

**QUARTERLY STATEMENT**

**OF THE**

**Athene Annuity and Life Company**

**TO THE**

**Insurance Department**

**OF THE**

**STATE OF**

**FOR THE QUARTER ENDED  
SEPTEMBER 30, 2018**

**LIFE AND ACCIDENT AND HEALTH**

**2018**

STATEMENT AS OF SEPTEMBER 30, 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 .....	38,946,655,248		38,946,655,248	38,988,956,533
2. Stocks:				
2.1 Preferred stocks .....	121,789,115		121,789,115	99,055,975
2.2 Common stocks .....	476,298,130		476,298,130	402,043,544
3. Mortgage loans on real estate:				
3.1 First liens .....	5,296,361,033		5,296,361,033	3,759,406,453
3.2 Other than first liens.....	1,507,953,541		1,507,953,541	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) .....	57,000		57,000	10,120,190
5. Cash (\$ .....(41,101,835) ), cash equivalents (\$ ..... ) and short-term investments (\$ .....2,442,774,548 ) .....	2,401,672,713		2,401,672,713	3,176,100,220
6. Contract loans (including \$ ..... premium notes) .....	194,892,583		194,892,583	210,007,248
7. Derivatives .....	718,336,850		718,336,850	538,873,546
8. Other invested assets .....	1,911,594,283	94,306	1,911,499,977	1,759,688,365
9. Receivables for securities .....	32,724,237		32,724,237	29,028,154
10. Securities lending reinvested collateral assets .....				
11. Aggregate write-ins for invested assets .....	90,358,553		90,358,553	81,823,229
12. Subtotals, cash and invested assets (Lines 1 to 11) .....	51,708,081,828	94,306	51,707,987,522	50,121,392,552
13. Title plants less \$ ..... charged off (for Title insurers only) .....				
14. Investment income due and accrued .....	456,898,887	283,593	456,615,294	435,422,321
15. Premiums and considerations:				
15.1 Uncollected premiums and agents' balances in the course of collection .....	2,727		2,727	2,049
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$ ..... earned but unbilled premiums) .....	8,281,294		8,281,294	8,862,199
15.3 Accrued retrospective premiums (\$ ..... ) and contracts subject to redetermination (\$ ..... ) .....				
16. Reinsurance:				
16.1 Amounts recoverable from reinsurers .....	201,087,221		201,087,221	159,277,853
16.2 Funds held by or deposited with reinsured companies .....				
16.3 Other amounts receivable under reinsurance contracts .....	1,418,312,777		1,418,312,777	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 .....	42,522		42,522	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 .....	3,296,818		3,296,818	294,329
24. Health care (\$ ..... ) and other amounts receivable .....	28,074,992	3,717,861	24,357,131	1,240,453
25. Aggregate write-ins for other than invested assets .....	368,504,563	1,307,682	367,196,881	349,975,052
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25) .....	54,192,583,630	5,403,443	54,187,180,187	52,584,266,116
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts .....	3,191,751,305		3,191,751,305	2,349,017,849
28. Total (Lines 26 and 27) .....	57,384,334,935	5,403,443	57,378,931,492	54,933,283,965
<b>DETAILS OF WRITE-INS</b>				
1101. Derivative Collateral Asset .....	90,358,553		90,358,553	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) .....	90,358,553		90,358,553	81,823,229
2501. Corporate Owned Life Insurance (COLI) .....	365,957,675		365,957,675	349,471,527
2502. Miscellaneous Assets .....	2,546,888	1,307,682	1,239,206	503,525
2503. ....				
2598. Summary of remaining write-ins for Line 25 from overflow page .....				
2599. Totals (Lines 2501 through 2503 plus 2598)(Line 25 above) .....	368,504,563	1,307,682	367,196,881	349,975,052

