Wilton Re
U.S. Holdings, Inc.
and Subsidiaries

Consolidated Financial Statements and
Supplementary Information as of and for the
Years Ended December 31, 2017 and 2016, and
Independent Auditors' Report

WILTON RE U.S. HOLDINGS, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Wilton Re U.S. Holdings, Inc. and Subsidiaries:

We have audited the accompanying consolidated financial statements of Wilton Re U.S. Holdings, Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of comprehensive income, changes in shareholder's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Wilton Re U.S. Holdings, Inc. and its subsidiaries as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Internal Control over Financial Reporting

We have also audited, in accordance with auditing standards generally accepted in the United States of America, the Company's internal control over financial reporting as of December 31, 2017 based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 30, 2018 expressed an unmodified opinion on the Company's internal control over financial reporting.

Deloitte & Touche LLP

March 30, 2018

WILTON RE U.S. HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2017 AND 2016
(Amounts in thousands of US Dollars, except share amounts)

	2017	2016
ASSETS		
Fixed maturity and equity securities	$21,975,239	$11,390,116
Commercial mortgage loans	1,174,996	51,955
Policy loans	339,458	351,025
Funds withheld at interest	5,162,421	746,060
Short term investments	4,909	92,274
Other invested assets	361,703	265,874
Total investments	29,018,726	12,897,304
Cash and cash equivalents	635,937	139,742
Accrued investment income	202,130	112,254
Premiums receivable	70,159	84,084
Reinsurance recoverable	20,260,399	1,698,713
Net deferred acquisition costs	302,494	281,083
Value of in-force business acquired	330,779	394,399
Net deferred income taxes	159,007	213,686
Other assets	281,393	41,376
Separate account assets	38,389	39,662
TOTAL ASSETS	$51,299,413	$15,902,303
LIABILITIES AND SHAREHOLDER'S EQUITY		
LIABILITIES:		
Reserves for future policy benefits	$13,277,805	$ 5,045,961
Interest sensitive contract liabilities	16,139,311	7,688,244
Other reinsurance liabilities	34,284	37,580
Funds held under reinsurance treaties	19,071,953	650,070
Funding agreements	-	139,663
Long-term debt	250,000	250,093
Subordinated affiliate debt	904,845	915,524
Other liabilities	508,513	142,805
Separate account liabilities	38,389	39,662
Total liabilities	50,225,100	14,909,602
SHAREHOLDER'S EQUITY:		
Class A common shares—$0.01 par value; 500 shares authorized, issued and outstanding at December 31, 2017 and 2016	-	-
Class B common shares—$0.01 par value 500 shares authorized, issued and outstanding at December 31, 2017 and 2016	-	-
Additional paid-in capital	134,807	134,807
Retained earnings and accumulated other comprehensive income	939,506	857,894
Total shareholder's equity	1,074,313	992,701
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$51,299,413	$15,902,303

The accompanying notes are an integral part of these consolidated financial statements.

WILTON RE U.S. HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Amounts in thousands of US Dollars)

	2017	2016
REVENUES:		
Net premiums	$ 209,434	$ 208,845
Policy fees and charges	522,789	484,465
Inuring third-party reinsurance commissions	34,064	34,987
Investment earnings—net	490,120	502,377
Net unrealized appreciation (depreciation) on investments classified as trading and other	756,260	184,882
Change in value of derivatives and embedded derivatives, net	(461,625)	22,148
Total revenues	1,551,042	1,437,704
EXPENSES:		
Claims and policy benefits, net of reinsurance ceded	772,090	641,254
Interest credited to interest sensitive contract liabilities	239,283	250,922
Acquisition costs and other insurance expenses	108,009	64,698
Operating expenses	143,617	131,823
Interest expense	15,092	24,615
Total benefits and expenses	1,278,091	1,113,312
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) BEFORE INCOME TAXES	272,951	324,392
INCOME TAX EXPENSE (BENEFIT)	191,339	113,786
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	$ 81,612	$ 210,606

The accompanying notes are an integral part of these consolidated financial statements.

WILTON RE U.S. HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Amounts in thousands of US Dollars)

	2017	2016
COMMON SHARES (CLASS A)		
Balance at beginning and end of year	$ -	$ -
COMMON SHARES (CLASS B)		
Balance at beginning and end of year	-	-
ADDITIONAL PAID-IN CAPITAL		
Balance at beginning and end of year	134,807	134,807
RETAINED EARNINGS:		
Balance—beginning of year	857,894	647,288
Net income (loss) and comprehensive income (loss)	81,612	210,606
Balance—end of year	939,506	857,894
TOTAL SHAREHOLDER'S EQUITY	$1,074,313	$992,701

The accompanying notes are an integral part of these consolidated financial statements.

WILTON RE U.S. HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Amounts in thousands of US Dollars)

	2017	2016
OPERATING ACTIVITIES:		
Net income (loss) and comprehensive income (loss)	$ 81,612	$ 210,606
Adjustments to reconcile net income (loss) and comprehensive income (loss) to net cash from operating activities:		
Proceeds from sales of fixed maturity and equity securities	3,167,099	983,352
Proceeds from maturities of fixed maturity and equity securities	887,051	722,647
Purchases of fixed maturity and equity securities	(5,056,964)	(1,502,155)
Accretion and amortization of discounts and premiums on fixed maturity and equity securities—net	60,657	112,657
Net realized (gains) losses on fixed maturity and equity securities	(120,257)	(2,529)
Net unrealized (appreciation) depreciation on fixed maturity and equity securities	(760,951)	(184,882)
Mark-to-market on embedded derivative	466,470	(3,821)
Amortization and other adjustments to deferred acquisition costs	11,721	11,903
Amortization and other adjustments to value of business acquired	33,355	30,472
Interest credited to interest sensitive contracts	409,203	250,922
Cash from closed block reinsurance	1,495,867	-
Change in assets and liabilities:		
Accrued investment income	7,000	7,238
Deferred income taxes	112,142	76,196
Premiums receivable	13,925	17,534
Reinsurance recoverable	2,399	64,324
Funds withheld at interest	(633,108)	1,127
Deferred acquisition costs	(33,133)	(52,747)
Value of in-force business acquired	30,265	(8,650)
Other assets	125,003	68,912
Reserves for future policy benefits	(456,778)	(291,465)
Funds held under reinsurance treaties	743,238	(6,183)
Other reinsurance liabilities	(3,328)	8,736
Other liabilities	(52,531)	36,950
Net cash flows from (used in) operating activities	529,958	551,144
INVESTING ACTIVITIES:		
Paydowns of commercial mortgage loans	91,679	31,382
Change in policy loans	11,567	8,211
Change in short term investments	132,131	33,451
Change in other invested assets	(41,925)	(73,383)
Net cash flows from (used in) investing activities	193,453	(339)

(Continued)

WILTON RE U.S. HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Amounts in thousands of US Dollars)

	2017	2016
FINANCING ACTIVITIES:		
Repayment of subordinated affiliate debt	$ (10,772)	$ (251,241)
Repayment of funding agreements	(139,663)	(73,675)
Deposits into interest sensitive contracts	528,354	509,173
Redemption and benefit payments on interest sensitive contracts	(605,135)	(698,727)
Net cash flows from (used in) financing activities	(227,216)	(514,470)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	496,195	36,335
CASH AND CASH EQUIVALENTS—Beginning of the year	139,742	103,407
CASH AND CASH EQUIVALENTS—End of the year	$ 635,937	$ 139,742
SUPPLEMENTARY DISCLOSURE OF CONSOLIDATED CASH FLOW INFORMATION—Cash received (paid) during the period for—income taxes	$ 106,289	$ (59,716)

The accompanying notes are an integral part of these consolidated financial statements.

(Concluded)

1. ORGANIZATION

Wilton Re U.S. Holdings, Inc. (Wilton Re US Holdings or the Company) is incorporated in Delaware. Wilton Re US Holdings conducts its operations principally through its subsidiary, Wilton Reassurance Company (WRAC), a Minnesota domiciled life insurer. Wilton Re US Holdings is a wholly owned subsidiary of Wilton Re U.S. Holdings Trust, established under the laws of Nova Scotia, Canada, which itself is a wholly owned subsidiary of Wilton Re Ltd., a Nova Scotia company, and Wilton Re US Holdings' parent. Effective June 30, 2014, in connection with the acquisition of Wilton Re Holdings Limited (WRHL), a Bermuda company and the former ultimate parent, by an affiliate of the Canada Pension Plan Investment Board (CPPIB), WRHL was merged with and into Cheddar Merger Holdings Limited, a Bermuda company which, effective August 2014, was continued from Bermuda to Nova Scotia, Canada and renamed as Wilton Re Ltd. (WRL). WRL is the ultimate parent in the holding company system. Subsidiaries of the Company include the following:

- Wilton Re Finance LLC (WRFL), a wholly owned subsidiary of Wilton Re US Holdings.
- Wilton Reassurance Life Company of New York (WRNY), a wholly owned New York domestic subsidiary of WRAC.
- Texas Life Insurance Company (TLIC), a wholly owned subsidiary of WRAC. TLIC is a Texas domiciled life insurer.
- Wilton Re Services, Inc. (Wilton Re Services or WRSI), a wholly owned subsidiary of Wilton Re US Holdings, is incorporated in Delaware.
- Redding Reassurance Company 2 (RRE2), a wholly owned subsidiary of WRAC, is organized as a South Carolina special purpose financial captive insurance company.
- Wilco Life Insurance Company (WLCO), a wholly owned subsidiary of WRAC, is an Indiana domiciled life insurer.
- Wilcac Life Insurance Company (WCAC), a wholly owned subsidiary of WRAC, is an Illinois domiciled life insurer.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation and Basis of Presentation—The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) and include the accounts of Wilton Re US Holdings and its subsidiaries which include WRSI, WRFL, WRAC, WRNY, TLIC, WLCO, WCAC, and RRE2. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates—The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates include those used in determining deferred acquisition costs, value of in-force business acquired, premiums receivable, reserves for future policy benefits, other policy claims and benefits, and the valuation of investments. While the amounts included in the consolidated financial statements reflect management's best estimates and assumptions, the actual results could be materially different from the amounts reported in the consolidated financial statements.

Investments and Investment Earnings

Fixed Maturity and Equity Securities—Fixed maturity and equity securities include publicly-traded fixed maturity securities, preferred stocks, common stocks, credit tenant loans, and private placements which are classified as trading and are recorded at fair value with the change in fair value reported as net unrealized appreciation (depreciation) on investments classified as trading and other in the consolidated statements of comprehensive income (loss). The fair value of publicly-traded securities is based on quoted market prices or obtained from independent third-party dealers in the absence of quoted market prices. The fair value of private placements and credit tenant loans is obtained from third-party dealers or is modeled.

Investment transactions are recorded on a trade date basis. The Company's investment earnings are recognized when earned and consists primarily of interest and the accretion of discount or amortization of premium on fixed maturity securities. Investment earnings are presented net of investment management and custody expenses on the consolidated statements of comprehensive income (loss). Gains and losses realized on the sale of investments are determined on the first in-first out method.

The Company is involved in the normal course of business with variable interest entities (VIEs) primarily as a passive investor in residential, commercial and asset-backed securities and private equity limited partnerships. The Company is not the primary beneficiary of these VIEs and the maximum exposure to loss is limited to the investment carrying values.

Commercial Mortgage Loans—The Company elects the Fair Value Option (FVO) for commercial mortgage loans which are recorded at fair value. The change in fair value is reported as net unrealized appreciation (depreciation) on investments classified as trading and other in the consolidated statements of comprehensive income (loss). The fair value is determined using a net present value calculation of future cash flows using credit and liquidity spreads added to an interpolated Treasury yield to determine the discount rate. Credit and liquidity spreads are derived from data provided by third parties considered market-makers in commercial mortgage loans.

Interest income is accrued on the outstanding principal amount of the loan based on its contractual interest rate. Amortization of premiums and discounts are recorded using the constant-yield method. The Company accrues interest on loans until it is probable the Company will not receive interest or the loan is 90 days past due. Interest income, amortization of premiums, accretion of discounts and prepayment fees are reported in investment earnings—net in the consolidated statements of comprehensive income (loss).

Policy Loans—Policy loans are reported at the unpaid principal balance. Interest income on such loans is recorded as earned using the contractually agreed upon interest rates.

Funds Withheld at Interest and Funds Held under Reinsurance Treaties—Funds withheld at interest, an asset, and funds held under reinsurance treaties, a liability, represent amounts contractually withheld by the ceding company in accordance with reinsurance agreements (funds withheld). For agreements written on a modified coinsurance basis and agreements written on a coinsurance funds withheld basis, assets generally equal to the statutory reserves, net of reinsurance, are withheld and legally owned by the ceding company. Investment income on funds withheld include the interest income earned on these assets as defined by the treaty terms.

The Company accounts for the embedded derivatives in modified coinsurance and funds withheld contracts as total return swaps. Accordingly, the value of the derivative is equal to the unrealized gain or loss on the assets underlying the funds withheld portfolio associated with each agreement. The Company's funds withheld are recorded at fair value with the changes in the fair value of the embedded derivative reflected in the change in value of derivatives and embedded derivatives, net, in the statements of comprehensive income (loss). At December 31, 2017 and 2016, the fair value of these embedded derivatives, and the changes in fair value for the years then ended, included:

	2017		2016	
	Fair Value	Change in Fair Value	Fair Value	Change in Fair Value
Funds withheld at interest	$ 69,658	$ 35,662	$ 33,996	$10,242
Funds held under reinsurance treaties	(542,289)	(502,132)	(40,157)	(6,421)
		$(466,470)		$ 3,821

Derivative Financial Instruments—The Company hedges certain portions of its exposure to product-related equity market risk and interest rate risk by entering into derivative transactions. These derivative instruments are recognized within funds withheld at interest and other invested assets in the accompanying consolidated balance sheets at fair value.

The change in fair value is recognized in the change in value of derivatives and embedded derivatives, net, in the statements of comprehensive income (loss). At December 31, 2017 and 2016, the fair value of these derivatives, and the changes in fair value for the years then ended, included:

	2017		2016	
	Fair Value	Change in Fair Value	Fair Value	Change in Fair Value
Funds withheld at interest	$27,492	$3,619	$23,163	$17,100
Other invested assets	2,707	1,226	1,846	1,227
		$4,845		$18,327

Short Term Investments—Short term investments represent investments with maturities at acquisition of greater than three months but less than twelve months and are carried at amortized cost.

