,091)	(16,151,589)
20.0004. Reinsurance activity settled in bonds (operating) .....	96,576,156	83,480,096	410,513,577
20.0005. Reinsurance activity settled in bonds (investing) .....	(96,576,156)	(83,480,096)	(410,513,577)
20.0006. Security exchanges - bond proceeds (investing) .....	60,255,556	98,657,707	426,342,445
20.0007. Security exchanges - bonds acquired (investing) .....	(60,255,556)	(98,657,707)	(426,342,445)
20.0008. Interest capitalization (operating) .....	1,719,123		7,681,611
20.0009. Interest capitalization (investing) .....	(1,719,123)		(7,681,611)
20.0010. Transfer from Schedule B to Schedule A - proceeds (investing) .....		2,053,427	15,627,634

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

20.0011. Transfer from Schedule B to Schedule A - acquired (investing) .....		(2,053,427)	(15,627,634)
20.0012. Transfer from Schedule D to Schedule BA - proceeds (investing) .....		134,033,354	134,033,354
20.0013. Transfer from Schedule D to Schedule BA - acquired (investing) .....		(134,033,354)	(134,033,354)
20.0014. Schedule BA distribution - proceeds (investing) .....		666,574	1,440,319
20.0015. Schedule BA distribution - acquired (investing) .....		(666,574)	(1,440,319)

## NOTES TO FINANCIAL STATEMENTS

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

## A. Accounting Practices

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

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

Among the products issued by the Company are indexed universal life insurance and indexed annuities. These products allow a portion of the premium to earn interest based on certain indices, primarily the Standard & Poor's 500 Composite Stock Price Index. Call options, futures, variance swaps and total return swaps are purchased to hedge the growth in interest credited to the customer as a direct result of increases in the related indices. In 2006, the Commissioner of the Division issued Bulletin 06-01, *Accounting for Derivative Instruments Used to Hedge the Growth in Interest Credited for Index Products*, which prescribes that an insurer may elect to recognize changes in the fair value of derivative instruments purchased to hedge indexed products in the statement of operations. The Company has elected to apply Bulletin 06-01 to its futures, variance swaps and total return swaps, which resulted in a decrease of \$1.9 million and less than \$0.1 million to the Company's net income for the three months ended March 31, 2018 and for the year ended December 31, 2017, respectively. Application of Bulletin 06-01 does not impact the Company's statutory surplus amounts.

In 2009, the Commissioner of the Division promulgated Iowa Administrative Code (IAC) Section 191-97, *Accounting for Certain Derivative Instruments Used to Hedge the Growth in Interest Credited for Indexed Insurance Products and Accounting for the Indexed Insurance Products Reserve*, which prescribes that an insurer may elect (i) to use an amortized cost method to account for certain derivative instruments, such as call options, purchased to hedge the growth in interest credited to the customer on indexed insurance products and (ii) to utilize an indexed annuity reserve calculation methodology under which call options associated with the current index interest crediting term are valued at zero. The Company has elected to apply IAC Section 191-97 to its over the counter (OTC) call options and reserve liabilities. As a result, the Company's net income decreased by \$50.3 million and increased by \$97.2 million for the three months ended March 31, 2018 and for the year ended December 31, 2017, respectively, and the Company's statutory surplus decreased by \$38.9 million and \$66.2 million as of March 31, 2018 and December 31, 2017, respectively.

The NAIC requires annuities issued by life insurance companies on or after January 1, 2015, to use the 2012 Individual Annuity Reserving (IAR) Mortality Table. In 2015, the Division promulgated IAC Section 43.3(5), which set an elective alternative effective date of January 1, 2016 for adoption of the 2012 IAR Mortality Table. The Company chose to use the Annuity 2000 Mortality Table for all annuities issued in 2015, which resulted in a decrease of \$3.1 million and an increase of \$1.2 million to the Company's net income for the three months ended March 31, 2018 and for the year ended December 31, 2017, respectively. The Company's statutory surplus increased by \$2.3 million and \$2.7 million as of March 31, 2018 and December 31, 2017, respectively.