STATEMENT AS OF SEPTEMBER 30, 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 \$ 44,738,040,096 less \$ included in Line 6.3 (including \$ 35,804,261,227 Modco Reserve)	44,738,040,096	43,240,460,487
2. Aggregate reserve for accident and health contracts (including \$ 1,971,315 Modco Reserve)	3,788,145	5,382,796
3. Liability for deposit-type contracts (including \$ 360,402,740 Modco Reserve)	450,514,676	521,821,966
4. Contract claims:		
4.1 Life	230,638,712	234,203,585
4.2 Accident and health	13,820	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 \$ 5,645 accident and health premiums	5,645	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 \$ 2,161,651,185 ceded	2,161,651,185	2,137,442,635
9.4 Interest Maintenance Reserve	118,970,306	120,206,620
10. Commissions to agents due or accrued-life and annuity contracts \$ 19,865,700, accident and health \$ and deposit-type contract funds \$	19,865,700	8,887,290
11. Commissions and expense allowances payable on reinsurance assumed		2,241
12. General expenses due or accrued	15,629,681	12,233,187
13. Transfers to Separate Accounts due or accrued (net) (including \$ (159) accrued for expense allowances recognized in reserves, net of reinsured allowances)	831,349,692	671,373,538
14. Taxes, licenses and fees due or accrued, excluding federal income taxes	10,929,929	9,464,094
15.1 Current federal and foreign income taxes, including \$ 3,020,770 on realized capital gains (losses)	3,020,770	
15.2 Net deferred tax liability	16,371,830	16,886,240
16. Unearned investment income	2,162,846	327,550
17. Amounts withheld or retained by company as agent or trustee	8,914,641	5,080,821
18. Amounts held for agents' account, including \$ 3,271,109 agents' credit balances	3,271,109	1,581,067
19. Remittances and items not allocated	118,643,832	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	42,649,292	43,647,206
22. Borrowed money \$ and interest thereon \$		
23. Dividends to stockholders declared and unpaid		
24. Miscellaneous liabilities:		
24.01 Asset valuation reserve	624,266,129	560,834,859
24.02 Reinsurance in unauthorized and certified (\$ ) companies		
24.03 Funds held under reinsurance treaties with unauthorized and certified (\$ ) reinsurers	1,419,074,019	1,449,285,954
24.04 Payable to parent, subsidiaries and affiliates	11,971,507	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	39,435,135	67,810,242
24.09 Payable for securities	87,140,875	83,136,860
24.10 Payable for securities lending		
24.11 Capital notes \$ and interest thereon \$		
25. Aggregate write-ins for liabilities	2,237,531,317	2,282,774,076
26. Total liabilities excluding Separate Accounts business (Lines 1 to 25)	53,195,850,890	51,568,599,864
27. From Separate Accounts Statement	2,951,594,501	2,200,475,445
28. Total liabilities (Lines 26 and 27)	56,147,445,391	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	949,872,560	927,979,325
34. Aggregate write-ins for special surplus funds		
35. Unassigned funds (surplus)	271,613,541	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 \$ 240,156,804 in Separate Accounts Statement)	1,221,486,101	1,154,208,655
38. Totals of Lines 29, 30 and 37	1,231,486,101	1,164,208,655
39. Totals of Lines 28 and 38 (Page 2, Line 28, Col. 3)	57,378,931,492	54,933,283,965
<b>DETAILS OF WRITE-INS</b>		
2501. Derivative Collateral Liability	2,170,151,195	2,227,195,423
2502. Unclaimed Funds	27,854,479	18,802,686
2503. Amount Due Reinsurer	24,344,243	10,975,144
2598. Summary of remaining write-ins for Line 25 from overflow page	15,181,400	25,800,823
2599. Totals (Lines 2501 through 2503 plus 2598)(Line 25 above)	2,237,531,317	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)		