Other Invested Assets—In addition to the derivatives discussed above, other invested assets include investments in limited partnerships and surplus debentures, both carried at fair value.

Cash and Cash Equivalents—The Company considers all investments purchased with a maturity at acquisition of three months or less to be cash equivalents.

Premiums Receivable—Premiums receivables are recognized when due from the policyholder or other party. Factors affecting management estimates of premiums receivable include adjustments for lapsed policies and collateral value. Under the legal right of offset provision in the reinsurance treaties, the Company can withhold payments for allowances and claims for unpaid premiums. Based on a review of these factors and historical experience, the Company does not believe a provision for doubtful accounts was necessary as of December 31, 2017 or 2016.

Reinsurance Recoverable—Reinsurance recoverables include an estimate of the amount of policy and claim reserves that are ceded under the terms of reinsurance agreements, including claims incurred but not reported (IBNR). Reinsurers and the respective amounts recoverable are regularly evaluated and a provision for uncollectible reinsurance is recorded if needed. No allowances for uncollectible reinsurance were recorded as of December 31, 2017 or 2016.

Deferred Acquisition Costs (DAC)—The costs that are directly related to the successful acquisition of new and renewal life insurance and reinsurance business have been deferred to the extent that such costs are deemed recoverable from future premiums or gross profits.

The Company performs periodic tests to determine that DAC remains recoverable, and if financial performance deteriorates to the point where a premium deficiency exists, a charge to current operations would be recorded. No such adjustments were made during 2017 or 2016. Deferred costs related to traditional life insurance contracts, all of which relate to long duration contracts, are amortized generally over the premium-paying period, in proportion to the ratio of individual period premium revenues to total anticipated premium revenues over the amortization period. Such anticipated premium revenues are estimated using the same assumptions used for computing liabilities for future policy benefits. DAC related to interest sensitive insurance products, such as universal life and annuities, are recognized as expense over the term of the policies in proportion to estimated gross profits (EGPs), arising principally from surrender charges, investment margins and mortality and expense margins, over the amortization period. EGPs are updated periodically with actual gross profits, and the assumptions underlying future EGPs are evaluated for reasonableness. Adjustments to EGPs require that amortization rates be revised retroactively to the date of the contract issuance (“unlocking”).

Income Taxes—The income tax provision is calculated under the liability method. Deferred tax assets and liabilities result from temporary differences between the carrying amounts of assets and liabilities recorded in the consolidated financial statements and their respective tax bases. The effect on deferred tax assets and liabilities of a change in tax rates would be recognized in the consolidated statements of comprehensive income (loss) in the period in which the tax rate change is enacted. A valuation allowance for a portion or all of deferred tax assets is recorded as a reduction to deferred tax assets when it is more likely than not that such portion or all of such deferred tax assets will not be realized.

Separate Accounts—Separate account assets and liabilities represent policyholder funds related to investment and annuity products for which the policyholder assumes substantially all the risk and reward. The assets are segregated into accounts with specific underlying investment objectives and are legally segregated from the Company. All assets of the separate account business are carried at fair value with an equal amount recorded for separate account liabilities. Fee income accruing to the Company related to separate accounts is included within policy fees and charges in the accompanying consolidated statements of comprehensive income (loss). A number of separate account pension deposit contracts guarantee principal and an annual minimum rate of interest. If aggregate contract value in the separate account exceeds the fair value of the related assets, an additional policyholders' funds liability is established. Certain of these contracts are subject to a fair value adjustment if terminated by the policyholder.

The Company considers all separate account assets assumed or ceded on a modified coinsurance basis to be components of funds withheld with the liabilities included as components of reserves for future policy benefits, interest sensitive contract liabilities or reinsurance recoverables.

Reserves for Future Policy Benefits and Interest Sensitive Contract Liabilities—The Company's liabilities for traditional life policies and reinsurance of traditional life insurance policies are recognized as reserves for future policy benefits. All of the Company's material reinsurance contracts are long duration contracts. The Company monitors actual experience and revises assumptions and related reserve estimates as permitted. The reserve is estimated using the net level premium method utilizing assumptions for mortality, persistency, interest and expenses established when the contract is underwritten. These assumptions are based on anticipated experience with a margin for adverse deviation. If the reserves for future policy benefits plus the present value of expected future gross premiums are insufficient to provide for expected future benefits and expense, deferred policy acquisition costs are expensed and, if required, a premium deficiency reserve is established by a charge to claims and policy benefits. Benefit liabilities for traditional life contingent payout annuities and structured settlements are recorded at the present value of expected future benefit payments. Where required, the Company also establishes an unearned profit reserve and amortizes it over expected benefit payments. Benefit liabilities for non-life contingent payout annuities are recorded at the present value of future benefit payments.

Reserves also are established to cover death claims that may have been incurred but not yet reported to the Company. The average discount rates used to compute the Company's reserves for future policy benefits were approximately 4.93% and 4.89% for 2017 and 2016, respectively.

Liabilities for interest sensitive insurance products such as universal life and deferred annuities are established based on account values before applicable surrender charges. Certain universal life products contain features that link interest credited to an equity index. These features create embedded derivatives that are not clearly and closely related to the host insurance contract. The embedded derivatives carried at fair value with changes in the fair value are recognized within interest credited to interest sensitive contract liabilities in the accompanying consolidated statements of comprehensive income (loss). At December 31, 2017, the fair value of these derivatives were $19,522, an increase of $1,551 from December 31, 2016. At December 31, 2016, the fair value of these derivatives were $17,971, an increase of $14,144 from December 31, 2015.

In situations where mortality profits are followed by mortality losses, a liability is established, in addition to the account value, to recognize the portion of policy assessments that relate to benefits to be provided in the future. Additional liabilities are established for universal life products related to unearned policy charges.

The calculation of reserves for future policy benefits and for IBNR for the Company's business requires management to make estimates and assumptions regarding expected mortality, lapse, persistency, expenses and investment experience. For reinsurance assumed, such estimates are based primarily on historical experience provided by ceding companies with the exception of investment returns and expenses. Actual results could differ materially from those estimates.

Recognition of Revenue and Expenses—Assumed reinsurance and policy premiums related to traditional life products are recognized as revenue when due from the ceding companies and policyholders and are reported net of the cost of reinsurance ceded. Benefits and expenses are reported net of amounts related to reinsurance ceded and are associated with earned premiums so that profits are recognized over the life of the related contracts.

For each of its reinsurance contracts, the Company must determine whether the contract provides indemnification against loss or liability relating to insurance risk. The Company must review all contractual features, particularly those that may limit the amount of insurance risk to which the Company is subject or features that delay the timely reimbursement of claims. If the Company determines that a contract does not expose it to a reasonable possibility of a significant loss from insurance risk, the Company records the contract under the deposit method of accounting with the net amount payable/receivable reflected in other reinsurance assets or liabilities on the consolidated balance sheets. Fees earned on these contracts are reflected as policy fees and charges, as opposed to premiums, on the consolidated statements of comprehensive income (loss).

For annuity and interest-sensitive life contracts, premiums collected are not reported as revenues, but as deposits to insurance liabilities. The Company recognizes revenues for these products over time in the form of investment income, policy charges for the cost of insurance, policy administration fees, and surrender fees that have been assessed against policy account balances during the period. Policy benefits and claims that are charged to expense include claims incurred in the period in excess of related policy account balances and interest credited to policy account balances. The weighted average interest-crediting rates for interest-sensitive products was 4.39% and 4.60% during 2017 and 2016, respectively.

Closed Block Reinsurance—Acquisitions by the Company of blocks of business in run off (i.e. where only existing policies will be renewed and new policies will not be sold), as either a reinsurance transaction or a stock purchase, are accounted for as reinsurance transactions. Results of operations only include the revenues and expenses from the effective date of acquisition of these blocks of business. The initial transfer of assets and liabilities is recorded in the consolidated balance sheets at the date of acquisition at fair value, except for the reserves for future policy benefits and value of in-force business acquired (VOBA), which are recorded at management's best estimate. Future policy benefit reserves are established based on the present value of benefits and maintenance expense minus the present value of valuation (or net) premiums.

VOBA represents the present value of future profits from the acquired contracts using the discount rate implicit in the pricing of such transactions. In establishing the VOBA, the

Company considers costs which vary with and are primarily related to the acquisition to be part of the purchase price. Such costs include initial ceding allowances, advisory and legal fees, investment banking fees, and contractually obligated involuntary severance. Other costs incurred that are not contractually required, such as transition and conversion costs, financing costs, and severance are expensed as period costs. The Company amortizes VOBA in proportion to premiums for traditional life products and in proportion to EGPs for interest sensitive life and annuity contracts. The EGP's and related amortization of VOBA for interest sensitive life and annuity products are updated (unlocked) periodically to reflect revised assumptions for lapses, mortality and investment earnings. The Company performs periodic tests to determine that VOBA associated with both traditional life products and interest sensitive life and annuity products remains recoverable, and when financial performance deteriorates to the point where VOBA is not recoverable, a cumulative charge to current operations would be recorded.

The net liability recorded (reserves for future policy benefits net of DAC and VOBA) represents management's best estimate of future cash flows, with provisions for adverse deviation as appropriate. Such estimates are subject to refinement within one year of acquisition.

New Accounting Pronouncements—Changes to the accounting principles are established by the Financial Accounting Standards Board (FASB) in the form of accounting standards updates to the FASB Accounting Standards Codification. Accounting standard updates not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on the Company's consolidated financial statements.

In January 2016, the FASB amended the guidance on the classification and measurement of financial instruments. The amendment revises the accounting related to (1) the classification and measurement of investments in equity securities, (2) the presentation of certain fair value changes for financial liabilities measured at fair value, (3) certain disclosure requirements associated with the fair value of financial instruments. The guidance is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the impact of this amendment on its consolidated financial statements.

In October 2016, the FASB issued authoritative guidance that removes the exception that prohibits and immediate recognition of the current and deferred tax effects of intra-entity transfers of assets. The guidance requires the transferring entity to recognize a current tax expense or benefit upon transfer of asset. Similarly, the receiving entity is required to recognize a DTA or DTL, as well as related deferred tax benefit or expense, upon receipt of the asset. The guidance is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. A reporting entity should apply the guidance retrospectively to all periods presented. The Company is currently evaluating the impact of this amendment on its consolidated financial statements.

In March 2017, the FASB issued authoritative guidance on purchased callable debt securities. The guidance shortens the amortization period for certain callable debt securities held at a premium and requires the premium to be amortized to the earliest call date. However, the new guidance does not require an accounting change for securities held at a discount whose discount continues to be amortized to maturity. The guidance is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. A reporting entity should apply the guidance retrospectively to all periods presented. The Company is currently evaluating the impact of this amendment on its consolidated financial statements.

Accumulated Other Comprehensive Income—The Company's accumulated other comprehensive income is equivalent to its retained earnings as there are currently no other components of accumulated other comprehensive income.

Reclassification—The Company has reclassified the presentation of certain prior period information on the consolidated balance sheet and related footnotes to conform to the 2017 presentation relative to commercial mortgage loans, now separately stated but previously included within other invested assets.

Subsequent Events—The Company has evaluated the impact of subsequent events through March 30, 2018, representing the date at which the consolidated financial statements were available to be issued.

3. CLOSED BLOCK REINSURANCE

Effective April 1, 2017, WRAC reinsured from Aegon's Transamerica life subsidiaries, closed blocks of non-par payout annuities (payouts) and corporate owned and bank owned life insurance business (COLI | BOLI) on a coinsurance and modified coinsurance basis. Concurrently, WRAC retroceded the blocks to Wilton Reinsurance Bermuda Limited, an affiliate incorporated under the laws of Bermuda as a long-term insurer (WREB), with the retrocession on a 100% coinsurance funds withheld basis. The blocks consist of $8,491,974 in cash, invested assets and accrued investment income relative to the payouts and $7,443,151 in cash, invested assets and accrued investment income relative to the COLI | BOLI.

The initial balance sheet effect of these transactions was as follows:

Assets	**Assumed**	**Ceded**	**Net**
Fixed maturity and equity securities	$ 8,761,757	$ -	$ 8,761,757
Commercial mortgage loans	1,214,721	-	1,214,721
Policy loans	10,896	(10,896)	-
Funds withheld at interest	4,249,722	-	4,249,722
Short term investments	44,766	-	44,766
Other invested assets	53,904	-	53,904
Total investments	14,335,766	(10,896)	14,324,870
Cash and cash equivalents	1,502,483	54,760	1,557,243
Accrued investment income	96,876	-	96,876
Reinsurance recoverable	-	16,735,095	16,735,095
Value of in-force business acquired	675,367	(675,367)	-
Net deferred tax assets	890,444	(724,379)	166,065
Other assets	239,063	17,356	256,419
Total assets	$17,739,999	$15,396,569	$33,136,568
Liabilities			
Reserves for future policy benefits	$ 7,995,699	$ -	$ 7,995,699
Interest sensitive contract liabilities	8,811,568	-	8,811,568
Funds held under reinsurance treaties	-	15,911,031	15,911,031
Other Liabilities	932,732	(514,462)	418,270
Total liabilities	$17,739,999	$15,396,569	$33,136,568

Effective April 1, 2017, WCAC ceded its block of payouts to WREB on a 100% coinsurance funds withheld basis.

The initial ceded balance sheet effect of this transaction was as follows:

Assets	**Ceded**
Cash and cash equivalents	$ (61,376)
Reinsurance recoverable	1,828,990
Net deferred tax assets	(108,601)
Other assets	108,601
Total assets	$ 1,767,614
Liabilities	
Funds held under reinsurance treaties	$ 1,767,614
Total liabilities	$ 1,767,614

For the closed block reinsurance transactions described above, the non-cash assets and liabilities assumed and ceded have been excluded from the statement of cash flows. The net cash received of $1,495,867 is included in cash flows from operating activities within the statement of cash flows.