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

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

	SSAP #	F/S Page	F/S Line #	March 31, 2018	December 31, 2017
NET INCOME					
(1) State basis (Page 4, Line 35, Columns 1 & 3)	XXX	XXX	XXX	25,519,429	239,330,813
(2) State Prescribed Practices that are an increase/(decrease) from NAIC SAP:					
Derivative Instruments Bulletin 06-01	86	4	38	(1,894,089)	(30,784)
Derivative Instruments and Equity Indexed Reserves IAC 191-97	86, 51	2, 3	7, 1	(50,316,261)	97,182,368
2012 IAR Mortality Table for Annuities Issued in 2015 IAC 43.3(5)	51	3	1	(3,080,075)	1,180,426
(3) State Permitted Practices that are an increase/(decrease) from NAIC SAP:					
(4) NAIC SAP (1-2-3=4)	XXX	XXX	XXX	80,809,854	140,998,803
SURPLUS					
(5) State basis (Page 3, Line 38, Columns 1 & 2)	XXX	XXX	XXX	1,183,231,953	1,164,208,655
(6) State Prescribed Practices that are an increase/(decrease) from NAIC SAP:					
Derivative Instruments and Equity Indexed Reserves IAC 191-97	86, 51	2, 3	7, 1	(38,881,197)	(66,192,009)
2012 IAR Mortality Table for Annuities Issued in 2015 IAC 43.3(5)	51	3	1	2,330,600	2,674,683
(7) State Permitted Practices that are an increase/(decrease) from NAIC SAP:					
SSAP No. 72 Surplus Reset	72	3	33, 35	0	0
(8) NAIC SAP (5-6-7=8)	XXX	XXX	XXX	1,219,782,550	1,227,725,981

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

## C. Accounting Policy

(1) – (5) No Change

(6) Loan-backed and structured securities are stated at amortized cost or fair market value based on their rating by the NAIC. Changes to estimated cash flows on the securities are accounted for retrospectively for securities that are highly rated at the time of purchase and in which the security cannot be contractually prepaid or settled in such a way that the Company would not recover substantially all of the 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.

## NOTES TO FINANCIAL STATEMENTS

(7) – (13) No Change

## D. Going Concern

Management's assessment of the relevant conditions through May 14, 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 A-791 amortization and reserves. 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 A-791 amortization represented a reclassification of \$26.5 million between income and surplus, with no net impact to surplus, and the impact of the correction of reserves increased surplus by \$5.2 million in 2018. The total of these amounts represented less than 1% of ending capital and surplus as of both March 31, 2018 and December 31, 2017.

**Note 3. Business Combinations and Goodwill:** No Change**Note 4. Discontinued Operations:** NONE**Note 5. Investments**

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

B. Debt Restructuring: No Change

C. Reverse Mortgages: NONE

D. Loan-Backed Securities

- (1) Prepayment assumptions for loan-backed bonds and structured securities were obtained from broker dealer survey values or internal estimates.
- (2) No other-than-temporary impairment was recognized due to the intent to sell or inability or lack of intent to retain the investment for a period of time sufficient to recover the amortized cost basis.
- (3) 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 CUSIP	2 Book/Adjusted Carrying Value Amortized Cost Before Current Period OTTI	3 Present Value of Projected Cash Flows	4 Recognized Other-Than- Temporary Impairment	5 Amortized Cost After Other-Than- Temporary Impairment	6 Fair Value at time of OTTI	7 Date of Financial Statement Where Reported
38375U-VC-1	2,076,515	2,047,752	28,764	2,047,752	2,095,400	03/31/2018
38375U-TN-0	3,537,968	3,490,052	47,917	3,490,052	3,529,125	03/31/2018
00442B-AE-1	2,298,853	2,254,743	44,110	2,254,743	2,258,963	03/31/2018
94980X-AS-3	1,937,683	1,900,452	37,231	1,900,452	1,907,629	03/31/2018
61748H-RW-3	1,909,778	1,850,423	59,354	1,850,423	1,860,033	03/31/2018
46629C-AA-5	599,956	542,880	57,076	542,880	506,368	03/31/2018
36185M-DQ-2	9,227,433	9,131,645	95,788	9,131,645	8,935,961	03/31/2018
05946X-QS-5	2,685,897	2,654,490	31,407	2,654,490	2,630,108	03/31/2018
Total	XXX	XXX	401,647	XXX	XXX	XXX