**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	714,320,626	887,958,774	1,533,886,635
2. Considerations for supplementary contracts with life contingencies	1,746,665	2,866,211	3,409,074
3. Net investment income	2,665,327,601	2,159,177,425	2,952,220,487
4. Amortization of Interest Maintenance Reserve (IMR)	9,256,718	9,079,430	12,484,107
5. Separate Accounts net gain from operations excluding unrealized gains or losses	(7,482,221)	3,924,551	8,030,178
6. Commissions and expense allowances on reinsurance ceded	649,604,532	507,175,685	775,073,607
7. Reserve adjustments on reinsurance ceded	(865,873,976)	526,073,075	655,284,862
8. Miscellaneous Income:			
8.1 Income from fees associated with investment management, administration and contract guarantees from Separate Accounts	6,190,293	611,705	2,403,724
8.2 Charges and fees for deposit-type contracts			
8.3 Aggregate write-ins for miscellaneous income	17,488,543	17,270,236	23,426,162
9. Totals (Lines 1 to 8.3)	3,190,578,781	4,114,137,093	5,966,218,836
10. Death benefits	1,571,326	(287,289)	(141,204)
11. Matured endowments (excluding guaranteed annual pure endowments)			
12. Annuity benefits	176,226,612	132,974,366	177,702,613
13. Disability benefits and benefits under accident and health contracts	327,830	323,950	722,296
14. Coupons, guaranteed annual pure endowments and similar benefits			
15. Surrender benefits and withdrawals for life contracts	452,766,612	370,263,256	500,684,758
16. Group conversions			
17. Interest and adjustments on contract or deposit-type contract funds	14,185,799	16,517,894	20,335,674
18. Payments on supplementary contracts with life contingencies	6,881,815	5,298,395	7,838,717
19. Increase in aggregate reserves for life and accident and health contracts	1,509,847,520	2,799,190,503	3,731,008,167
20. Totals (Lines 10 to 19)	2,161,807,514	3,324,281,076	4,438,151,022
21. Commissions on premiums, annuity considerations, and deposit-type contract funds (direct business only)	484,393,881	380,074,188	497,997,472
22. Commissions and expense allowances on reinsurance assumed	210,281	212,584	311,053
23. General insurance expenses	200,098,784	195,867,275	260,757,208
24. Insurance taxes, licenses and fees, excluding federal income taxes	36,268,885	35,574,550	47,066,329
25. Increase in loading on deferred and uncollected premiums		1	
26. Net transfers to or (from) Separate Accounts net of reinsurance	127,701,818	59,260,193	435,692,868
27. Aggregate write-ins for deductions	37,936,492	39,276,313	59,331,138
28. Totals (Lines 20 to 27)	3,048,417,654	4,034,546,181	5,739,307,090
29. Net gain from operations before dividends to policyholders and federal income taxes (Line 9 minus Line 28)	142,161,127	79,590,912	226,911,746
30. Dividends to policyholders		3	3
31. Net gain from operations after dividends to policyholders and before federal income taxes (Line 29 minus Line 30)	142,161,127	79,590,909	226,911,743
32. Federal and foreign income taxes incurred (excluding tax on capital gains)	(16,880,596)	(31,104,550)	(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)	159,041,723	110,695,459	300,034,206
34. Net realized capital gains (losses) (excluding gains (losses) transferred to the IMR) less capital gains tax of \$ 24,078,250 (excluding taxes of \$ 8,722,257 transferred to the IMR)	(63,497,807)	(25,468,338)	(60,703,393)
35. Net income (Line 33 plus Line 34)	95,543,916	85,227,121	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)	95,543,916	85,227,121	239,330,813
38. Change in net unrealized capital gains (losses) less capital gains tax of \$ 19,208,460	90,378,112	33,703,170	73,359,951
39. Change in net unrealized foreign exchange capital gain (loss)	4,133,120	13,349,503	13,927,223
40. Change in net deferred income tax	19,722,870	489,026	(36,067,213)
41. Change in nonadmitted assets	1,155,214	1,940,093	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	(63,431,271)	(67,249,528)	(86,890,180)
45. Change in treasury stock			
46. Surplus (contributed to) withdrawn from Separate Accounts during period	(100,000,000)		
47. Other changes in surplus in Separate Accounts Statement	99,096,621	66,972	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	21,893,235	(1,486,421,668)	(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	(50,024,606)	(67,650,736)	(183,114,076)
52. Dividends to stockholders			
53. Aggregate write-ins for gains and losses in surplus	(51,189,766)	1,515,883,825	1,513,389,143
54. Net change in capital and surplus for the year (Lines 37 through 53)	67,277,446	29,337,777	50,869,613
55. Capital and surplus, as of statement date (Lines 36 + 54)	1,231,486,101	1,142,676,820	1,164,208,655
<b>DETAILS OF WRITE-INS</b>			
08.301. COLI Income	17,457,667	17,232,478	23,371,216
08.302. Miscellaneous Income	30,876	37,758	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)	17,488,543	17,270,236	23,426,162
2701. Funds Withheld Adjustment - Ceded	62,632,693	62,494,186	83,159,221
2702. Transfer to IMR - Ceded	(27,364,478)	(21,940,333)	(22,285,349)
2703. Transfer to IMR - MVA Benefits	2,572,579	(1,308,341)	(1,612,390)
2798. Summary of remaining write-ins for Line 27 from overflow page	95,698	30,801	69,656
2799. Totals (Lines 2701 through 2703 plus 2798)(Line 27 above)	37,936,492	39,276,313	59,331,138
5301. Correction of Prior Period Error	(51,972,687)	13,667,989	11,592,419
5302. Athene Re IV Tax Sharing Agreement	782,921	(99,805)	(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)	(51,189,766)	1,515,883,825	1,513,389,143