4. INVESTMENTS

Fixed Maturity and Equity Securities—The amortized cost, fair value and related gross unrealized appreciation and depreciation of fixed maturity and common and preferred stock investments, all of which are classified as trading, except for the issuer obligation—affiliates which are held-to-maturity, as of December 31, 2017 and 2016 are as follows:

	2017			
	Amortized Cost	**Unrealized Appreciation**	**Unrealized Depreciation**	**Fair Value**
U.S. government and agencies	$ 1,650,271	$ 48,628	$ (7,325)	$ 1,691,574
State and political subdivisions	1,492,676	142,163	(485)	1,634,354
Foreign sovereign	116,071	2,974	(518)	118,527
Corporate securities	12,698,820	731,879	(20,888)	13,409,810
Residential mortgage-backed securities	1,231,310	23,266	(8,036)	1,246,540
Commercial mortgage-backed securities	1,207,108	27,765	(10,386)	1,224,487
Asset-backed securities	1,138,146	28,726	(5,155)	1,161,717
Collateralized debt obligations	330,573	9,116	(412)	339,277
Issuer obligations—affiliates	904,845	-	-	904,845
Total fixed maturities	20,769,820	1,014,517	(53,205)	21,731,131
Preferred stock	216,803	8,716	(3,839)	221,680
Common stock	22,428	-	-	22,428
Total fixed maturity and equity securities	$ 21,009,051	$ 1,023,233	$ (57,044)	$ 21,975,239

	2016			
	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Fair Value
U.S. government and agencies	$ 229,643	$ 16,395	$ (3,658)	$ 242,380
State and political subdivisions	1,256,137	86,699	(8,009)	1,334,827
Foreign sovereign	28,754	662	(710)	28,706
Corporate securities	5,401,229	179,883	(90,681)	5,490,431
Residential mortgage-backed securities	698,200	23,316	(7,859)	713,657
Commercial mortgage-backed securities	1,067,926	23,488	(20,719)	1,070,695
Asset-backed securities	896,968	10,814	(11,302)	896,480
Collateralized debt obligations	527,916	8,471	(3,102)	533,285
Issuer obligations—affiliates	915,524	-	-	915,524
Total fixed maturities	11,022,297	349,728	(146,040)	11,225,985
Preferred stock	138,813	3,592	(2,351)	140,054
Common stock	23,769	309	(1)	24,077
Total fixed maturity and equity securities	$ 11,184,879	$ 353,629	$ (148,392)	$ 11,390,116

The unrealized depreciation and fair values by investment category and by the duration of the fixed maturity securities in a continuous unrealized loss position at December 31, 2017 and 2016, are as follows:

	2017					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Depreciation	Fair Value	Unrealized Depreciation	Fair Value	Gross Unrealized Depreciation
U.S. government and agencies	$ 804,282	$ (5,290)	$ 46,406	$ (2,035)	$ 850,688	$ (7,325)
State and political subdivisions	36,920	(167)	7,791	(318)	44,711	(485)
Foreign sovereign	3,975	(21)	7,205	(497)	11,180	(518)
Corporate securities	1,039,859	(9,570)	319,355	(11,318)	1,359,214	(20,888)
Residential mortgage-backed securities	492,624	(5,345)	56,785	(2,691)	549,409	(8,036)
Commercial mortgage-backed securities	226,581	(2,214)	82,572	(8,172)	309,153	(10,386)
Asset-backed securities	179,121	(1,140)	124,709	(4,015)	303,830	(5,155)
Collateralized debt obligations	68,095	(141)	9,011	(271)	77,106	(412)
Total fixed maturities	2,851,457	(23,888)	653,834	(29,317)	3,505,291	(53,205)
Preferred stock	58,327	(1,185)	27,651	(2,654)	85,978	(3,839)
Common stock	-	-	-	-	-	-
Total fixed maturity and equity securities	$ 2,909,784	$ (25,073)	$ 681,485	$ (31,971)	$ 3,591,269	$ (57,044)

	2016					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Depreciation	Fair Value	Unrealized Depreciation	Fair Value	Gross Unrealized Depreciation
U.S. government and agencies	$ 68,030	$ (3,658)	$ -	$ -	$ 68,030	$ (3,658)
State and political subdivisions	261,583	(7,679)	995	(330)	262,578	(8,009)
Foreign sovereign	18,728	(710)	-	-	18,728	(710)
Corporate securities	1,918,608	(58,555)	352,087	(32,126)	2,270,695	(90,681)
Residential mortgage-backed securities	248,247	(6,379)	41,370	(1,480)	289,617	(7,859)
Commercial mortgage-backed securities	357,342	(13,699)	65,563	(7,020)	422,905	(20,719)
Asset-backed securities	448,965	(8,372)	94,206	(2,930)	543,171	(11,302)
Collateralized debt obligations	197,647	(1,953)	64,485	(1,149)	262,132	(3,102)
Total fixed maturities	3,519,150	(101,005)	618,706	(45,035)	4,137,856	(146,040)
Preferred stock	29,563	(444)	25,412	(1,907)	54,975	(2,351)
Common stock	-	-	-	(1)	-	(1)
Total fixed maturity and equity securities	$ 3,548,713	$ (101,449)	$ 644,118	$ (46,943)	$ 4,192,831	$ (148,392)

At December 31, 2017, two hundred seventy-nine fixed maturity securities with a total unrealized loss of $29,317 had been in an unrealized loss position for twelve months or more. Of those securities in an unrealized loss of twelve months or more, six securities had fair values below 70% of book value with a total unrealized loss of $1,078.

At December 31, 2016, two hundred forty-eight fixed maturity securities with a total unrealized loss of $45,035 had been in an unrealized loss position for twelve months or more. Of those securities in an unrealized loss of twelve months or more, five securities had fair values below 70% of book value with a total unrealized loss of $1,089.

Contractual maturities of the Company's fixed maturity securities as of December 31, 2017, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepayment obligations with or without call or prepay penalties.

	2017	
	Amortized Cost	Fair Value
One or less	$ 186,382	$ 186,488
One through five	1,063,702	1,084,922
After five through ten	1,836,896	1,899,560
After ten through twenty	4,453,714	4,759,881
After twenty	9,321,989	9,828,259
Residential mortgage-backed securities	1,231,310	1,246,540
Commercial mortgage-backed securities	1,207,108	1,224,487
Asset-backed securities	1,138,146	1,161,717
Collateralized debt obligations	330,573	339,277
Total fixed maturities	$ 20,769,820	$ 21,731,131

Credit ratings of the Company's fixed maturity securities as of December 31, 2017 and 2016, are shown below. Ratings are assigned by Standard & Poor's Corporation, Moody's Investors Service or Fitch Ratings. The ratings assigned may not be accurate predictors of credit losses.

	2017		2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
AAA	$ 3,847,710	$ 3,929,361	$ 1,333,173	$ 1,366,954
AA	2,158,031	2,307,089	1,431,681	1,502,031
A	7,955,424	8,344,670	4,465,121	4,549,758
BBB	6,358,270	6,680,576	3,419,983	3,430,269
BB	308,143	321,134	222,749	224,541
B	56,788	58,630	49,161	48,897
CCC or lower	85,454	89,671	100,430	103,535
Total fixed maturity securities	$20,769,820	$21,731,131	$11,022,297	$11,225,985

The Company's largest five exposures by issuer as of December 31, 2017 were Comcast Corporation, Wal-Mart Stores, Inc., Berkshire Hathaway, Inc., Twenty-First Century Fox, Inc., and The Kraft Heinz Company, each of which comprised less than 5%, and in aggregate comprised 3.03%, of total investments.

The Company's largest five exposures by issuer as of December 31, 2016 were Comcast Corporation, The Phoenix Companies, American Municipal Power, Metropolitan Transportation Authority, and Reassurance Group of America, Incorporated, each of which comprised less than 5%, and in aggregate comprised 2.6%, of total investments.

At December 31, 2017 and 2016, fixed maturity securities with a fair value of $57,749 and $58,171, respectively, were held on deposit with various state insurance departments in which WRAC, TLIC, WRNY, WLCO, and WCAC are licensed to operate to provide security and to meet regulatory requirements.

Investment Earnings—Net—Major sources of investment earnings are as follows:

	2017	2016
Fixed maturity and equity securities	$ 761,708	$477,331
Commercial mortgage loans	39,185	3,804
Policy loans	24,551	26,900
Funds withheld at interest	43,734	26,949
Short term investments and cash and cash equivalents	5,482	939
Other invested assets	19,645	16,465
Investment income	894,305	552,388
Investment income ceded on funds withheld	(438,649)	(34,855)
Investment expense	(20,972)	(14,208)
Investment income—net	434,684	503,325
Realized gains on investments	141,293	48,056
Realized losses on investments	(18,419)	(45,527)
Realized gains on funds withheld at interest	29,096	4,443
Realized losses on funds withheld at interest	(2,651)	(7,883)
Realized net gains ceded on funds withheld	(93,882)	(38)
Investment earnings—net	$ 490,120	$502,377

Commercial Mortgage Loans—Commercial mortgage loans (CMLs) represented approximately 4.05% and 0.40% of the Company's investments as of December 31, 2017 and 2016. The amortized cost at December 31, 2017, was $1,168,798, the fair value was $1,174,996, and the related net unrealized appreciation (depreciation) was $6,198.

The unrealized depreciation and fair values by the duration of the CMLs in a continuous unrealized loss position at December 31, 2017, are as follows:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Depreciation	Fair Value	Unrealized Depreciation	Fair Value	Unrealized Depreciation
Commercial mortgage loans	$572,988	$(3,296)	$5,939	$(157)	$578,927	$(3,453)

No valuation allowances were recorded in 2017 or 2016.

The Company's CML portfolio is collateralized by a variety of commercial real estate property types located across the United States. The principal geographic distribution as of December 31, 2017, is shown below. No other state represented more than 5% of the portfolio.

Percentage of Loan Portfolio Fair Value	**2017**
California	16.2 %
New York	16.0
Virginia	10.0
Ohio	6.2
Washington	5.8

The types of properties collateralizing the CMLs as of December 31, 2017, are as follows:

Percentage of Loan Portfolio Fair Value	**2017**
Multi-use	32.3 %
Office buildings	21.7
Retail	25.3
Industrial	11.9
Other commercial	8.8
Total	100.0 %

The contractual maturities of the CML portfolio as of December 31, 2017, are as follows:

	Number of Loans	**Fair Value**	**Percent**
2018	11	$ 30,649	2.6 %
2019	9	29,260	2.5
2020	13	56,471	4.8
2021	16	39,222	3.3
2022	9	33,357	2.8
Thereafter	125	986,036	83.9
Total	183	$1,174,996	100.0 %

Loan-to-value (LTV) and debt service coverage (DSC) ratios are measures commonly used to assess risk and quality of CMLs. The LTV ratio, calculated at time of origination, is expressed as a percentage of the amount of the loan relative to the value of the underlying property. An LTV ratio in excess of 100% indicates the unpaid loan amount exceeds the value of the underlying collateral. There were no loans at December 31, 2017 with a LTV ratio greater than 75%. The DSC ratio, based upon the most recently received financial statements, is expressed as a percentage of the amount of estimated cash flows from the property available to the borrower to meet principal and interest payment obligations. A DSC ratio of less than 1.0 indicates that property's operations do not generate sufficient cash flows to cover the debt payments. There were no loans at December 31, 2017 with a DSC ratio less than 1.0.

The following table reflects the distribution of the Company's CMLs across these two risk and quality measures as of December 31, 2017:

Loan-to-Value Ratios	Debt Service Coverage Ratio 1.0 to 1.25	1.26 to 1.5	1.51 to 1.75	Above 1.76	Total
Less than 50%	$41,173	$162,586	$ 97,945	$626,269	$ 927,973
50% to 60%	39,069	110,663	81,100	-	230,832
60% to 75%	16,191	-	-	-	16,191
Total	$96,433	$273,249	$179,045	$626,269	$1,174,996

Policy Loans—Policy loans comprised approximately 1.2% and 2.7% of the Company's investments as of December 31, 2017 and 2016, respectively. These policy loans present minimal credit risk because the amount of the loan cannot exceed the obligation due the ceding company or the insured upon the death of the insured or surrender of the underlying policy. The provisions of the underlying policies determine the policy loan interest rates. Because policy loans represent advances of policy benefits, they have the effect of reducing future disintermediation risk. In addition, the Company earns a spread between the interest rate earned on policy loans and the interest rate credited to corresponding liabilities.

5. FUNDS WITHHELD AT INTEREST

Funds withheld at interest comprised approximately 17.8% and 5.8% of the Company's total investments as of December 31, 2017 and 2016, respectively. The risk of loss to the Company due to the insolvency of a ceding company is mitigated by the Company's contractual right to offset amounts it owes the ceding company for claims or allowances with amounts owed to the Company from the ceding company. Interest generally accrues on these assets based upon the investment earnings on the underlying investments. The Company is subject to the investment performance on the funds withheld assets in a fashion similar to its invested assets.

The funds withheld at interest balances on the consolidated balance sheets are comprised of the following:

	2017	2016
Segregated portfolio of assets—general account	$1,415,419	$635,967
Segregated portfolio of assets—separate account	3,634,816	-
Non-segregated portfolio of assets	112,186	110,093
Funds withheld at interest, at fair value	$5,162,421	$746,060

The disclosures that follow are for the segregated portfolio—general account only and exclude other invested assets, short-term investments and cash of $139,633 and $11,999 as of December 31, 2017 and 2016, respectively. The segregated portfolio—separate account is supported by assets with specific underlying investment objectives and are in accounts legally segregated from the ceding company for which the policyholder has assumed substantially all the risk and reward. The non-segregated portfolio is supported by a proportionate share of the assets held by the ceding company.