- (4) The following table shows the gross unrealized losses and fair values of loan-backed securities, which have not been impaired to fair value, aggregated by length of time that individual securities have been in a continuous unrealized loss position as of March 31, 2018.

a. The aggregate amount of unrealized losses:

1. Less than 12 Months ..... 36,077,307
2. 12 Months or Longer ..... 32,138,836

b. The aggregate related fair value of securities with unrealized losses:

1. Less than 12 Months ..... 2,556,478,773
2. 12 Months or Longer ..... 844,513,258

- (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 – R. No Change

**Note 6. Joint Ventures, Partnerships and Limited Liability Companies:** No Change**Note 7. Investment Income:** No Change**Note 8. Derivative Instruments**

A – G. No Change

H. There were no derivative contracts with premium cost.

**Note 9. Income Taxes:** No Change

## NOTES TO FINANCIAL STATEMENTS

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

Some employees of Athene Employee Services LLC participate in one or more Share Award Agreements (the Agreements) sponsored by AHL, an indirect parent of the Company, for which the Company has no legal obligation. Salary expense of Athene Employee Services LLC is partially allocated to the Company through the Shared Services Agreement. Under SSAP 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 \$2.4 million and \$17.6 million for the three months ended March 31, 2018 and for the year ended December 31, 2017, respectively, which includes amounts contributed by the Company to downstream insurance subsidiaries.

During February 2018, Athene Life Re Ltd. (ALRe) formed a subsidiary Bermuda reinsurer, Athene Annuity Re Ltd. (AARe) which has been licensed with the Bermuda Monetary Authority. During 2018, pursuant to a Contribution Agreement, AHL contributed Athene USA Corporation, an indirect parent of the Company, and its subsidiaries to AHL's wholly owned subsidiary ALRe.

The Company recaptured, amended, and entered into new reinsurance agreements with affiliates during 2018. See Note 23, Reinsurance for the details of those changes.

**Note 11. Debt**

A. No Change

B. Federal Home Loan Bank (FHLB) Agreements

(1) The Company is a member of the FHLB of Des Moines. Through its membership, the Company is eligible to borrow under variable rate short-term federal fund arrangements to provide additional liquidity. The Company did not participate in short-term federal funds borrowing and thus did not incur interest expense for the three months ended March 31, 2018 and for the year ended December 31, 2017. The Company has issued funding agreements to the FHLB of Des Moines in exchange for cash resulting in a liability of \$609.0 million as of March 31, 2018. The Company uses these funds in an investment spread strategy, consistent with its other investment spread operations. As such, the Company applies SSAP No. 52, *Deposit-Type Contracts*, accounting treatment to these funds, consistent with its other deposit-type contracts. It is not part of the Company's strategy to utilize these funds for operations, and any funds obtained from the FHLB of Des Moines for use in general operations would be accounted for consistent with SSAP No. 15, *Debt and Holding Company Obligations*, as borrowed money. The table below indicates the amount of FHLB of Des Moines stock purchased, collateral pledged, assets and liabilities related to the agreement with FHLB of Des Moines.

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

As disclosed in Note 22, during April 2018, the Company borrowed \$183.0 million from the FHLB through their variable rate short-term federal funds program.