STATEMENT AS OF SEPTEMBER 30, 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 .....	716,634,097	891,153,353	1,537,915,221
2. Net investment income .....	2,550,414,615	1,979,768,631	2,724,388,270
3. Miscellaneous income .....	671,555,663	515,515,681	682,722,828
4. Total (Lines 1 to 3) .....	3,938,604,374	3,386,437,665	4,945,026,319
5. Benefit and loss related payments .....	1,346,476,157	(214,169,814)	(216,701,576)
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts .....	(32,274,335)	70,167,924	502,583,845
7. Commissions, expenses paid and aggregate write-ins for deductions .....	698,751,211	588,515,211	789,165,162
8. Dividends paid to policyholders .....		3	3
9. Federal and foreign income taxes paid (recovered) net of \$ ..... 13,064,274 tax on capital gains (losses) .....	(7,522,076)	(83,884,507)	(79,384,578)
10. Total (Lines 5 through 9) .....	2,005,430,957	360,628,817	995,662,854
11. Net cash from operations (Line 4 minus Line 10) .....	1,933,173,417	3,025,808,848	3,949,363,465
<b>Cash from Investments</b>			
12. Proceeds from investments sold, matured or repaid:			
12.1 Bonds .....	5,411,573,482	5,332,643,197	6,949,580,161
12.2 Stocks .....	20,077,810	14,338,234	25,976,000
12.3 Mortgage loans .....	855,418,557	774,144,917	1,295,228,844
12.4 Real estate .....	9,850,020	8,262,026	8,291,994
12.5 Other invested assets .....	253,713,721	129,185,462	202,331,587
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments .....	1,358,973	(4,906,302)	(4,526,505)
12.7 Miscellaneous proceeds .....	6,111,806	164,009,359	57,773,402
12.8 Total investment proceeds (Lines 12.1 to 12.7) .....	6,558,104,368	6,417,676,892	8,534,655,484
13. Cost of investments acquired (long-term only):			
13.1 Bonds .....	5,689,238,301	7,149,407,506	9,393,177,496
13.2 Stocks .....	98,051,473	51,603,750	61,241,518
13.3 Mortgage loans .....	2,841,302,468	1,432,792,331	1,744,728,697
13.4 Real estate .....			
13.5 Other invested assets .....	353,467,618	313,209,970	496,905,651
13.6 Miscellaneous applications .....	158,348,305	85,742,739	101,338,577
13.7 Total investments acquired (Lines 13.1 to 13.6) .....	9,140,408,165	9,032,756,296	11,797,391,939
14. Net increase (or decrease) in contract loans and premium notes .....	(15,114,666)	(16,218,031)	(22,853,743)
15. Net cash from investments (Line 12.8 minus Line 13.7 and Line 14) .....	(2,567,189,131)	(2,598,861,374)	(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 .....	15,000,000		
16.3 Borrowed funds .....			
16.4 Net deposits on deposit-type contracts and other insurance liabilities .....	(71,307,290)	(81,947,631)	(98,774,501)
16.5 Dividends to stockholders .....			
16.6 Other cash provided (applied) .....	(84,104,504)	437,854,062	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) .....	(140,411,794)	355,906,431	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) .....	(774,427,507)	782,853,905	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) .....	2,401,672,713	2,510,771,376	3,176,100,220