The amortized cost, fair value and related gross unrealized appreciation and depreciation of the segregated portfolio—general account assets supporting the funds withheld at interest as of December 31, 2017 and 2016, are as follows:

	2017			
	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Fair Value
U.S. government and agencies	$ 71,968	$ 471	$ (383)	$ 72,056
State and political subdivisions	68,066	10,829	(5)	78,890
Foreign Sovereign	1,402	7	-	1,409
Corporate securities	883,216	57,025	(1,758)	938,483
Residential mortgage-backed securities	72,319	2,639	(390)	74,568
Commercial mortgage-backed securities	59,887	703	(457)	60,133
Asset-backed securities	45,079	259	(182)	45,156
Total fixed maturities	1,201,937	71,933	(3,175)	1,270,695
Preferred stock	4,280	812	(1)	5,091
Total fixed maturity and equity securities	$ 1,206,217	$ 72,745	$ (3,176)	$ 1,275,786

	2016			
	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Fair Value
U.S. government and agencies	$ 6,920	$ 161	$ (39)	$ 7,042
State and political subdivisions	65,368	7,588	(81)	72,875
Corporate securities	369,362	29,479	(5,728)	393,113
Residential mortgage-backed securities	61,275	2,411	(463)	63,223
Commercial mortgage-backed securities	54,859	1,003	(614)	55,248
Asset-backed securities	26,664	125	(248)	26,541
Total fixed maturities	584,448	40,767	(7,173)	618,042
Preferred stock	5,524	464	(62)	5,926
Total fixed maturity and equity securities	$ 589,972	$ 41,231	$ (7,235)	$ 623,968

The unrealized depreciation and fair values by investment category and by duration of the fixed maturity securities in a continuous unrealized loss position of the segregated portfolio—general account assets supporting the funds withheld at interest at December 31, 2017 and 2016, are as follows:

	2017					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Depreciation	Fair Value	Unrealized Depreciation	Fair Value	Gross Unrealized Depreciation
U.S. government and agencies	$ 38,449	$ (383)	$ -	$ -	$ 38,449	$ (383)
State and political subdivisions	3,225	(5)	-	-	3,225	(5)
Corporate securities	115,629	(511)	11,086	(1,247)	126,715	(1,758)
Residential mortgage-backed securities	17,146	(156)	8,406	(234)	25,552	(390)
Commercial mortgage-backed securities	18,165	(147)	4,608	(310)	22,773	(457)
Asset backed securities	19,730	(43)	4,689	(139)	24,419	(182)
Total fixed maturities	212,344	(1,245)	28,789	(1,930)	241,133	(3,175)
Preferred stock	136	(1)	-	-	136	(1)
Total fixed maturity and equity securities	$ 212,480	$ (1,246)	$ 28,789	$ (1,930)	$ 241,269	$ (3,176)

	2016					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Depreciation	Fair Value	Unrealized Depreciation	Fair Value	Gross Unrealized Depreciation
U.S. government and agencies	$ 1,460	$ (39)	$ -	$ -	$ 1,460	$ (39)
State and political subdivisions	2,163	(81)	-	-	2,163	(81)
Corporate securities	64,228	(2,502)	20,703	(3,226)	84,931	(5,728)
Residential mortgage-backed securities	19,593	(432)	813	(31)	20,406	(463)
Commercial mortgage-backed securities	24,396	(614)	-	-	24,396	(614)
Asset backed securities	10,187	(236)	63	(12)	10,250	(248)
Total fixed maturities	122,027	(3,904)	21,579	(3,269)	143,606	(7,173)
Preferred stock	1,240	(51)	153	(11)	1,393	(62)
Total fixed maturity and equity securities	$123,267	$(3,955)	$21,732	$(3,280)	$144,999	$(7,235)

At December 31, 2017, twenty-seven fixed maturity investments with a total unrealized loss of $1,930 had been in an unrealized loss position for twelve months or more. Of those securities in an unrealized loss twelve months or more, no securities had a fair value below 70% of book value.

At December 31, 2016, twenty fixed maturity investments with a total unrealized loss of $3,269 had been in an unrealized loss position for twelve months or more. Of those securities in an unrealized loss twelve months or more, no securities had a fair value below 70% of book value.

The contractual maturities of the segregated portfolio—general account’s fixed maturity securities supporting the funds withheld at interest as of December 31, 2017, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	2017	
	Amortized Cost	Estimated Fair Value
One or less	$ 18,957	$ 19,482
One through five	281,349	287,247
After five through ten	165,485	169,894
After ten through twenty	220,584	239,228
After twenty	338,277	374,990
Residential mortgage-backed securities	72,319	74,567
Commercial mortgage-backed securities	59,887	60,132
Asset-backed securities	45,079	45,155
Total	$1,201,937	$1,270,695

Credit ratings of the segregated portfolio—general account fixed maturities supporting the funds withheld at interest, as provided by the ceding company, are shown below as of December 31, 2017 and 2016.

	2017		2016	
	Amortized Cost	**Estimated Fair Value**	**Amortized Cost**	**Estimated Fair Value**
AAA	$ 238,574	$ 242,019	$143,927	$146,775
AA	100,909	109,997	55,962	61,155
A	463,861	495,120	159,248	175,273
BBB	366,681	389,758	191,444	200,823
BB	18,990	20,060	16,722	16,706
B	3,595	3,454	6,181	5,591
CCC or lower	9,327	10,287	10,964	11,719
Total	$1,201,937	$1,270,695	$584,448	$618,042

6. CONCENTRATION OF CREDIT RISK

As of December 31, 2017, substantially all of the Company’s cash, cash equivalent and short term investment funds were held in four financial institutions, respectively, that the Company considers being of high credit quality.

7. FUNDS HELD UNDER REINSURANCE TREATIES

As of December 31, 2017, the funds held under reinsurance treaties liability balance of $19,071,953 is comprised of reinsurance ceded to WREB for $18,868,392, with the remaining $203,560 ceded to unaffiliated third parties.

As of December 31, 2016, the funds held under reinsurance treaties liability balance of $650,070 is comprised of reinsurance ceded to WREB for $440,500, with the remaining $209,570 ceded to unaffiliated third parties.

8. REINSURANCE CEDED

The Company has reinsurance and retrocession agreements that enable it to substantially limit the amount of traditional life reinsurance it retains. The contracts are automatic and effective for risks assumed and in force subsequent to January 1, 2005 through December 31, 2007, for lives greater than $1,000 and from January 1, 2008, and subsequent for lives greater than $2,000.

The closed blocks of business acquired via stock purchase may include risks that were ceded to other reinsurers under various yearly renewable term, coinsurance and modified coinsurance agreements. The closed blocks of business acquired via coinsurance may include risks that were ceded to other reinsurers under existing inuring reinsurance agreements (inuring reinsurance). For those risks ceded to other reinsurers, the related per life retentions vary by block of business from $0 to $2,500.

Reinsurance and retrocession treaties do not relieve the Company from its obligations to counterparties. Failure of reinsurers or retrocessionaires to honor their obligations could result in losses to the Company. Consequently, allowances for uncollectible amounts would be established. At December 31, 2017 and 2016, no allowances were deemed necessary.

At December 31, 2017, WRAC has five retrocession agreements with WREB involving certain pre-XXX term, universal life, whole life and final expense exposures. The treaties were initially effective in 2005 and 2006 and have been amended periodically. In 2017, both WRAC and WCAC executed agreements with WREB as described above under Closed block reinsurance.

The following table presents information for the Company's reinsurance recoverable, including the respective amount and A.M. Best rating for each reinsurer representing in excess of 5% of the total as of December 31, 2017 and 2016:

2017

Reinsurer	A. M. Best Rating	Amount	% of Total
Affiliate:			
Wilton Reinsurance Bermuda Limited	A+	$ 18,988,669	93.7 %
Non-affiliate:			
Other reinsurers		1,271,730	6.3
Total		$ 20,260,399	100.0 %

2016

Reinsurer	A. M. Best Rating	Amount	% of Total
Affiliate:			
Wilton Reinsurance Bermuda Limited	A+	$ 404,971	23.8 %
Non-affiliate:			
Reinsurer A	A+	708,682	41.7
Reinsurer B	A+	158,487	9.3
Reinsurer C	A-	134,669	7.9
Reinsurer D	A+	94,692	5.6
Other reinsurers		197,212	11.7
Total		$ 1,698,712	100.0 %

Included in the total reinsurance recoverable balance were $150,567 and $103,178 of claims recoverable, of which $2,092 and $2,962 were in excess of 90 days past due but were deemed collectible as December 31, 2017 and 2016, respectively.

The effect of reinsurance and retrocessions on net premiums is as follows:

	2017	2016
Direct	$ 134,071	$ 138,913
Reinsurance assumed	302,773	316,703
Reinsurance ceded—affiliate	(80,618)	(94,441)
Reinsurance ceded—non-affiliate	(146,792)	(152,330)
Net premiums	$ 209,434	$ 208,845

The effect of reinsurance and retrocessions on net claims and policy benefits is as follows:

	2017	2016
Direct	$ 703,787	$ 507,901
Reinsurance assumed	730,828	367,550
Reinsurance ceded—affiliate	(482,040)	(65,150)
Reinsurance ceded—non-affiliate	(180,485)	(169,047)
Claims and policy benefits, net of reinsurance ceded	$ 772,090	$ 641,254

The effect of reinsurance and retrocessions on life insurance in-force is shown in the following schedule:

	Direct	Assumed	Ceded	Net	Net %
December 31, 2017	$63,981,527	$75,906,012	$(36,651,818)	$103,235,721	73.80 %
December 31, 2016	$64,559,584	$63,263,148	$(22,306,293)	$105,516,439	82.55 %

9. DEFERRED ACQUISITION COSTS AND VALUE OF BUSINESS ACQUIRED

The balances and changes in DAC for the years ended December 31, 2017 and 2016, are as follows:

	2017	2016
Beginning of year	$281,083	$240,239
Capitalized	50,542	52,933
Amortized	(11,721)	(11,903)
Attributable to realized/unrealized gains and losses	(4,420)	(590)
Impact of unlocking	(12,989)	404
End of year	$302,495	$281,083

The balances and changes in VOBA for the years ended December 31, 2017 and 2016, are as follows:

	2017	2016
Beginning of year	$394,399	$416,221
Amortized	(33,355)	(30,472)
Attributable to realized/unrealized gains and losses	(14,271)	(1,697)
Impact of unlocking	(15,994)	10,347
End of year	$330,779	$394,399

The expected amortization of VOBA in the next five years is as follows:

2018	$35,612
2019	32,527
2020	29,422
2021	28,425
2022	27,027

10. INCOME TAXES

Tax Reform—On December 22, 2017, President Trump signed the Tax Cuts and Jobs Act of 2017 (Tax Act) into law, which introduced significant changes to the Internal Revenue Code, including a reduction of the corporate income tax rate from 35% to 21% beginning in 2018. As a result of the rate reduction, a $98,506 decrease to the deferred tax asset and related tax expense was recorded in the consolidated financial statements at December 31, 2017.

The Tax Act also imposes a new minimum tax, referred to as the "base erosion anti-avoidance tax" (BEAT) which taxes modified taxable income at a rate of 5% beginning in 2018, increasing to 10% in 2019 and 12.5% in 2026.

Modified taxable income is calculated by adding back to a taxpayer's regular taxable income the amount of certain "base erosion tax benefits" resulting from certain payments made to foreign affiliates of the taxpayer, as well as the "base erosion percentage" of any net operating loss deductions. The BEAT applies for a taxable year only to the extent it exceeds a taxpayer's regular corporate income tax liability for such year (determined without regard to certain tax credits).

BEAT is expected to apply to deductible amounts paid or accrued by our U.S. subsidiaries to our foreign affiliated subsidiaries, WREB, Redding Funding Ltd., and Wilton Re (Canada) Limited The BEAT does not apply to amounts paid or accrued to these affiliates directly by unaffiliated ceding companies or third parties.

There is significant uncertainty regarding the computation of the BEAT including whether it applies on a net basis or instead, requires the add back of the gross amount paid or accrued to regular taxable income without reduction for claims or other expenses. In light of this uncertainty, we are exploring various alternatives intended to mitigate the potential effect of the BEAT on our results of operations.

Income Taxes—At December 31, 2017, the Company had net operating loss and tax credit carryforwards of approximately $59,896 and $7,127, respectively. Of the total net operating loss carryforward, $30,336 is limited under Section 382 and will begin to expire in 2026. The Company expects to utilize all of these net operating losses. The tax credit carryforward of $7,127 is limited under Sec. 383 and has a partial valuation allowance of $648 as a portion of these are expected to expire unused. The Company had no capital loss carryforwards.

Income tax expense attributable to income from continuing operations for the years ended December 31, 2017 and 2016, is as follows:

	2017	**2016**
Current tax expense (benefit)	$136,660	$ 37,590
Deferred tax expense (benefit)	54,679	76,196
Income tax expense (benefit)	$191,339	$113,786

The income tax expense differs from applying the U.S. federal income tax rate of 35% to income before taxation as a result of the following:

	2017	2016
Computed expected tax expense (benefit) at 35%	$ 95,532	$113,538
Tax reform rate reduction impact to deferred taxes	98,506	-
Other	(2,699)	248
Income tax expense (benefit)	$191,339	$113,786

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and liabilities at December 31, 2017 and 2016, are presented in the following table:

	2017	2016
Deferred income tax assets:		
Differences between tax and financial reporting amounts concerning certain reinsurance transactions	$ 107,232	$ 782,364
Net operating losses	12,578	27,985
Tax credit carryforwards	7,127	7,127
Nondeductible accruals	23,604	20,647
Deferred acquisition costs/value of business acquired	345,617	217,747
Investments	59,022	193,129
Other	825	5,000
Total deferred tax assets	556,058	1,253,999
Deferred income tax liabilities:		
Reserves for future policy benefits	(396,403)	(1,039,665)
Total deferred tax liabilities	(396,403)	(1,039,665)
Valuation allowance	(648)	(648)
Net deferred tax asset	$ 159,007	$ 213,686

Deferred income taxes reflect the tax impact of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and those for income tax purposes. The Company records valuation allowances when it believes that it is more likely than not that gross deferred income tax assets will not be realized.

The Company's U.S. subsidiaries' federal income tax returns for tax years 2014–2017 are open and subject to examination by the Internal Revenue Service.

As of December 31, 2017 or 2016, the Company had no unrecognized tax benefits.

11. STATUTORY REQUIREMENTS AND DIVIDEND RESTRICTIONS

The Company's insurance and reinsurance subsidiaries are subject to insurance laws and regulations in the states in which they operate. These regulations include restrictions that limit the amount of dividends or other distributions available to shareholders without prior approval of the insurance regulatory authorities.