(2) FHLB Capital Stock  
a. Aggregate Totals

	1 Total 2+3	2 General Account	3 Separate Accounts
1. Current Year			
(a) Membership Stock - Class A .....			
(b) Membership Stock - Class B .....	10,000,000	10,000,000	
(c) Activity Stock .....	24,648,000	24,648,000	
(d) Excess Stock .....			
(e) Aggregate Total (a+b+c+d) .....	34,648,000	34,648,000	
(f) Actual or estimated Borrowing Capacity as Determined by the Insurer .....	1,500,000,000	XXX	XXX
2. Prior Year-end			
(a) Membership Stock - Class A .....			
(b) Membership Stock - Class B .....	10,000,000	10,000,000	
(c) Activity Stock .....	21,904,000	21,904,000	
(d) Excess Stock .....			
(e) Aggregate Total (a+b+c+d) .....	31,904,000	31,904,000	
(f) Actual or estimated Borrowing Capacity as Determined by the Insurer .....	1,500,000,000	XXX	XXX

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

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

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS

## (3) Collateral Pledged to FHLB

## a. Amount Pledged as of Reporting Date

	1	2	3
	Fair Value	Carrying Value	Aggregate Total Borrowing
1. Current Year Total General and Separate Accounts Total Collateral Pledged (Lines 2+3) .....	879,325,068	844,852,325	616,200,000
2. Current Year General Account Total Collateral Pledged .....	879,325,068	844,852,325	10,000,000
3. Current Year Separate Accounts Total Collateral Pledged .....			606,200,000
4. Prior Year-end Total General and Separate Accounts Total Collateral Pledged .....	945,248,016	903,780,228	547,600,000
11B(3)a1 (Columns 1, 2 and 3) should be equal to or less than 11B(3)b1 (Columns 1, 2 and 3 respectively)			
11B(3)a2 (Columns 1, 2 and 3) should be equal to or less than 11B(3)b2 (Columns 1, 2 and 3 respectively)			
11B(3)a3 (Columns 1, 2 and 3) should be equal to or less than 11B(3)b3 (Columns 1, 2 and 3 respectively)			
11B(3)a4 (Columns 1, 2 and 3) should be equal to or less than 11B(3)b4 (Columns 1, 2 and 3 respectively)			

## b. Maximum Amount Pledged During Reporting Period

	1	2	3
	Fair Value	Carrying Value	Amount Borrowed at Time of Maximum Collateral
1. Current Year Total General and Separate Accounts Maximum Collateral Pledged (Lines 2+3) .....	945,248,016	903,780,228	547,600,000
2. Current Year General Account Maximum Collateral Pledged .....	945,248,016	903,780,228	10,000,000
3. Current Year Separate Accounts Maximum Collateral Pledged .....			537,600,000
4. Prior Year-end Total General and Separate Accounts Maximum Collateral Pledged .....	1,006,367,454	984,796,516	640,600,000

## (4) Borrowing from FHLB

## a. Amount as of Reporting Date

	1	2	3	4
	Total 2+3	General Account	Separate Accounts	Funding Agreements Reserves Established
1. Current Year				
(a) Debt .....				XXX .....
(b) Funding Agreements .....	616,200,000	10,000,000	606,200,000	608,982,892
(c) Other .....				XXX .....
(d) Aggregate Total (a+b+c) .....	616,200,000	10,000,000	606,200,000	608,982,892
2. Prior Year-end				
(a) Debt .....				XXX .....
(b) Funding Agreements .....	547,600,000	10,000,000	537,600,000	547,600,000
(c) Other .....				XXX .....
(d) Aggregate Total (a+b+c) .....	547,600,000	10,000,000	537,600,000	547,600,000

## b. Maximum Amount During Reporting Period (Current Year)

	1	2	3
	Total 2+3	General Account	Separate Accounts
1. Debt .....			
2. Funding Agreements .....	616,200,000	10,000,000	606,200,000
3. Other .....			
4. Aggregate Total (Lines 1+2+3) .....	616,200,000	10,000,000	606,200,000
11B(4)b4 (Columns 1, 2 and 3) should be equal to or greater than 11B(4)a1(d) (Columns 1, 2 and 3 respectively)			