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

20.0001. Capital contribution of stock compensation expense (financing) .....	6,893,235	15,893,973	17,646,040
20.0002. Capital contribution of stock compensation expense (investing) .....	(511,121)	(1,389,446)	(1,494,451)
20.0003. Capital contribution of stock compensation expense (operating) .....	(6,382,114)	(14,504,527)	(16,151,589)
20.0004. Reinsurance activity settled in bonds (operating) .....	296,632,408	288,890,895	410,513,577
20.0005. Reinsurance activity settled in bonds (investing) .....	(296,632,408)	(288,890,895)	(410,513,577)
20.0006. Security exchanges and asset in kind trades - bond proceeds (investing) .....	683,279,079	337,245,181	426,342,445
20.0007. Security exchanges and asset in kind trades - bonds acquired (investing) .....	(683,279,079)	(337,245,181)	(426,342,445)
20.0008. Security exchanges - stock proceeds (investing) .....	17,710,008		
20.0009. Security exchanges - stocks acquired (investing) .....	(17,710,008)		
20.0010. Schedule BA distribution - proceeds (investing) .....	8,894,137	1,440,319	1,440,319

**STATEMENT AS OF SEPTEMBER 30, 2018 OF THE Athene Annuity and Life Company**

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

20.0011. Schedule BA distribution - acquired (investing)	(8,894,137)	(1,440,319)	(1,440,319)
20.0012. Interest capitalization (operating)	6,117,616	5,839,626	7,681,611
20.0013. Interest capitalization (investing)	(6,117,616)	(5,839,626)	(7,681,611)
20.0014. Transfer from Schedule B to Schedule BA - proceeds (investing)	94,300		
20.0015. Transfer from Schedule B to Schedule BA - acquired (investing)	(94,300)		
20.0016. Transfer from Schedule B to Schedule A - proceeds (investing)		15,570,635	15,627,634
20.0017. Transfer from Schedule B to Schedule A - acquired (investing)		(15,570,635)	(15,627,634)
20.0018. Transfer from Schedule D to Schedule BA - proceeds (investing)		134,033,354	134,033,354
20.0019. Transfer from Schedule D to Schedule BA - acquired (investing)		(134,033,354)	(134,033,354)

## 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 \$0.9 million and less than \$0.1 million to the Company's net income for the nine months ended September 30, 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 \$34.7 million and increased by \$97.2 million for the nine months ended September 30, 2018 and for the year ended December 31, 2017, respectively, and the Company's statutory surplus decreased by \$51.3 million and \$66.2 million as of September 30, 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 an increase of \$0.5 million and \$1.2 million to the Company's net income for the nine months ended September 30, 2018 and for the year ended December 31, 2017, respectively. The Company's statutory surplus increased by \$3.1 million and \$2.7 million as of September 30, 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 #	September 30, 2018	December 31, 2017
<b>NET INCOME</b>					
(1) State basis (Page 4, Line 35, Columns 1 & 3) .....	XXX	XXX	XXX	95,543,916	239,330,813
(2) State Prescribed Practices that are an increase/(decrease) from NAIC SAP:					
Derivative Instruments Bulletin 06-01.....	86	4	38	(854,546)	(30,784)
Derivative Instruments and Equity Indexed Reserves IAC 191-97.....	86, 51	2, 3	7, 1	(34,720,171)	97,182,368
2012 IAR Mortality Table for Annuities Issued in 2015 IAC 43.3(5).....	51	3	1	451,527	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	130,667,106	140,998,803
<b>SURPLUS</b>					
(5) State basis (Page 3, Line 38, Columns 1 & 2) .....	XXX	XXX	XXX	1,231,486,101	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	(51,342,532)	(66,192,009)
2012 IAR Mortality Table for Annuities Issued in 2015 IAC 43.3(5).....	51	3	1	3,126,209	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	1,279,702,424	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 November 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 \$54.8 million between income and surplus, with no net impact to surplus, and the impact of the correction of reserves increased surplus by \$2.8 million in 2018. The impact of these amounts represented less than 1% of ending capital and surplus as of both September 30, 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 on loan-backed securities 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 loan-backed 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
38375B-MA-7	741,691	697,932	43,758	697,932	684,376	06/30/2018
38375B-KT-8	491,329	462,639	28,690	462,639	464,956	06/30/2018
38375U-KH-2	1,052,391	1,026,682	25,710	1,026,682	1,008,599	06/30/2018
38375U-TL-4	721,560	695,773	25,787	695,773	689,095	06/30/2018
38375U-ZG-8	2,154,908	2,120,531	34,377	2,120,531	2,161,529	06/30/2018
38375B-JP-8	997,503	922,835	74,668	922,835	889,972	06/30/2018
36185M-DQ-2	8,343,405	8,297,470	45,935	8,297,470	8,118,627	06/30/2018
46629C-AA-5	283,326	249,668	33,658	249,668	288,816	06/30/2018
79548K-ZL-5	2,542,617	2,437,614	105,003	2,437,614	2,401,880	06/30/2018
38376R-UM-6	7,103,053	7,071,846	31,207	7,071,846	6,880,361	09/30/2018
61762B-AU-9	10,208,934	10,132,329	76,605	10,132,329	9,950,727	09/30/2018
61766L-AY-5	1,793,372	1,754,341	39,031	1,754,341	1,673,055	09/30/2018
66704J-AC-2	4,737,733	4,618,688	119,045	4,618,688	4,618,688	09/30/2018
66704J-AG-3	30,693,315	29,795,063	898,253	29,795,063	29,795,063	09/30/2018
79548K-ZL-5	2,342,261	2,313,890	28,371	2,313,890	2,276,699	09/30/2018
86359L-QS-1	8,175,541	8,034,135	141,406	8,034,135	7,869,279	09/30/2018
Total	XXX	XXX	2,153,151	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 September 30, 2018.