WRAC, WRNY, TLIC, WLCO, WCAC, and RRE2 file financial statements prepared in accordance with statutory accounting practices prescribed or permitted by insurance regulators in the United States. The National Association of Insurance Commissioners (NAIC) prescribes risk based capital (RBC) requirements for the United States domiciled life and health insurance companies. As of December 31, 2017 and 2016, WRAC, WRNY, TLIC, WLCO, WCAC, and RRE2 exceeded all minimum RBC requirements.

WRAC is subject to statutory regulations of the State of Minnesota. Under these regulations, the maximum amount of dividends which can be paid by a company to shareholders in any twelve-month period without prior approval of the Minnesota Department of Commerce is restricted to the greater of 10% of surplus or net income less realized gains of the preceding year. In addition, any dividends must be paid from positive unassigned surplus. WRAC cannot pay a dividend in 2018 without prior regulatory approval.

WRNY is subject to statutory regulations of the state of New York. Under these regulations, the maximum amount of dividends which can be paid by a company to shareholders in any twelve-month period without prior approval of the New York Department of Financial Services is restricted to the greater of 10% of surplus to policyholders as of the immediately preceding calendar year or net income less realized gains of the preceding year, which may be further limited. WRNY can pay dividends of $9,036 in 2018 without prior regulatory approval.

TLIC is subject to statutory regulations of the state of Texas. Under these regulations, the maximum amount of dividends which can be paid by a company to shareholders in any twelve-month period without prior approval of the Texas Department of Insurance is restricted to the greater of the prior year net gain from operations after federal income tax and before capital gains and losses or 10% of statutory capital and surplus. TLIC can pay dividends of $36,900 in 2018, with $16,900 available to be paid after June 5, 2018, and $20,000 available to be paid after December 20, 2018, without prior regulatory approval.

WCAC is subject to statutory regulations of the state of Illinois. Under these regulations, the maximum amount of dividends which can be paid by a company to shareholders in any twelve-month period without prior approval of the Illinois Department of Insurance is restricted to the greater of 10% of surplus or net income for the preceding year. In addition, any dividends must be paid from positive unassigned surplus. WCAC can pay dividends of $10,885 after December 19, 2018 without prior regulatory approval.

WLCO is subject to statutory regulations of the state of Indiana. Under these regulations, the maximum amount of dividends which can be paid by a company to shareholders without approval from the Indiana Commissioner of Insurance is restricted to the greater of statutory net gain from operations before realized capital gains or losses for the preceding year or 10% of statutory surplus as of the preceding year. In addition, any dividends must be paid from positive unassigned surplus. WLCO cannot pay a dividend in 2018 without prior regulatory approval.

RRE2 is subject to statutory regulations of the state of South Carolina. As a special purpose financial captive under these regulations, all dividends to be paid to shareholders must receive prior approval by the Director of the South Carolina Department of Insurance.

The following table presents statutory capital and surplus for WRAC, WRNY, TLIC, WCAC, WLCO, and RRE2 as of December 31, 2017 and 2016:

	2017	2016
Wilton Reassurance Company	$655,691	$674,174
Wilton Reassurance Life Company of New York	92,867	96,258
Texas Life Insurance Company	74,390	79,653
Wilcac Life Insurance Company	143,176	145,970
Wilco Life Insurance Company	113,828	156,889
Redding Reassurance Company 2	88,531	141,823

The following table presents statutory net income (loss) of WRAC, WRNY, TLIC, WCAC, WLCO, and RRE2 for the years ended December 31, 2017 and 2016:

	2017	2016
Wilton Reassurance Company	$21,376	$21,378
Wilton Reassurance Life Company of New York	7,811	4,852
Texas Life Insurance Company	37,043	30,818
Wilcac Life Insurance Company	10,340	4,563
Wilco Life Insurance Company	2,211	11,089
Redding Reassurance Company 2	44,303	50,845

12. LONG-TERM INCENTIVE PLAN

Certain employees and officers within Wilton Re have been granted the conditional right to receive performance awards if certain performance indicators are met and depending on continued employment of the individual employee to whom the rights have been granted. The units are conditionally granted on September 30 of each year. The performance indicators apply over a performance period of three to five years and consist of financial targets set by the Board of Directors. A vesting period of three to five years applies after which units are valued based on actual performance and the awards are paid out to the eligible employees.

Initiated in 2014, the plan’s expense is recognized ratably over the requisite performance period as a component of operating expenses. For the years ended 2017 and 2016, the Company incurred expenses of $34,048 and $30,914, respectively, related to awards vesting in 2019 and 2020.

13. RELATED PARTY TRANSACTIONS

Services—Wilton Re Services provides among others, certain accounting, actuarial and administrative services to WRL; WREB; and Redding Funding, each affiliates of the Company. Services charged to affiliates during 2017 and 2016 amounted to $4,440 and $3,189, respectively, and $995 and $2,252 of this was recorded as other assets at December 31, 2017 and 2016, respectively. Services charged to affiliates are generally paid quarterly.

RRE2 Surplus Note—Redding Funding Secured Support Note—On December 29, 2014, RRE2 issued $1.2 billion of its face amount 7.00% Surplus Notes, final maturity December 31, 2053 (the Surplus Note), in exchange for an equivalent face amount of 5.75% Secured Support Notes, final maturity December 2058 (the Secured Support Note) issued by Redding Funding. RRE2 anticipates that the balance of the Surplus Note and Secured Support Note will be reduced concurrently over time as certain statutory-based reserves maintained by RRE2 decline. Each payment by RRE2 of interest or principal is subject to the prior approval of the Director of the South Carolina Department of Insurance. The Surplus Note is classified as subordinated affiliate debt and the Secured Support Note is a component of fixed maturity and equity securities on the balance sheets. Considering the “linked” and illiquid nature of the Secured Support Note and Surplus Note, both notes are classified as held-to-maturity and carried at amortized cost. The carrying values of both the Secured Support Note and Surplus Note are reasonable estimations of fair value for purposes of disclosure as the 125 basis point spread between the notes is within a reasonable range of current market alternative solutions. The net interest expense paid by RRE2 is recognized in investment earnings—net, in the statements of comprehensive income (loss). Information regarding the two notes are as follows:

	Surplus Note	Secured Support Note
January 1, 2016 carry value	$996,631	$996,631
Paydown—March	(37,286)	(37,286)
Paydown—June	(29,438)	(29,438)
Paydown—September	-	-
Paydown—December	(14,383)	(14,383)
December 31, 2016 carry value	915,524	915,524
Paydown—March	-	-
Paydown—June	-	-
Paydown—September	-	-
Paydown—December	(10,679)	(10,679)
December 31, 2017 carry value	$904,845	$904,845
2017 interest (paid) received	$ (64,056)	$ 52,617
2016 interest (paid) received	$ (66,734)	$ 54,818

Promissory Notes—On June 30, 2014, Wilton Re US Holdings issued $300,000 of its face amount 7.75% Promissory Notes, final maturity June 30, 2034, to WRL. Interest was payable quarterly in cash or at the sole option of Wilton Re US Holdings it was added quarterly to the principal amount. All remaining aggregate principal, together with any accrued and unpaid interest, was payable on the final maturity date. The Promissory Notes were prepaid in whole without penalty in September 2016. The Promissory Notes are classified as subordinated affiliate debt on the balance sheets. Information regarding the Promissory Notes are as follows:

	Note
January 1, 2016 carry value	$ 170,000
Paydown—September	(170,000)
December 31, 2016 carry value	$ -
2016 interest paid	$ 9,515

14. FUNDING AGREEMENTS

Two of the Company's insurance subsidiaries (WLCO and WRAC) are members of the Federal Home Loan Bank (FHLB). As members of the FHLB, WLCO and WRAC have the ability to borrow on a collateralized basis from the FHLB. WLCO and WRAC are required to hold certain minimum amounts of FHLB common stock as a condition of membership in the FHLB, and additional amounts based on the amount of the borrowings. At December 31, 2017 and 2016, the carrying value of the FHLB common stock was $22,428 and $22,625, respectively. As of December 31, 2017 and 2016, collateralized borrowings from the FHLB totaled $0 and $137,000, respectively, and the proceeds were used to purchase fixed maturity securities. The borrowings are classified as funding agreements in the accompanying consolidated balance sheets. As of December 31, 2017 and 2016, the carrying value on the consolidated balance sheets includes accrued interest of $0 and $250, respectively, and a fair value adjustment from the acquisition of WLCO of $0 and $2,414, respectively, which was amortized over the remaining life of the funding agreements. The borrowings are collateralized by investments with an estimated fair value of $22,398 and $195,072 at December 31, 2017 and 2016, respectively, which are maintained in a custodial account for the benefit of the FHLB. All such investments are classified as fixed maturities, trading, in the accompanying consolidated balance sheets. Interest expense of $1,036 and $1,710 was recognized in 2017 and 2016, respectively, related to the borrowings.

The following summarizes the terms of the borrowings:

Maturity Date	Interest Rate	Amount Borrowed
July 2017	Fixed rate—3.90%	$100,000
November 2017	Fixed rate—3.75%	37,000
		$137,000

The fixed rate borrowings are pre-payable subject to payment of a yield maintenance fee based on current market interest rates. At December 31, 2017 and 2016, the aggregate yield maintenance fee to prepay all fixed rate borrowings was $0 and $2,280, respectively.

At December 31, 2017 and 2016, WLCO had pledged collateral sufficient to support approximately $0 and $8,031 of LOCs/advances and WRAC had pledged collateral sufficient to support approximately $20,388 and $23,085, respectively, of LOCs/advances.

15. COMMITMENTS AND CONTINGENCIES

Liquidity Facilities—WRL obtains letters of credit for the benefit of various affiliated and unaffiliated insurance companies from which the Company assumes business. These letters of credit represent guarantees of performance under the reinsurance agreements and allow ceding companies to take statutory reserve credits.

In March 2016, WRL replaced its $175,000, senior letter of credit facility with Wells Fargo set to expire in 2016 (Wells Fargo Facility I) which included a $75,000 revolving line of credit sublimit, with a $100,000, senior letter of credit facility with Wells Fargo expiring in 2019 (Wells Fargo Facility II) which included a $50,000 revolving line of credit sublimit. The Wells Fargo Facility II contained financial covenant restrictions that required the

Company and certain affiliates not to exceed a combined leverage ratio of greater than 0.325 to 1.000, and maintain a minimum adjusted consolidated tangible net worth. Borrowings under the Wells Fargo Facility II bore interest, at the applicable borrower's option, at either a base rate or a LIBOR rate (or, in the case of borrowings denominated in Canadian Dollars, at the Canadian Dollar Offered Rate or "CDOR"), in each case, plus an applicable margin that was determined according to a sliding scale based upon the lower of the financial strength rating of WRAC and two of its affiliates. The applicable margin for base rate loans ranged from 0% to 0.875%. The applicable margin for LIBOR loans/CDOR Loans ranged from 1.000% to 1.875%. LOCs issued under the Wells Fargo facility could be collateralized by qualifying cash and securities (liquid collateral).

In November 2016, WRL, along with the Company, replaced the Wells Fargo Facility II with a five year $500,000 senior revolving credit facility (Wells Fargo Facility III) that expires in 2021 with a syndicate of lenders. The facility includes a $100,000 letter of credit sublimit. The facility also requires WRL's combined leverage ratio not be greater than 0.35 to 1.00 and that WRL maintains a minimum adjusted consolidated tangible net worth. Borrowings under the Wells Fargo Facility III bear interest, at the applicable borrower's option, at either a base rate or a LIBOR rate (or, in the case of borrowings denominated in Canadian Dollars, at the CDOR), in each case, plus an applicable margin that is determined according to a sliding scale based upon the lower of the financial strength rating of WRAC and two of its affiliates. The applicable margin for base rate loans ranges from 0.250% to 1.000%. The applicable margin for LIBOR loans/CDOR Loans ranges from 1.250% to 2.000%. Any amounts borrowed may be repaid at any time without prepayment penalty.

LOCs issued under the Wells Fargo Facility III may be collateralized by qualifying cash and securities (liquid collateral). The market value of the collateral held by the Company at December 31, 2017 and 2016 was $31,848 and $28,750, respectively. At December 31, 2017 and 2016, there were approximately $28,790 and $25,961, respectively of outstanding bank letters of credit issued by the Company under the facility and $0, borrowed under the line of credit.

In October 2017, WRL, along with the Company, added a 364-day $500,000 senior revolving credit facility (Wells Fargo Facility IV) with a syndicate of lenders. Wells Fargo Facility IV has the same financial covenant restrictions as Wells Fargo Facility III. Borrowings under Wells Fargo Facility IV bear interest, at the applicable borrower's option, at either a base rate or a LIBOR rate (or, in the case of borrowings denominated in Canadian Dollars, at the CDOR, in each case, plus an applicable margin that is determined according to a sliding scale based upon the lower of the financial strength rating of WRAC, WREB, and ivari. The applicable margin for base rate loans ranges from 0.250% to 1.000%. The applicable margin for LIBOR loans/CDOR Loans ranges from 1.250% to 2.000%. At December 31, 2017, there was $0 borrowed under the facility.

Fixed-to-Floating Rate Senior Notes—In April 2013, WRFL consummated the sale of a $300,000 144A notes offering (of which $50,000 has been purchased by WRSI and are eliminated in consolidation). The notes are unconditionally guaranteed on a senior, unsecured basis jointly and severally by WRL and the Company. The notes are 5.875% fixed-to-floating rate senior notes due 2033. The notes pay fixed interest semi-annually in arrears on March 30 and September 30 until March 30, 2023, at a rate of 5.875% subject to interest rate adjustments as further described below. The floating interest will be paid quarterly in arrears commencing June 30, 2023, until maturity on March 30, 2033, at an interest rate equal to Three-Month LIBOR plus 3.829% subject to an interest rate adjustment as further described below.