## c. FHLB - Prepayment Obligations

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

**Note 12. Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences and Other Postretirement Benefit Plans:** No Change**Note 13. Capital and Surplus, Shareholders' Dividend Restrictions and Quasi-Reorganizations**

(1) – (11) No Change

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

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

A. Contingent Commitments: No Change

B. Assessments: No Change

C. Gain Contingencies: NONE

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

E. Joint and Several Liabilities: NONE

## NOTES TO FINANCIAL STATEMENTS

## F. All Other Contingencies

On July 27, 2015, John Griffiths, on behalf of himself and others similarly situated, filed a putative class action complaint in the United States District Court for the District of Massachusetts. An amended complaint was filed on December 18, 2015. The complaint asserts claims against AHL, the Company and Athene London Assignment Corporation (Athene London), in addition to an Aviva defendant. AHL is a named defendant due to its purchase of Aviva USA, and the Company and Athene London are named as successors to Aviva Life Insurance Company and Aviva London Assignment Corporation, respectively. The complaint alleges a putative class of all persons who are the beneficial owners of assets which were used to purchase structured settlement annuities that Aviva Life Insurance Company, Aviva London Assignment Corporation, and Aviva International Insurance Limited (collectively, the Aviva Entities) or their predecessors, as applicable, delivered to purchasers on or after April 1, 2003 that were backed by a capital maintenance agreement issued by Aviva International Insurance Limited or its predecessor (the CMA). The complaint alleges that the Aviva Entities sold structured settlement annuities to the public on the basis that such products were backed by the CMA, which was alleged to be a source of great financial strength. The complaint further alleges that the Aviva Entities used the CMA to enhance the sales volume and raise the price of the annuities. The complaint claims that, as a result of Aviva USA's sale to AHL, the CMA terminated. According to the complaint, no notice of this termination was provided to the owners of the structured settlement annuities. The complaint alleges that the termination of the CMA gave rise to claims for breach of contract, breach of fiduciary duty, promissory estoppel, and unjust enrichment. AHL and plaintiff agreed to a term sheet settlement on a class wide basis in late 2017. Terms of the settlement, which is subject to court approval, include: (1) AHL entering into a capital maintenance agreement with Athene London requiring AHL to provide capital to Athene London upon a missed structured settlement payment that is not timely cured and (2) AHL paying a monetary amount that is immaterial to AHL.

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 had resulted in the identification of a significant number of asserted violations of New York insurance law associated with the life block, with a significant number of such violations not subject to dispute by FAFLIC or ALICNY. 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 is nearing a resolution of the New York Department market conduct examination, but there are no assurances that a definitive agreement will be finalized and executed by the parties. ALICNY currently expects the resolution will not have a material impact on its capital and surplus. To the extent ALICNY is unable to reach an agreement with the New York Department, it is possible that ALICNY may incur fines or penalties which could have a material adverse effect on the Company's capital and surplus through its carrying value of subsidiaries. In addition to the foregoing, the Company has received inquiries, and expects to continue to receive inquiries, from other regulatory authorities regarding the conversion matter. It is possible that other jurisdictions may pursue similar formal examinations, inquiries or enforcement proceedings and that any examinations, inquiries or and/or enforcement proceedings may result in fines, administrative penalties and payments to policyholders. Other than described above, the Company is not currently able to estimate the amount of any such fines, penalties or payments arising from these matters with reasonable certainty, but it is possible that such amounts may be material.