a. The aggregate amount of unrealized losses:

1. Less than 12 Months ..... 63,375,266
2. 12 Months or Longer ..... 36,053,333

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

1. Less than 12 Months ..... 4,100,406,536
2. 12 Months or Longer ..... 675,847,649

- (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 – I. No Change

## NOTES TO FINANCIAL STATEMENTS

## J. Real Estate

- (1) Impairment Loss: NONE
- (2) During 2018, the Company sold its Cedar Valley, REO and AREI (Interpark), LLC real estate held on Schedule A for cumulative proceeds of \$9.8 million. A loss of \$0.2 million was recognized as a result of the sales. The loss is aggregated within Net Realized Capital Gains (Losses) in the Summary of Operations Line 34.
- (3) Changes to Plan of Sale: NONE
- (4) Retail Land Sales: NONE
- (5) Participating Mortgage Loan Features: NONE

K – 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**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 \$6.9 million and \$17.6 million for the nine months ended September 30, 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.

During July 2018, the Company received a \$15.0 million capital contribution from its direct parent, Athene Annuity & Life Assurance Company.

During July 2018, the Company made a \$15.0 million capital contribution to its wholly-owned subsidiary, Athene Annuity & Life Assurance Company of New York.

**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. During 2018, the Company borrowed \$183.0 million from the FHLB through their variable rate short-term federal funds program, which was accounted for as borrowed money under SSAP No. 15, *Debt and Holding Company Obligations*. The borrowing matured on August 24, 2018 and carried an interest rate of 2.16%, with interest due at maturity. The Company incurred interest expense on the short-term borrowing of \$1.3 million for the nine months ended September 30, 2018. There were no borrowings outstanding under the short-term federal funds borrowing arrangement as of September 30, 2018.

The Company has issued funding agreements to the FHLB of Des Moines in exchange for cash resulting in a liability of \$691.8 million as of September 30, 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 as borrowed money.

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.

The tables below indicate the amount of FHLB of Des Moines stock purchased, collateral pledged, assets and liabilities related to the agreements with FHLB of Des Moines.

- (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 .....	28,048,000	28,048,000	
(d) Excess Stock .....			
(e) Aggregate Total (a+b+c+d) .....	38,048,000	38,048,000	
(f) Actual or estimated Borrowing Capacity as Determined by the Insurer .....	1,500,000,000	XXX	XXX

NOTES TO FINANCIAL STATEMENTS

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)