The interest rate payable on the notes shall be subject to adjustments from time to time if the notes are downgraded by the Company's designated rating agencies (or upgraded following a downgrade which resulted in an adjustment to the interest rate payable on the notes) or if any of the Company's rating agencies cease to rate the notes or fail to make a rating of the notes publicly available for reasons outside of WRFL's control. The Company may, however, designate another "nationally recognized statistical organization" as a replacement agency and, upon such designation, the credit rating assigned to the notes by such agency shall be used in the determination of whether the interest rate payable on the notes shall be subject to any adjustment.

The notes include financial covenant restrictions requiring the Company to maintain a consolidated financial leverage ratio not to exceed 0.35 to 1.00 and can be redeemed by the Company in whole or in part at a "make-whole" redemption price at any time prior to March 30, 2023, and at 100% of the principal amount plus accrued and unpaid interest on or after March 30, 2023.

Collateral Arrangements—Certain of the Company's operating subsidiaries are required under applicable law, as a result of specific contractual undertakings, or both, to maintain amounts in trust or similar collateral arrangements to secure performance of such subsidiaries' performance of specified policy or contract liabilities. These arrangements include, among others, trusts maintained in connection with indemnity reinsurance or similar arrangements or to support specified blocks of payout annuity obligations and deposits mandated in connection with certain borrowing arrangements. While the terms of these arrangements vary, the Company's operating subsidiaries generally retain investment management responsibility for these collateral assets subject, in certain cases, to compliance with agreed investment guidelines. The aggregate market value of investments maintained by the Company's operating subsidiaries pursuant to these arrangements as of December 31, 2017 and 2016, was $15,407,984 and $3,372,865, respectively.

Legal Proceedings—In the normal course of business, the Company is involved in litigation, principally from claims made under insurance policies and contracts. The Company reviews its litigation matters on an ongoing basis.

In October, 2012, a purported nationwide class action was filed in the United States District Court for the Central District of California, *William Jeffrey Burnett and Joe H. Camp v. Conseco Life Insurance Company, CNO Financial Group, Inc., CDOC, Inc. and CNO Services, LLC*, Case No. EDCV12-01715VAPSPX. The plaintiffs commenced this action on behalf of various Lifetrend life insurance policyholders who, since October 2008, have surrendered or lapsed their policies. Shortly after filing, the case was consolidated into a multidistrict litigation proceeding already pending in the Northern District of California. On November 30, 2012, the Company and the other defendants filed a motion to dismiss the complaint. On November 18, 2013, the court granted the dismissal, with leave to amend, of CNO Financial Group, Inc., CDOC, Inc. and CNO Services, LLC, and denied the motion to dismiss of the Company. The plaintiffs filed an amended complaint in October 2014 and the Company filed a renewed motion to dismiss the amended pleading. On April 9, 2015, the district court granted the Company's revised motion to dismiss and issued a judgment dismissing the plaintiffs' case in full without leave to amend. On April 27, 2015, the plaintiffs filed a notice of appeal to the United States Court of Appeals for the Ninth Circuit from the district court's order and judgment dismissing plaintiffs' case. The Ninth Circuit heard oral argument on the appeal on April 17, 2017. In May 2017, the Ninth Circuit issued an opinion reversing the district court's prior dismissal of plaintiffs' complaint. Thereafter, the Company filed successful motions for suggestion of remand and to transfer venue from the 9th Circuit to the 7th Circuit. The proceeding was remanded from the Northern District of California to the Central District of California by the Judicial Panel on Multidistrict Litigation in September 2017, and the case was then transferred from the Central District of California to the Southern District of Indiana in January 2018. The Company believes it has meritorious defenses to plaintiffs' claims and will pursue those defenses vigorously.

While the ultimate disposition of such litigation is uncertain, management does not expect it to have a material adverse effect on the Company's financial condition, liquidity or results of operations.

16. FAIR VALUE

The Company determines the fair value of its financial instruments based on the fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following table presents the carrying amounts and fair values of the Company's financial instruments at December 31, 2017 and 2016:

	2017		2016	
	Carrying Value	**Estimated Fair Value**	**Carrying Value**	**Estimated Fair Value**
Financial assets:				
Fixed maturity and equity securities	$21,975,239	$21,975,239	$11,390,116	$11,390,116
Commercial mortgage loans	1,174,996	1,174,996	51,955	51,955
Policy loans	339,458	339,458	351,025	351,025
Funds withheld at interest	5,162,421	5,162,421	746,060	746,060
Short term investments	4,909	4,909	92,274	92,274
Other invested assets	361,703	361,703	265,874	265,874
Separate account assets	38,389	38,389	39,662	39,662
Financial liabilities:				
Annuities—deferred and without life contingencies	$ 934,437	$ 1,107,403	$ 979,032	$ 1,111,233
Structured settlements	14,771	13,282	213,537	221,442
Funds held under reinsurance treaties	19,071,953	19,071,953	650,070	650,070
Funding agreements	-	-	139,663	142,193
Long-term debt	250,000	264,688	250,093	254,781
Subordinated affiliate debt	904,845	904,845	915,524	915,524
Separate account liabilities	38,389	38,389	39,662	39,662

The valuation methodologies used to determine the fair values of assets and liabilities reflect market-participant assumptions and prioritize observable market inputs over unobservable inputs. The Company determines the fair values of certain financial assets and financial liabilities based on quoted market prices, where available. The Company also determines certain fair values based on future cash flows discounted at the appropriate current market rate. Fair values reflect adjustments for counterparty credit quality, the Company's credit standing, liquidity and, where appropriate, risk margins. The following is a discussion of the methodologies used to determine fair values for the financial instruments as listed in the above table.

Fixed Maturity and Equity Securities—Publicly traded fixed maturity securities, included in fixed maturity and equity securities and funds withheld at interest, are valued based on quoted market prices or broker prices. Private placement securities, included in fixed maturity and equity securities and funds withheld at interest, are valued based on the credit quality and duration of marketable securities deemed comparable by the Company's investment advisor, which may be of another issuer. In some cases, discounted cash flow analysis may be used.

Commercial Mortgage Loans—The loans are valued using a net present value calculation of future cash flows. The calculation uses a credit spread plus a liquidity spread and is added to an interpolated Treasury yield to determine the discount rate. Credit and liquidity spreads are derived from industry spread curve data provided by third parties that are considered market-makers in commercial mortgage loans.

Policy Loans—Policy loans typically carry an interest rate that is tied to the crediting rate applied to the related policy, and contract reserves, which approximates fair value.

Funds Withheld—The fair value of embedded derivatives associated with funds withheld reinsurance treaties is determined based upon a total return swap methodology with reference to the fair value of the investments held by the ceding company that support the Company's funds withheld at interest asset. The fair value of the underlying assets is generally based on market observable inputs using market valuation methodologies.

Short-term Investments—The carrying value of short-term investments approximates fair value and is determined based on quoted market prices.

Affiliated Notes—Considering the "linked" and illiquid nature of the Secured Support Note and Surplus Note, the Surplus Note is classified as held-to-maturity and both the Surplus Note and Secured Support Note are carried at amortized cost. The carrying values of both the Secured Support Note and Surplus Note are reasonable estimations of fair value for purposes of disclosure as the 125 basis point spread between the notes is within a reasonable range of current market alternative solutions.

Other—The fair value of the Company's deferred fixed annuities without life contingencies and structured settlements (included in reserves for future policy benefits) are based on discounted cash flows. The fair value of funding agreements is determined by using LIBOR spot rates plus a spread. The fair value of fixed rate long-term debt is determined based on quoted market prices.

The Company has categorized its assets and liabilities recorded at fair value, based on the priority of the inputs to the valuation technique, into a three level hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded at fair value on the consolidated balance sheets are categorized as follows:

Level 1—Unadjusted quoted prices for identical assets or liabilities in an active market. The types of financial investments included in Level 1 are listed equities, mutual funds, money market funds, U.S. Treasury Securities and non-interest bearing cash.

Level 2—Pricing inputs other than quoted prices in active markets which are either directly or indirectly observable as of the reporting date, and fair value determined through the use of models or other valuation methods. Such inputs may include benchmarking prices for similar assets in active, liquid markets, quoted prices in markets that are not active and observable yields and spreads in the market. Level 2 valuations may be obtained from independent sources for identical or comparable assets or through the use of valuation methodologies using observable market-corroborated inputs. Prices from third-party pricing services are validated through analytical reviews. The types of financial instruments included in Level 2 include publicly traded issues such as U.S. and foreign corporate securities, and residential and commercial mortgage-backed securities, among others.

Level 3—Prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. They reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability. Market standard techniques for determining the estimated fair value of certain securities that trade infrequently may rely on inputs that are not observable in the market or cannot be derived from or corroborated by market observable data. Prices are determined using valuation methodologies such as discounted cash flow models and other techniques. Management believes these inputs are consistent with what other market participants would use when pricing similar assets. The types of financial investments included in Level 3 primarily include private placements, certain asset-backed and mortgage-backed securities, commercial mortgage loans and limited partnership interests.

Assets measured at fair value on a recurring basis are summarized below.

	December 31, 2017				
	Amortized Cost	Fair Value	Level 1	Level 2	Level 3
U.S. government and agencies	$ 1,650,271	$ 1,691,574	$1,490,886	$ 200,688	$ -
State and political subdivisions	1,492,676	1,634,354	-	1,592,436	41,918
Foreign sovereign	116,071	118,527	-	118,527	-
Corporate securities	12,698,820	13,409,810	-	13,176,572	233,238
Residential mortgage-backed securities	1,231,310	1,246,540	-	1,193,695	52,845
Commercial mortgage-backed securities	1,207,108	1,224,487	-	1,224,487	-
Asset backed securities	1,138,146	1,161,717	-	949,846	211,871
Collateralized debt obligations	330,573	339,277	-	236,757	102,520
Total fixed maturity	19,864,975	20,826,286	1,490,886	18,693,008	642,392
Preferred stocks	216,803	221,680	-	221,680	-
Common stocks	22,428	22,428	-	22,429	-
Cash and short term investments	640,837	640,846	635,937	4,909	-
Other invested assets	313,319	361,190	-	97,057	264,133
Commercial mortgage loans	1,168,798	1,174,996	-	-	1,174,996
Separate account assets	38,389	38,389	-	38,389	-
Total financial assets	$22,265,549	$23,285,815	$2,126,823	$19,077,472	$2,081,521
Funds Withheld at Interest					
U.S. government and agencies	$ 71,968	$ 72,056	$ 8,876	$ 63,180	$ -
State and political subdivisions	68,066	78,890	-	78,890	-
Foreign Sovereign	1,402	1,409	-	1,409	-
Corporate securities	883,216	938,483	-	938,483	-
Residential mortgage-backed securities	72,319	74,568	-	74,568	-
Commercial mortgage-backed securities	59,887	60,133	-	60,133	-
Asset backed securities	45,079	45,156	-	45,156	-
Total fixed maturity	1,201,937	1,270,695	8,876	1,261,819	-
Preferred stocks	4,280	5,092	-	5,092	-
Cash and short term investments	67,560	67,558	59,932	7,626	-
Other Invested Assets	5,692	6,131	-	6,131	-
Total financial assets	$ 1,279,469	$ 1,349,476	$ 68,808	$ 1,280,668	$ -

	December 31, 2016				
	Amortized Cost	Fair Value	Level 1	Level 2	Level 3
U.S. government and agencies	$ 229,643	$ 242,380	$109,739	$ 132,641	$ -
State and political subdivisions	1,256,137	1,334,827	-	1,295,829	38,998
Foreign sovereign	28,754	28,706	-	28,706	-
Corporate securities	5,401,229	5,490,431	-	5,334,036	156,395
Residential mortgage-backed securities	698,200	713,657	-	713,633	24
Commercial mortgage-backed securities	1,067,926	1,070,695	-	1,070,695	-
Asset backed securities	896,968	896,480	-	841,318	55,162
Collateralized debt obligations	527,916	533,285	-	419,125	114,160
Total fixed maturity	10,106,773	10,310,461	109,739	9,835,983	364,739
Preferred stocks	138,813	140,054	-	140,054	-
Common stocks	23,769	24,077	-	24,077	-
Cash and short term investments	232,022	232,016	228,516	2,597	903
Other invested assets	219,444	265,227	-	89,732	175,495
Commercial mortgage loans	51,870	51,995	-	-	51,955
Separate account assets	39,662	39,662	-	39,662	-
Total financial assets	$10,812,353	$11,063,492	$338,255	$10,132,105	$593,092
Funds withheld at interest					
U.S. government and agencies	$ 6,920	$ 7,042	$ 7,042	$ -	$ -
State and political subdivisions	65,368	72,875	-	72,875	-
Corporate securities	369,362	393,113	-	393,113	-
Residential mortgage-backed securities	61,275	63,223	-	63,223	-
Commercial mortgage-backed securities	54,859	55,248	-	55,248	-
Asset backed securities	26,664	26,541	-	26,541	-
Total fixed maturity	584,448	618,042	7,042	611,000	-
Preferred stocks	5,524	5,926	-	5,926	-
Cash and short term investments	12,000	12,000	12,000	-	-
Total financial assets	$ 601,972	$ 635,968	$ 19,042	$ 616,926	$ -

The Company reviews the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets. Such reclassifications are reported as transfers in and out of Level 3, or between other levels, at the ending fair value for the reporting period in which the changes occur. There were no significant transfers between Level 1 and Level 2 for the year ended December 31, 2017 or 2016. The transfers into Level 3 primarily result from securities where a lack of observable market data (versus the previous year) resulted in reclassifying assets into Level 3. The transfers out of Level 3 primarily result from observable market data becoming available for that asset, thus eliminating the need to extrapolate market data beyond observable points.

The fair value of a financial instrument is the estimated amount at which the instrument could be exchanged in an orderly transaction between knowledgeable, unrelated, willing parties, i.e., not in a forced transaction. The estimated fair value of a financial instrument may differ from the amount that could be realized if the security was sold in an immediate sale, e.g., a forced transaction. Additionally, the valuation of investments is more subjective during periods of market disruption, including periods of rapid interest rate changes, rapidly widening credit spreads or illiquidity. It may be difficult to value certain securities when markets are less liquid, which may increase the potential that the estimated fair value of an investment is not reflective of the price at which an actual transaction would occur.