In 2000 and 2001, two insurance companies which were subsequently merged into the Company purchased from American General Life Insurance Company (American General) broad based variable corporate-owned life insurance (COLI) policies that, as of March 31, 2018, had an asset value of \$353.6 million. In January 2012, the COLI policy administrator delivered to the Company a supplement to the existing COLI policies and advised that American General and ZC Resource Investment Trust (ZC Trust) had unilaterally implemented changes set forth in the supplement that if effective, would: (1) potentially negatively impact the crediting rate for the policies and (2) change the exit and surrender protocols set forth in the policies. In March 2013, the Company filed suit against American General, ZC Trust, and ZC Resource LLC in Chancery Court in Delaware, seeking, among other relief, a declaration that the changes set forth in the supplement were ineffectual and in breach of the parties' agreement. The parties filed cross motions for judgment as a matter of law, and the court granted defendants' motion and dismissed without prejudice on ripeness grounds. The issue that negatively impacts the crediting rate for one of the COLI policies has subsequently been triggered and on April 3, 2018, the Company filed its suit against the same defendants in Chancery Court in Delaware seeking substantially similar relief. If the supplement is ultimately deemed to be effective, the purported changes to the policies could impair the Company's ability to access the value of guarantees associated with the policies. The value of the guarantees included within the asset value reflected above is \$171.1 million as of March 31, 2018.

On April 6, 2016, the U.S. 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 DOL delayed the applicability date of the fiduciary rule to June 9, 2017 and the full compliance date to July 1, 2019. On March 15, 2018, the U.S. Court of Appeals for the Fifth Circuit issued an opinion vacating, in their entirety, the DOL fiduciary rule and its associated package of new and amended prohibited transaction exemptions. In late April, the American Association of Retired Persons (AARP) and top legal officials in California, New York and Oregon filed a petition in the Fifth Circuit Court of Appeals asking for the court's permission to intervene in the lawsuit to appeal the opinion. The Fifth Circuit ruling is scheduled to take effect on May 7, 2018 absent any petition for rehearing or motion to stay by the DOL or an approval of the request to intervene. The Company will continue to abide by the fiduciary rule unless and until the Fifth Circuit's ruling becomes effective.

The U.S. Securities and Exchange Commission (SEC) has indicated that it will work with the DOL to propose rules creating a uniform standard of conduct applicable to broker-dealers and investment advisers, which, if adopted, may affect the distribution of the Company's products. On April 18, 2018, the SEC released three new proposed rules addressing a uniform best interest standard of conduct with the public comment period ending 90 days after publication of the documents in the Federal Register. In addition, the NAIC is working to propose changes to the Suitability in Annuity Transactions Model Regulation to include best interest. Should the SEC or NAIC rules, if adopted, not align, the distribution of the Company's products could be further complicated.

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:** No Change

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

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

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

## NOTES TO FINANCIAL STATEMENTS

## Note 20. Fair Value Measurement

- A.  
(1) Fair value measurements at reporting date

Description for each class of asset or liability	(Level 1)	(Level 2)	(Level 3)	Total	Net Asset Value (NAV) Included in Level 2
<b>a. Assets at fair value</b>					
Bonds: CMBS .....		4,305		4,305	
Bonds: RMBS .....		587,571		587,571	
Common stocks: Unaffiliated .....	8,740,500	34,650,508	492,291	43,883,299	
Derivative assets: Currency Swaps .....		2,183,744		2,183,744	
Derivative assets: Interest Rate Swaps .....	71,407	29,646		101,053	
Derivative assets: Variance Swaps .....		111,751		111,751	
Derivative assets: Futures .....	2,849,639			2,849,639	
Derivative assets: Forwards .....		569,524		569,524	
Separate account assets: Variable products .....		34,674,425		34,674,425	
<b>Total assets at fair value</b> .....	<b>11,661,546</b>	<b>72,811,474</b>	<b>492,291</b>	<b>84,965,311</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: Interest Rate Swaps .....		43,181		43,181	
Derivative liabilities: Total Return Swaps .....		4,162,260		4,162,260	
Derivative liabilities: Variance Swaps .....		288,352		288,352	
Derivative liabilities: Futures .....	293,455			293,455	
Derivative liabilities: Forwards .....		322,464		322,464	
Separate account liabilities: Variable products .....		34,674,280		34,674,280	
<b>Total liabilities at fair value</b> .....	<b>293,455</b>	<b>39,490,537</b>		<b>39,783,992</b>	

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the quarter ended March 31, 2018.