(3) Collateral Pledged to FHLB

a. Amount Pledged as of Reporting Date

	1 Fair Value	2 Carrying Value	3 Aggregate Total Borrowing
1. Current Year Total General and Separate Accounts Total			
Collateral Pledged (Lines 2+3) .....	1,128,582,479	1,114,234,584	701,200,000
2. Current Year General Account Total Collateral Pledged .....	1,128,582,479	1,114,234,584	
3. Current Year Separate Accounts Total Collateral Pledged .....			701,200,000
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 Fair Value	2 Carrying Value	3 Amount Borrowed at Time of Maximum Collateral
1. Current Year Total General and Separate Accounts Maximum			
Collateral Pledged (Lines 2+3) .....	1,128,582,479	1,114,234,584	701,200,000
2. Current Year General Account Maximum Collateral Pledged .....	1,128,582,479	1,114,234,584	
3. Current Year Separate Accounts Maximum Collateral Pledged .....			701,200,000
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 Total 2+3	2 General Account	3 Separate Accounts	4 Funding Agreements Reserves Established
1. Current Year				
(a) Debt .....				XXX
(b) Funding Agreements .....	701,200,000		701,200,000	691,844,109
(c) Other .....				XXX
(d) Aggregate Total (a+b+c) .....	701,200,000		701,200,000	691,844,109
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 Total 2+3	2 General Account	3 Separate Accounts
1. Debt .....	183,000,000	183,000,000	
2. Funding Agreements .....	701,200,000		701,200,000
3. Other .....			
4. Aggregate Total (Lines 1+2+3) .....	884,200,000	183,000,000	701,200,000

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

## NOTES TO FINANCIAL STATEMENTS

**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
- 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 Corporation, 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 Corporation'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. On October 23, 2018, the Court granted final approval of the settlement. Terms of the settlement 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 and certain of its insurance subsidiaries have experienced increased service and administration complaints related to the conversion and administration of the block of life insurance business acquired in connection with Athene Holding Ltd.'s acquisition of Aviva USA Corporation and reinsured to affiliates of Global Atlantic Financial Group Ltd. The life insurance policies included in this block have been and are currently being administered by AllianceOne, a subsidiary of DXC Technology Company, which was retained by such Global Atlantic affiliates to provide services on such policies. AllianceOne also administers certain annuity policies that were on Aviva USA Corporation's legacy policy administration systems that were also converted in connection with the acquisition of Aviva USA Corporation and have experienced similar service and administration issues.

As a result of the difficulties experienced with respect to the administration of such policies, Athene received notifications from several state regulators, including but not limited to the New York Department of Financial Services (NYDFS), the California Department of Insurance and the Texas Department of Insurance, indicating, in each case, that the respective regulator planned to undertake a market conduct examination or enforcement proceeding of the Company or one of its subsidiaries, as applicable, relating to the treatment of policyholders subject to Athene reinsurance agreements with affiliates of Global Atlantic and the conversion of such annuity policies, including the administration of such blocks by AllianceOne. On June 28, 2018, Athene Life Insurance Company of New York (ALICNY) entered into a consent order with the NYDFS resolving that matter in a manner that ultimately did not have a material impact on its financial condition, when considering AHL's indemnification from affiliates of Global Atlantic, which was passed to ALICNY in the form of a capital contribution in the third quarter of 2018.

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. In addition to the examinations and proceedings initiated to date, it is possible that other regulators may pursue similar formal examinations, inquiries or enforcement proceedings and that any examinations, inquiries and/or enforcement proceedings may result in fines, administrative penalties and payments to policyholders. 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.

Pursuant to the terms of the reinsurance agreements between Athene and the relevant affiliates of Global Atlantic, the applicable affiliates of Global Atlantic have financial responsibility for the ceded life block and are subject to significant administrative service requirements, including compliance with applicable law. The agreements also provide for indemnification to Athene, including for administration issues.

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 September 30, 2018, had an asset value of \$366.0 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, which defendants have moved to dismiss and the Company has opposed. The Court set the hearing for February 13, 2019. 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 \$175.8 million as of September 30, 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. On June 21, 2018, the Fifth Circuit Court of Appeals issued a mandate officially vacating as a whole the DOL's 2016 Fiduciary Rule, including the Best Interest Contract Exemption, and the DOL's other related 2016 prohibited transaction exemptions.