The Company utilizes information from third parties such as pricing services and brokers to assist in determining fair values. The Company uses various third parties with expertise in specific asset classes to perform modeling for market valuation when quoted prices in active markets are not available. The fair values of the Company's publicly traded fixed maturity, short term and equity securities are determined using one of three primary sources: third-party pricing services, independent broker quotations, or using standard market valuation techniques. Security pricing is applied using a "waterfall" approach whereby publicly available prices are first sought from third-party pricing services, any remaining unpriced securities are submitted to independent brokers for prices, and lastly, securities are priced using a pricing matrix or other appropriate fair value model. Typical inputs used by these three pricing methods include, but are not limited to: reported trades, benchmark yields, issuer spreads, bids, offers, estimated cash flows and rates of prepayments. Third-party pricing services will normally derive the security prices through recent reported trades for identical or similar securities making adjustments through the reporting date based upon available market observable information. If there are no recent reported trades, the third-party pricing services and brokers may use market observable inputs in their matrix or model processes to develop a security price.

The Company utilizes, when available, fair values based on quoted prices in active markets that are regularly and readily obtainable. When quoted prices in active markets are not available, fair value is based on pricing services, broker quotes and other standard market valuation techniques. When observable inputs are not available, the market standard valuation techniques for determining the estimated fair value of certain types of securities that trade infrequently rely on inputs that are not observable in the market or cannot be derived principally from or corroborated by observable market data. Even though unobservable, these inputs are based on assumptions deemed appropriate given the circumstances and are believed to be consistent with what other market participants would use when pricing such securities.

The use of different techniques, assumptions and inputs may have a material effect on the estimated fair values of the Company's securities holdings and fair value information disclosed. For the years ended December 31, 2017 and 2016, the application of market standard valuation techniques applied to similar assets has been consistent.

US Government and Agency Securities, State and Political Subdivisions, Foreign Sovereign Securities, and Corporate Securities—US Treasury securities, which trade based on quoted prices for identical assets in an active market, are included in Level 1.

The fair value of Level 2 bonds and securities is predominantly priced by third-party pricing services and broker quotes. Their pricing models typically utilize the following inputs: principal and interest payments, treasury yield curve, credit spreads from new issue and secondary trading markets, early redemption or call features, benchmark securities and reported trades.

Level 3 bonds and securities primarily represent investments in privately placed bonds, credit tenant loans and other less liquid corporate and municipal bonds for which prices are not readily available. To determine a fair value, the Company may rely on modeling for market valuation using both observable and unobservable inputs. These inputs are entered into industry standard pricing models to determine the final price of the security. These inputs typically include: projected cash flows, discount rate, industry sector, underlying collateral, credit quality of the issuer, maturity, embedded options, recent new issuance, comparative bond analysis, and seniority of debt.

The extent of the use of each market input depends on the asset class, market conditions and the relevant market data available. Depending on the security, these inputs may change, some market inputs may not be relevant or additional inputs may be necessary.

The fair value of corporate bonds classified as Level 3 is sensitive to changes in the interest rate spread over the corresponding US Treasury rate. This spread represents a risk premium that is affected by company-specific and market factors. An increase in the spread can be caused by a perceived increase in credit risk of a specific issuer and/or an increase in the overall market risk premium associated with similar securities.

Mortgage-Backed Securities, Asset-Backed Securities and Collateralized Debt Obligations—This category consists of residential mortgage-backed securities, commercial mortgage-backed securities, and other asset-backed securities, such as credit card and automobile receivables, home equity loans, manufactured housing bonds and collateralized debt obligations. Level 2 securities are priced from information provided by third-party pricing services and independent broker quotes. For mortgage-backed and asset-backed securities, valuation is based primarily on matrix pricing or other similar techniques using standard market inputs including spreads for actively traded securities, spreads off benchmark yields, expected prepayment speeds and volumes, current and forecasted loss severity, credit rating, weighted average coupon, weighted average maturity, average delinquency rates, geographic region, debt-service coverage ratios and issuance-specific information including, but not limited to: collateral type, payment terms of the underlying assets, payment priority within the tranche, structure of the security, deal performance, vintage of loans and insurance guarantees.

The Company has included mortgage-backed and asset-backed securities with less liquidity in Level 3. These securities are primarily privately placed transactions with little transparency to the market or other securities with limited or inactive trading markets. Significant inputs cannot be derived principally from or corroborated by observable market data. The significant unobservable inputs used in the fair value measurement of these securities typically include: discounted cash flows, credit rating of issuer, debt coverage ratios, type and quality of underlying collateral, prepayment rates, probability of default and loss severity in the event of default.

Included in the pricing of mortgage-backed and asset-backed securities are estimates of the rate of future prepayments of principal over the remaining life of the securities. Such estimates are derived based on the securities' underlying structure and rates of prepayments previously experienced at the interest rate levels projected for the underlying collateral. Changes in significant inputs used in the fair value measurement, such as the paydown rate (the projected annual rate of principal reduction), may affect the fair value of the securities. For example, a decrease in the paydown rate would increase the projected weighted average life and increase the sensitivity of the fair value to changes in interest rates.

Commercial Mortgage Loans—These investments are considered level 3 in the fair value hierarchy due to the limited transaction activity and unobservable inputs.

Other Invested Assets—Included in other invested assets are the Company's investments in limited partnership interests. Limited partnership interests are determined by the net asset values of the Company's ownership interest as provided in the financial statements of the investees. The valuation of these investments is considered Level 3 in the fair value hierarchy due to the limited transaction activity and lack of price transparency inherent in the market for such investments.

Other invested assets also include surplus debentures, which are similar to corporate securities, but are subordinated obligations of insurance companies and may be subject to restrictions by the insurance commissioners. The fair value of these securities is priced by third-party pricing services and is included in Level 2 of the fair value hierarchy.

Separate Accounts—The majority of these assets are Corporate and Mortgage-backed securities included in Level 2 of the Fair Value Hierarchy.

The table below reconciles the fair value of all Level 3 financial instruments for the years ended December 31, 2017 and 2016:

December 31, 2017	Short Term Investments	State and Political Subdivisions	Corporate Securities	Residential Mortgage-Backed Securities	Asset Backed Securities	Collateralized Debt Obligations	Commercial Mortgage Loans	Other Invested Assets	Total
Beginning Balance—January 1	$ 903	$38,998	$156,395	$ 25	$ 55,162	$114,160	$ 51,955	$175,494	$ 593,092
Total realized/unrealized gains (losses) included in earnings, net:									
Net investment income	-	(3)	70	(5)	330	-	(10,964)	267	(10,305)
Net investment gains (losses)	(39)	-	3,239	-	(290)	-	(11)	(20)	2,879
Net unrealized appreciation (depreciation)	6	3,370	3,280	5	1,164	2,841	6,114	(2,380)	14,400
Purchases/acquisitions	-	-	112,978	52,829	164,555	14,337	1,172,794	24,484	1,541,977
Sales/disposals	(870)	(447)	(43,137)	(9)	(8,993)	(28,818)	(44,892)	(14,074)	(141,240)
Transfers into Level 3	-	-	413	-	-	-	-	80,362	80,775
Transfers out of Level 3	-	-	-	-	(57)	-	-	-	(57)
Ending Balance—December 31	$ -	$41,918	$233,238	$52,845	$211,871	$102,520	$1,174,996	$264,133	$2,081,521
Total gains (losses) related to assets still held at the reporting date included in earnings:									
Net investment income	$ -	$ (3)	$ (842)	$ (5)	$ 292	$ -	$ (10,811)	$ 267	$ (11,102)
Net investment gains (losses)	-	-	-	-	1	-	-	(6)	(5)
Net unrealized appreciation (depreciation)	-	3,370	5,797	5	947	2,730	6,196	1,785	20,830

December 31, 2016	Short Term Investments	State and Political Subdivisions	Corporate Securities	Residential Mortgage-Backed Securities	Asset Backed Securities	Collateralized Debt Obligations	Commercial Mortgage Loans	Other Invested Assets	Total
Beginning Balance—January 1	$ 5,145	$23,445	$148,987	$ 5,270	$101,819	$ 5,315	$ 83,162	$ 98,980	$ 472,123
Total realized/unrealized gains (losses) included in earnings, net:									
Net investment income	-	(1)	(8)	(64)	356	-	(118)	-	165
Net investment gains (losses)	-	-	608	-	14	-	199	(198)	623
Net unrealized appreciation (depreciation)	(6)	(992)	(2,539)	153	13	205	93	11,536	8,463
Purchases/acquisitions	(4,236)	16,884	46,513	-	22,750	138,139	-	66,314	286,364
Sales/disposals	-	(338)	(21,266)	(145)	(77,412)	(29,499)	(31,381)	(1,138)	(161,179)
Transfers into Level 3	-	-	-	-	14,746	-	-	-	14,746
Transfers out of Level 3	-	-	(15,900)	(5,189)	(7,124)	-	-	-	(28,213)
Ending Balance—December 31	$ 903	$38,998	$156,395	$ 25	$ 55,162	$114,160	$ 51,955	$175,494	$ 593,092
Total gains (losses) related to assets still held at the reporting date included in earnings:									
Net investment income	$ -	$ (1)	$ (17)	$ (64)	$ 356	$ -	$ (597)	$ -	$ (323)
Net investment gains (losses)	-	-	600	-	13	-	-	(8)	605
Net unrealized appreciation (depreciation)	(6)	(992)	(1,391)	154	90	205	412	11,574	10,046

We obtain our Level 3 fair value measurements from independent, third-party pricing sources. We do not develop the significant inputs used to measure the fair value of these assets and liabilities, and the information regarding the significant inputs is not readily available to us. Independent broker-quoted fair values are non-binding quotes developed by market makers or broker-dealers obtained from third-party sources recognized as market participants. The fair value of a broker-quoted asset or liability is based solely on the receipt of an updated quote from a single market maker or a broker-dealer recognized as a market participant as the Company does not adjust broker quotes when used as the fair value measurement for an asset or liability. In addition, some prices are determined based on discounted cash flow models.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Wilton Re U.S. Holdings, Inc. and subsidiaries:

We have audited the internal control over financial reporting of Wilton Re U.S. Holdings, Inc. and its subsidiaries (the "Company") as of December 31, 2017, based on the criteria established in the Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

As described in Management's Report on Wilton Re U.S. Holdings, Inc. and Subsidiaries' Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting performed at Aegon Transamerica associated with the assumed reinsurance transactions with Aegon Transamerica effective on April 1, 2017 (the "Aegon reinsurance transaction"), as the financial reporting for the Aegon reinsurance transaction has not yet been integrated into the Company's financial reporting process and, as such, the Company did not have the practical ability to perform an assessment of internal control over financial reporting at Aegon Transamerica associated with insurance policy liabilities assumed in the Aegon reinsurance transaction and related policy administration, in time for this current year-end. Insurance policy liabilities assumed from Aegon Transamerica represent 33% of the Company's total liabilities as of December 31, 2017, and related revenues and expenses represent 5% and 28% of the Company's total revenue and expenses, respectively, for the year ended December 31, 2017. Accordingly, our audit did not include the internal control over financial reporting performed at Aegon Transamerica associated with the Aegon reinsurance transaction.

Management's Responsibility for Internal Control over Financial Reporting

Management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Wilton Re U.S. Holdings, Inc. and Subsidiaries' Internal Control over Financial Reporting.

Auditors' Responsibility

Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risks that a material weakness exists. An audit includes obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the criteria established in the *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Report on Financial Statements

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of the Company as of December 31, 2017 and the related consolidated statements of comprehensive income, changes in shareholder's equity and cash flows for the year then ended, and our report dated March 30, 2018 expressed an unmodified opinion on those financial statements

Deloitte & Touche LLP

March 30, 2018

REPORT OF MANAGEMENT ON WILTON RE U.S. HOLDINGS, INC. AND SUBSIDIARIES' INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Wilton Re U.S. Holdings, Inc. and Subsidiaries (the Company) is responsible for establishing and maintaining adequate internal controls over financial reporting. Internal controls are designed to provide reasonable assurance to the Company's management, Audit Committee and Board of Directors regarding the preparation and fair presentation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Because of inherent limitations in any internal control, no matter how well designed, misstatements due to human error or fraud may occur and not be detected, including the possible circumvention or override of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, internal control effectiveness may vary over time.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2017, based on criteria for effective internal control over financial reporting described in "*Internal Control—Integrated Framework*" issued by the 2013 Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on those criteria management concluded that the Company's internal control over financial reporting is effective as of December 31, 2017, in providing reasonable assurance regarding the reliability of financial reporting in accordance with generally accepted accounting principles.

Management excluded from its assessment the internal control over financial reporting performed at Aegon Transamerica associated with the assumed reinsurance transactions with Aegon Transamerica effective on April 1, 2017 (the "Aegon reinsurance transaction"), as the financial reporting for the Aegon reinsurance transaction has not yet been integrated into the Company's financial reporting process and, as such, the Company did not have the practical ability to perform an assessment of internal control over financial reporting at Aegon Transamerica associated with insurance policy liabilities assumed in the Aegon reinsurance transaction and related policy administration, in time for this current year-end. Insurance policy liabilities assumed from Aegon Transamerica represent 33% of the Company's total liabilities as of December 31, 2017, and related revenues and expenses represent 5% and 28% of the Company's total revenue and expenses, respectively, for the year ended December 31, 2017. Refer to Note 3 of the notes to the Consolidated Financial Statements for additional information regarding this transaction.

Deloitte & Touche LLP, our independent auditors, have issued an audit report on the effectiveness of the Company's internal control over financial reporting.

Michael E. Fleitz
President and Chief Executive Officer
Wilton Re U.S. Holdings, Inc.

Steven D. Lash
Senior Vice President and Chief Financial Officer
Wilton Re U.S. Holdings, Inc.