- (2) Fair value measurements in (Level 3) of the fair value hierarchy

Description for each class of asset or liability	Ending Balance at 12/31/2017	Transfers into Level 3	Transfers out of Level 3	Total gains and (losses) included in Net Income	Total gains and (losses) included in Surplus	Purchases	Issuances	Sales	Settlements	Ending Balance at 03/31/2018
<b>a. Assets</b>										
Common stocks: Unaffiliated .....	376,723		(2,508)		118,036	40				492,291
<b>Total Assets</b> .....	<b>376,723</b>		<b>(2,508)</b>		<b>118,036</b>	<b>40</b>				<b>492,291</b>

Assets transferred out of Level 3 primarily included those assets for which the Company is now able to obtain pricing from a recognized external pricing source.

- (3) Transfers between fair value hierarchy levels are recognized at the end of the period in which the transfer occurs.  
(4) The following discussion describes the valuation methodologies and inputs used for assets and liabilities measured and disclosed at fair value. The techniques utilized in estimating the fair values of financial instruments are reliant on the assumptions used.

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

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

The levels of the fair value hierarchy are as follows:

Level 1 - Unadjusted quoted prices for identical assets or liabilities in an active market.

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

Level 2 inputs include the following:

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

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

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

- B. Other Fair Value Disclosures: NONE

## NOTES TO FINANCIAL STATEMENTS

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

Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	(Level 1)	(Level 2)	(Level 3)	Not Practicable (Carrying Value)	Net Asset Value (NAV) Included in Level 2
Assets - Bonds	41,142,818,518	39,837,045,174	5,438,625	39,663,000,772	1,474,379,121		
Assets - Preferred stocks	106,840,876	100,555,975		106,840,876			
Assets - Common stocks unaffiliated	43,883,299	43,883,299	8,740,500	34,650,508	492,291		
Assets - Mortgage loans - first liens	3,716,855,323	3,609,328,044			3,716,855,323		
Assets - Mortgage loans - other than first liens	1,218,136,293	1,216,601,181			1,218,136,293		
Assets - Policy loans	205,007,071	205,007,071			205,007,071		
Assets - Cash and short-term investments	1,800,377,786	1,800,383,791	1,790,872,064	9,505,722			
Assets - Derivative assets	1,968,898,801	558,611,353	2,921,047	1,965,977,754			
Assets - Derivative collateral assets	119,360,046	119,360,046	119,360,046				
Assets - Other invested assets	1,826,596,738	1,827,408,144		322,723,585	1,503,873,153		
Assets - Separate account: variable products	34,674,425	34,674,425		34,674,425			
Assets - Separate account: group annuity	2,435,785,566	2,471,123,148	134,860,481	2,039,528,563	261,396,522		
Liabilities - Deposit-type contracts	518,398,663	500,858,186			10,025,146		
Liabilities - Collateralized borrowings	10,623,693	10,502,723			10,623,693		
Liabilities - Derivative liabilities	193,801,770	97,913,189	21,772,739	167,182,023	4,847,008		
Liabilities - Derivative collateral liability	1,091,223,423	1,091,223,423	1,091,223,423				
Liabilities - Separate account: funding agreements	612,657,988	598,982,892			612,657,988		
Liabilities - Separate account: group annuity deposit-type contracts	280,649	243,047			280,649		

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. In addition, unaffiliated common stocks include FHLB stock, which is carried at fair value, which is presumed to be par because it can only be redeemed by the bank.