## NOTES TO FINANCIAL STATEMENTS

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 requesting public comment. The public comment period has expired and the SEC is expected to release an update of the rules in the future. In addition, the NAIC is working to propose changes to the Suitability in Annuity Transactions Model Regulation to include the best interest concept. 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

**Note 20. Fair Value Measurements**

- 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: Corporates .....		196,433		196,433	
Bonds: Exchanged Traded Funds .....		48,469,000		48,469,000	
Bonds: CMBS .....		2,770		2,770	
Bonds: RMBS .....		482,650		482,650	
Common stocks unaffiliated .....	4,499,460	69,248,684	1,708,838	75,456,982	
Derivative assets: Bond Hedges .....		84,851		84,851	
Derivative assets: Currency Swaps .....		2,809,060		2,809,060	
Derivative assets: Interest Rate Swaps .....	114,338			114,338	
Derivative assets: Total Return Swaps .....		1,875,347		1,875,347	
Derivative assets: Futures .....	3,398,345			3,398,345	
Derivative assets: Forwards .....		131,209		131,209	
Separate account assets: Variable products .....		35,302,646		35,302,646	
<b>Total assets at fair value</b> .....	<b>8,012,143</b>	<b>158,602,650</b>	<b>1,708,838</b>	<b>168,323,631</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: Bond Hedges .....		570,418		570,418	
Derivative liabilities: Variance Swaps .....		35,134		35,134	
Derivative liabilities: Futures .....	441,851			441,851	
Derivative liabilities: Forwards .....		90,145		90,145	
Separate account liabilities: Variable products .....		35,302,487		35,302,487	
<b>Total liabilities at fair value</b> .....	<b>441,851</b>	<b>35,998,184</b>		<b>36,440,035</b>	

Common stock of \$8.6 million was transferred from Level 1 to Level 2 during the quarter ended September 30, 2018 as the fair value of these assets was measured using valuation techniques utilizing observable market inputs rather than quoted market prices for the quarter.

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

Description for each class of asset or liability	Ending Balance at 06/30/2018	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 09/30/2018
<b>a. Assets</b>										
Common stocks unaffiliated .....	1,225,946				482,892					1,708,838
<b>Total Assets</b> .....	<b>1,225,946</b>				<b>482,892</b>					<b>1,708,838</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.

## NOTES TO FINANCIAL STATEMENTS

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

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	39,526,457,540	38,946,655,248	5,271,837	37,822,034,276	1,699,151,427		
Assets - Preferred stocks	127,675,452	121,789,115		127,675,452			
Assets - Common stocks unaffiliated	75,456,982	75,456,982	4,499,460	69,248,684	1,708,838		
Assets - Mortgage loans - first liens	5,329,688,287	5,296,361,033			5,329,688,287		
Assets - Mortgage loans - other than first liens	1,505,088,298	1,507,953,541			1,505,088,298		
Assets - Policy loans	194,892,583	194,892,583		194,892,583			
Assets - Cash and short-term investments	2,401,672,646	2,401,672,713	2,401,173,187		499,459		
Assets - Derivative assets	2,339,332,643	718,336,850	3,512,683	2,335,819,960			
Assets - Derivative collateral assets	90,358,553	90,358,553		90,358,553			
Assets - Other invested assets	1,901,176,987	1,911,499,977		322,508,638	1,578,668,349		
Assets - Separate account: variable products	35,302,646	35,302,646		35,302,646			
Assets - Separate account: group annuity	2,966,790,632	3,050,635,291	34,264,108	2,496,746,237	435,780,287		
Liabilities - Deposit-type contracts	461,105,828	450,514,676			461,105,828		
Liabilities - Derivative liabilities	113,668,680	39,435,135	26,164,276	83,128,903	4,375,501		
Liabilities - Derivative collateral liability	2,170,151,195	2,170,151,195	2,170,151,195				
Liabilities - Separate account: funding agreements	708,553,143	691,844,109		708,553,143			
Liabilities - Separate account: group annuity deposit-type contracts	252,081	234,285			252,081		

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 and is classified as Level 2.

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.

## NOTES TO FINANCIAL STATEMENTS

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 (including separate account group annuity) – 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.

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 November 14, 2018 for the statutory statement dated September 30, 2018. There have been no Type I or Type II events subsequent to the close of the books and accounts for this statement that have a material effect on the financial condition of the Company.

**Note 23. Reinsurance**

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**

During 2018, the Company formed Athene Annuity and Life Company Texas Group Annuity Commingled Separate Account, an insulated commingled separate account that will support annuities payable under group fixed annuity contracts issued to various employers, or trusts established by such employers, in respect of an employer's pension plan. The group fixed annuity contracts obligate the Company's general account to make annuity payments if the separate account is not able to do so. The Company's general account contributed \$100.0 million of seed money to the separate account. As of September 30, 2018, this separate account had assets of \$199.6 million.

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