March 30, 2018

SUPPLEMENTARY INFORMATION

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors of
Wilton Re U.S. Holdings, Inc. and subsidiaries:

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary consolidating balance sheets as of December 31, 2017 and 2016 and the supplementary consolidating statement of comprehensive income (loss) for the years then ended are presented for the purpose of additional analysis and are not a required part of the consolidated financial statements. This supplementary information is the responsibility of the Company's management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion such information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Deloitte & Touche LLP

March 30, 2018

WILTON RE U.S. HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET
AS OF DECEMBER 31, 2017
(Amounts in thousands of US Dollars)

	WRUS	WRSI WRFL	WRAC	WRNY	TLIC	WLCO	WCAC	RRE2	Eliminations	WRUS Consolidated
ASSETS										
Fixed maturity and equity securities	$ 41,272	$ 50,000	$12,645,031	$ 855,139	$1,085,370	$2,768,034	$2,491,305	$2,089,088	$ (50,000)	$21,975,239
Commercial mortgage loans	-	-	1,140,657	-	-	34,339	-	-	-	1,174,996
Policy loans	-	-	98,466	13,881	43,734	138,955	-	44,422	-	339,458
Funds withheld at interest	-	-	5,160,332	-	-	-	2,089	-	-	5,162,421
Short term investments	-	-	4,909	-	-	-	-	-	-	4,909
Other invested assets	300,000	-	255,562	12,406	19,145	52,761	21,829	-	(300,000)	361,703
Total investments	341,272	50,000	19,304,957	881,426	1,148,249	2,994,089	2,515,223	2,133,510	(350,000)	29,018,726
Cash and cash equivalents	4,002	12,779	315,293	34,812	65,435	85,813	108,748	9,055	-	635,937
Accrued investment income	222	-	119,111	6,744	7,294	29,313	26,080	13,366	-	202,130
Premiums receivable	-	-	27,586	536	1,096	4,268	8,599	26,428	1,646	70,159
Reinsurance recoverable	-	-	18,535,697	385,518	8,808	305,743	2,547,064	-	(1,522,431)	20,260,399
Deferred acquisition costs	-	-	45,449	-	257,097	(52)	-	-	-	302,494
Value of in-force business acquired	-	-	137,471	27,978	15,772	-	1,642	147,916	-	330,779
Net deferred tax assets	6,160	634	104,331	-	22,053	173,762	23,746	-	(171,679)	159,007
Other assets	973,467	317,236	486,882	1,970	4,022	7,313	2,283	12	(1,511,792)	281,393
Separate account assets	-	-	-	690	-	-	37,699	-	-	38,389
TOTAL ASSETS	$1,325,123	$380,649	$39,076,777	$1,339,674	$1,529,826	$3,600,249	$5,271,084	$2,330,287	$(3,554,256)	$51,299,413
LIABILITIES AND SHAREHOLDER'S EQUITY										
LIABILITIES:										
Reserves for future policy benefits	$ -	$ -	$ 9,340,115	$ 124,228	$ 245,283	$ 617,785	$2,957,850	$ 497,817	$ (505,273)	$13,277,805
Interest sensitive contract liabilities	-	-	11,497,220	952,722	1,113,351	2,609,302	264,089	723,227	(1,020,600)	16,139,311
Other reinsurance liabilities	-	-	(911)	883	11,797	11,257	8,688	(2,518)	5,088	34,284
Funds held under reinsurance treaties	-	-	17,022,438	14,611	-	153,131	1,881,773	-	-	19,071,953
Funding agreements	-	-	-	-	-	-	-	-	-	-
Net deferred tax liabilities	-	-	-	20,183	-	-	-	151,495	(171,678)	-
Long-term debt	250,000	350,000	-	-	-	-	-	-	(350,000)	250,000
Subordinated affiliate debt	-	-	300,000	-	-	-	-	904,845	(300,000)	904,845
Other liabilities	810	24,248	441,115	(2,099)	18,876	79,333	(13,805)	1,936	(41,901)	508,513
Separate account liabilities	-	-	-	690	-	-	37,699	-	-	38,389
Total liabilities	250,810	374,248	38,599,977	1,111,218	1,389,307	3,470,808	5,136,294	2,276,802	(2,384,364)	50,225,100
SHAREHOLDER'S EQUITY:										
Class A common shares	-	-	1,000	2,503	1,854	4,178	21,830	250	(31,615)	-
Class B common shares	-	-	-	-	-	-	-	-	-	-
Additional paid-in capital	134,807	26,925	-	109,991	-	92,164	68,427	(102,060)	(195,447)	134,807
Retained earnings and accumulated other comprehensive income (loss)	939,506	(20,524)	475,800	115,962	138,665	33,099	44,533	155,295	(942,830)	939,506
Total shareholder's equity	1,074,313	6,401	476,800	228,456	140,519	129,441	134,790	53,485	(1,169,892)	1,074,313
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$1,325,123	$380,649	$39,076,777	$1,339,674	$1,529,826	$3,600,249	$5,271,084	$2,330,287	$(3,554,256)	$51,299,413

WILTON RE U.S. HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET
AS OF DECEMBER 31, 2016
(Amounts in thousands of US Dollars)

	WRUS	WRSI WRFL	WRAC	WRNY	TLIC	WLCO	WCAC	RRE2	Eliminations	WRUS Consolidated
ASSETS										
Fixed maturity and equity securities	$ 21,689	$ 50,000	$1,998,902	$ 868,264	$1,014,522	$3,021,004	$2,472,739	$1,992,996	$ (50,000)	$11,390,116
Commercial mortgage loans	-	-	-	-	-	51,955	-	-	-	51,955
Policy loans	-	-	102,556	15,189	42,245	149,532	-	41,503	-	351,025
Short term investments	3,609	64	22,730	1,188	21,716	21,970	17,062	3,935	-	92,274
Funds withheld at interest	-	-	743,971	-	-	-	2,089	-	-	746,060
Other invested assets	300,000	-	162,164	10,968	35,937	41,611	15,194	-	(300,000)	265,874
Total investments	325,298	50,064	3,030,323	895,609	1,114,420	3,286,072	2,507,084	2,038,434	(350,000)	12,897,304
Cash and cash equivalents	14,199	9,620	21,490	22,616	12,609	26,760	15,201	17,247	-	139,742
Accrued investment income	57	-	21,844	7,085	7,157	36,346	27,306	12,459	-	112,254
Premiums receivable	-	-	31,991	774	1,448	19,317	-	29,465	1,089	84,084
Reinsurance recoverable	-	-	1,739,886	390,601	9,082	309,874	751,702	-	(1,502,432)	1,698,713
Deferred acquisition costs	-	-	51,255	-	229,825	3	-	-	-	281,083
Value of in-force business acquired	-	-	161,262	34,684	18,870	-	-	179,583	-	394,399
Net deferred tax assets	13,191	1,369	-	-	11,590	309,509	154,097	-	(276,070)	213,686
Other assets	894,230	321,972	316,824	1,087	4,018	3,299	1,424	447	(1,501,925)	41,376
Separate account assets	-	-	-	603	-	-	39,059	-	-	39,662
TOTAL ASSETS	$1,246,975	$383,025	$5,374,875	$1,353,059	$1,409,019	$3,991,180	$3,495,873	$2,277,635	$(3,629,338)	$15,902,303
LIABILITIES AND SHAREHOLDER'S EQUITY										
LIABILITIES:										
Reserves for future policy benefits	$ -	$ -	$1,455,677	$ 121,131	$ 237,606	$ 672,770	$2,561,809	$ 492,861	$ (495,893)	$ 5,045,961
Interest sensitive contract liabilities	-	-	2,587,700	971,333	949,913	2,752,780	736,206	699,748	(1,009,436)	7,688,244
Other reinsurance liabilities	-	-	3,254	798	12,059	19,759	43	(2,319)	3,986	37,580
Funds held under reinsurance treaties	-	-	476,070	15,046	-	157,217	1,737	-	-	650,070
Funding agreements	-	-	-	-	-	139,663	-	-	-	139,663
Net deferred tax liabilities	-	-	1,395	29,073	-	-	-	245,602	(276,070)	-
Long-term debt	253,672	350,734	-	-	-	93	-	-	(354,406)	250,093
Subordinated affiliate debt	-	-	300,000	-	-	-	-	915,524	(300,000)	915,524
Other liabilities	602	20,647	60,883	9,500	14,746	38,792	30,198	(3,093)	(29,470)	142,805
Separate account liabilities	-	-	-	603	-	-	39,059	-	-	39,662
Total liabilities	254,274	371,381	4,884,979	1,147,484	1,214,324	3,781,074	3,369,052	2,348,323	(2,461,289)	14,909,602
SHAREHOLDER'S EQUITY:										
Class A common shares	-	-	1,000	2,503	1,854	4,178	21,830	250	(31,615)	-
Class B common shares	-	-	-	-	-	-	-	-	-	-
Additional paid-in capital	134,807	26,925	-	119,366	-	142,164	80,841	(93,755)	(275,541)	134,807
Retained earnings and accumulated other comprehensive income (loss)	857,894	(15,281)	488,896	83,706	192,841	63,764	24,150	22,817	(860,893)	857,894
Total shareholder's equity	992,701	11,644	489,896	205,575	194,695	210,106	126,821	(70,688)	(1,168,049)	992,701
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$1,246,975	$383,025	$5,374,875	$1,353,059	$1,409,019	$3,991,180	$3,495,873	$2,277,635	$(3,629,338)	$15,902,303

WILTON RE U.S. HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEAR ENDED DECEMBER 31, 2017
(Amounts in thousands of US Dollars)

	WRUS	WRSI WRFL	WRAC	WRNY	TLIC	WLCO	WCAC	RRE2	Eliminations	WRUS Consolidated
REVENUES:										
Net premiums	$ -	$ -	$ 112,612	$ 2,680	$ 32,860	$ (28,208)	$ 722	$ 88,768	$ -	$ 209,434
Policy fees and charges	-	-	100,981	9,059	173,049	201,547	-	38,153	-	522,789
Inuring third-party reinsurance commissions	-	-	9,937	378	-	-	-	23,749	-	34,064
Investment earnings—net	21,462	20,581	136,836	43,997	54,613	142,629	49,568	40,997	(20,563)	490,120
Net unrealized appreciation (depreciation) on investments classified as trading and other	27	-	453,022	21,973	25,118	98,251	110,119	47,750	-	756,260
Change in value of derivatives and embedded derivatives—net	-	-	(392,598)	-	-	(966)	(68,061)	-	-	(461,625)
Total revenues	21,489	20,581	420,790	78,087	285,640	413,253	92,348	239,417	(20,563)	1,551,042
EXPENSES:										
Claims and policy benefits—net of reinsurance ceded	-	-	212,666	9,218	218,136	190,289	44,397	97,384	-	772,090
Interest credited to interest sensitive contract liabilities	-	-	64,013	27,036	23,909	76,288	(1,160)	49,197	-	239,283
Acquisition costs and other insurance expenses	-	-	35,460	6,201	26,076	3,422	(1,546)	38,407	(11)	108,009
Operating expenses	996	3,223	75,572	5,445	25,156	20,613	6,238	6,363	11	143,617
Interest expense	14,688	20,965	-	-	-	2	-	-	(20,563)	15,092
Total benefits and expenses	15,684	24,188	387,711	47,900	293,277	290,614	47,929	191,351	(20,563)	1,278,091
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	5,805	(3,607)	33,079	30,187	(7,637)	122,639	44,419	48,066	-	272,951
INCOME TAX EXPENSE/(BENEFIT)	6,130	1,636	79,973	(2,070)	12,739	153,304	24,040	(84,413)	-	191,339
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	(325)	(5,243)	(46,894)	32,257	(20,376)	(30,665)	20,379	132,479	-	81,612
EQUITY IN NET INCOME (LOSS) OF SUBSIDIARIES	81,937	-	-	-	-	-	-	-	(81,937)	-
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	$81,612	$ (5,243)	$ (46,894)	$32,257	$ (20,376)	$ (30,665)	$ 20,379	$132,479	$(81,937)	$ 81,612

WILTON RE U.S. HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEAR ENDED DECEMBER 31, 2016
(Amounts in thousands of US Dollars)

	WRUS	WRSI WRFL	WRAC	WRNY	TLIC	WLCO	WCAC	RRE2	Eliminations	WRUS Consolidated
REVENUES:										
Net premiums	$ -	$ -	$107,484	$ 4,485	$ 31,578	$ (31,177)	$ 133	$ 96,342	$ -	$ 208,845
Policy fees and charges	-	-	99,975	9,260	130,278	208,306	-	36,646	-	484,465
Inuring third-party reinsurance commissions	-	-	7,730	479	-	-	-	26,778	-	34,987
Investment earnings—net	20,970	20,577	99,482	45,789	56,647	133,853	102,952	42,670	(20,563)	502,377
Net unrealized appreciation (depreciation) on investments classified as trading and other	(165)	20	10,728	5,625	(42)	67,098	88,081	13,537	-	184,882
Change in value of derivatives and embedded derivatives—net	-	-	21,771	-	-	377	-	-	-	22,148
Total revenues	20,805	20,597	347,170	65,638	218,461	378,457	191,166	215,973	(20,563)	1,437,704
EXPENSES:										
Claims and policy benefits—net of reinsurance ceded	-	-	196,175	14,253	120,459	147,302	43,644	119,421	-	641,254
Interest credited to interest sensitive contract liabilities	-	-	63,202	28,230	22,886	88,611	26,457	21,536	-	250,922
Acquisition costs and other insurance expenses	-	-	34,096	(776)	6,219	2,551	53	22,501	54	64,698
Operating expenses	1,068	2,441	55,407	6,604	23,710	32,767	5,642	4,238	(54)	131,823
Interest expense	24,203	20,965	-	-	-	10	-	-	(20,563)	24,615
Total benefits and expenses	25,271	23,406	348,880	48,311	173,274	271,241	75,796	167,696	(20,563)	1,113,312
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	(4,466)	(2,809)	(1,710)	17,327	45,187	107,216	115,370	48,277	-	324,392
INCOME TAX EXPENSE/(BENEFIT)	(1,596)	1,189	(1,067)	5,860	15,343	37,362	40,158	16,537	-	113,786
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	(2,870)	(3,998)	(643)	11,467	29,844	69,854	75,212	31,740	-	210,606
EQUITY IN NET INCOME (LOSS) OF SUBSIDIARIES	213,476	-	-	-	-	-	-	-	(213,476)	-
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	$210,606	$ (3,998)	$ (643)	$11,467	$ 29,844	$ 69,854	$ 75,212	$ 31,740	$(213,476)	$ 210,606