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

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

Derivatives – Derivative contracts can be exchange traded or over-the-counter. Over-the-counter derivatives are valued using valuation models or an income approach using third-party broker valuations. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, measures of volatility, prepayment rates, and correlation of the inputs. The Company considers and incorporates counterparty credit risk in the valuation process through counterparty credit rating requirements and monitoring of overall exposure. The Company also evaluates and includes its own nonperformance risk in valuing derivatives. The majority of the Company's derivatives trade 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. The investments are classified as Level 3 due to the limited market activity and price transparency inherent in the market for such investments. Other than partnerships, other invested assets may include surplus notes and other investments with bond or stock characteristics and the Company attempts to value these using several 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 the underlying funds accrue directly to the policy owners and are not included in the Company's revenues and expenses or surplus.

Separate account assets (group annuity) – Financial instruments within this separate account classified as Level 2 and 3 are valued using the same fair value assumptions and methods utilized in the general account.

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

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

Separate account liabilities (funding agreements) – Fair value of the funding agreements within this separate account are calculated by discounting future cash flows using market rates on the valuation date, and are classified as Level 2.

- D. Not Practicable to Estimate Fair Value: NONE

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

**Note 22. Events Subsequent**

Subsequent events have been considered through May 14, 2018 for the statutory statement dated March 31, 2018. There have been no Type I events subsequent to the close of the books and accounts for this statement that have a material effect on the financial condition of the Company.

## NOTES TO FINANCIAL STATEMENTS

Type II events subsequent consisted of the following:

During April 2018, the Company borrowed \$183.0 million from the FHLB through their variable rate short-term federal funds program. The borrowing matures on August 24, 2018 and carries an interest rate of 2.16%, with interest due at maturity. This has been accounted for as borrowed money under SSAP No. 15. Additionally, the FHLB requires the borrower purchase member stock and post sufficient collateral to secure the borrowing. To satisfy these requirements, the Company purchased an additional \$7.3 million of FHLB stock; however, the Company was not required to post additional collateral.

### **Note 23. Reinsurance**

Effective January 1, 2018, the Company entered into a coinsurance agreement with Athene Annuity & Life Assurance Company to cede 50% of all retail annuity business issued by the Company on or after January 1, 2018. This treaty is applied prior to any further cession of this business under other treaties.

Effective January 1, 2018, the Company recaptured a modified coinsurance reinsurance agreement originally entered into with ALRe on April 1, 2017. This agreement ceded 80% of the pension risk transfer business issued on or after April 1, 2017. The Company subsequently entered into a modified coinsurance agreement with AARe effective January 1, 2018 to cede the same 80% quota share of the pension risk transfer business. The modified coinsurance reserves that were recaptured from ALRe and ceded to AARe were \$1,781.5 million as of January 1, 2018.

Effective January 1, 2018, the Company recaptured a modified coinsurance reinsurance agreement originally entered into with ALRe on October 1, 2013. The agreement ceded 80% of all fixed spread annuity and fixed spread life insurance business inforce as of October 1, 2013. The Company subsequently entered into a modified coinsurance agreement with AARe effective January 1, 2018 to cede the same 80% quota share of this business. The modified coinsurance reserves that were recaptured from ALRe and ceded to AARe were \$810.2 million as of January 1, 2018.

Effective January 1, 2018, the Company partially recaptured a modified coinsurance reinsurance agreement originally entered into with ALRe on October 1, 2013. The agreement ceded 100% of all inforce and future funding agreements in both the general and the separate accounts and 80% of all inforce (as of October 1, 2013) and future annuity business which is not covered by the fixed spread treaty. The annuity business was recaptured, and the funding agreements remain ceded to ALRe. The Company subsequently entered into a modified coinsurance agreement with AARe effective January 1, 2018 to cede the same 80% quota share of the inforce and future annuity business, after the impacts of all other reinsurance agreements are applied. The modified coinsurance reserves that were recaptured from ALRe and ceded to AARe were \$34,100.6 million as of January 1, 2018.

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

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

**Note 26. Intercompany Pooling Arrangements:** NONE

**Note 27. Structured Settlements:** NONE

**Note 28. Health Care Receivables:** NONE

**Note 29. Participating Policies:** No Change

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

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

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

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

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

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