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

Consolidated Financial Statements and
Supplementary Information as of and
for the Years Ended December 31, 2016
and 2015, 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 subsidiaries (the "Company") as of December 31, 2016, which comprise the consolidated balance sheet as of December 31, 2016, and the related consolidated statements of comprehensive income, changes in shareholder's equity, and cash flows for the year 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 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 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, 2016, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Predecessor Auditors' Opinion on 2015 Consolidated Financial Statements

The consolidated financial statements of the Company as of and for the year ended December 31, 2015 were audited by other auditors whose report, dated March 30, 2016, expressed an unmodified opinion on those statements.

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, 2016 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, 2017 expressed an unmodified opinion on the Company's internal control over financial reporting.

Deloitte & Touche LLP

March 30, 2017

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

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2016 AND 2015
(Expressed in thousands of U.S. Dollars, except share amounts)

	2016	2015
ASSETS		
Investments	$ 11,390,116	$ 11,535,808
Short term investments	92,274	125,769
Policy loans	351,025	359,236
Funds withheld at interest	746,060	743,366
Other invested assets	317,829	259,180
Total investments	12,897,304	13,023,359
Cash and cash equivalents	139,742	103,407
Accrued investment income	112,254	119,492
Premiums receivable	84,084	101,618
Reinsurance recoverable	1,698,713	1,763,037
Net deferred acquisition costs	281,083	240,239
Value of in-force business acquired	394,399	416,221
Net deferred income taxes	213,686	289,882
Other assets	41,376	110,288
Separate account assets	39,662	47,181
TOTAL ASSETS	$ 15,902,303	$ 16,214,724
LIABILITIES AND SHAREHOLDER'S EQUITY		
LIABILITIES:		
Reserves for future policy benefits	$ 5,045,961	$ 5,337,426
Interest sensitive contract liabilities	7,688,244	7,626,874
Other reinsurance liabilities	37,580	28,844
Funds held under reinsurance treaties	650,070	656,253
Funding agreements	139,663	213,338
Long-term debt	250,093	250,227
Subordinated affiliate debt	915,524	1,166,631
Other liabilities	142,805	105,855
Separate account liabilities	39,662	47,181
Total liabilities	14,909,602	15,432,629
SHAREHOLDER'S EQUITY:		
Class A common shares—$0.01 par value; 500 shares authorized, issued and outstanding at December 31, 2016 and 2015	$ -	$ -
Class B common shares—$0.01 par value 500 shares authorized, issued and outstanding at December 31, 2016 and 2015	-	-
Additional paid-in capital	134,807	134,807
Retained earnings and accumulated other comprehensive income	857,894	647,288
Total shareholder's equity	992,701	782,095
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$ 15,902,303	$ 16,214,724

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, 2016 AND 2015
(Expressed in thousands of U.S. Dollars, except share amounts)

	2016	2015
REVENUES:		
Net premiums	$ 208,845	$ 248,117
Policy fees and charges	484,465	486,231
Inuring third-party reinsurance commissions	34,987	36,000
Investment earnings—net	502,377	513,064
Net unrealized appreciation (depreciation) on investments classified as trading and other	184,882	(448,474)
Change in value of derivatives and embedded derivatives, net	22,148	(46,046)
Total revenues	1,437,704	788,892
EXPENSES:		
Claims and policy benefits, net of reinsurance ceded	641,254	654,186
Interest credited to interest sensitive contract liabilities	250,922	239,912
Acquisition costs and other insurance expenses	64,698	59,098
Operating expenses	131,823	126,090
Interest expense	24,615	15,107
Total benefits and expenses	1,113,312	1,094,393
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) BEFORE INCOME TAXES	324,392	(305,501)
INCOME TAX EXPENSE (BENEFIT)	113,786	(106,909)
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	$ 210,606	$ (198,592)

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, 2016 AND 2015
(Expressed in thousands of U.S. Dollars, except share amounts)

	2016	2015
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	647,288	845,880
Net income (loss) and comprehensive income (loss)	210,606	(198,592)
Balance—end of year	857,894	647,288
TOTAL SHAREHOLDER'S EQUITY	$ 992,701	$ 782,095

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, 2016 AND 2015
(Expressed in thousands of U.S. Dollars, except share amounts)

	2016	2015
OPERATING ACTIVITIES:		
Net income (loss) and comprehensive income (loss)	$ 210,606	$ (198,592)
Adjustments to reconcile net income (loss) and comprehensive income (loss) to net cash from operating activities:		
Proceeds from sales of investments	983,352	1,021,177
Proceeds from maturities of investments	722,647	677,563
Purchases of investments	(1,502,155)	(1,802,950)
Accretion and amortization of discounts and premiums on securities—net	112,657	249,543
Net realized (gains) losses on investments	(2,529)	4,460
Net unrealized (appreciation) depreciation on investments	(184,882)	448,474
Mark-to-market on embedded derivative	(3,821)	23,085
Amortization and other adjustments to deferred acquisition costs	11,903	15,484
Amortization and other adjustments to value of business acquired	30,472	43,623
Interest credited to interest sensitive contracts	250,922	239,912
Change in assets and liabilities:		
Accrued investment income	7,238	(6,399)
Deferred income taxes	76,196	(179,974)
Premiums receivable	17,534	(19,791)
Reinsurance recoverable	64,324	40,434
Funds withheld at interest	1,127	77,344
Deferred acquisition costs	(52,747)	(48,841)
Value of in-force business acquired	(8,650)	(24,569)
Other assets	68,912	187,331
Reserves for future policy benefits	(291,465)	(31,907)
Funds held under reinsurance treaties	(6,183)	(25,546)
Other reinsurance liabilities	8,736	(2,886)
Other liabilities	36,950	(32,430)
Net cash flows from operating activities	551,144	654,545

(Continued)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in thousands of U.S. Dollars, except share amounts)

	2016	2015
INVESTING ACTIVITIES:		
Net purchases, sales and maturities of short term investments	$ 33,451	$ 99,104
Change in policy loans	8,211	4,633
Change in other invested assets	(42,001)	147,957
Net cash flows (used in) from investing activities	(339)	251,694
FINANCING ACTIVITIES:		
Repayment of subordinated affiliate debt	(251,241)	(370,920)
Decrease in funding agreements	(73,675)	(190,740)
Deposits into interest sensitive contracts	509,173	523,518
Redemption and benefit payments on interest sensitive contracts	(698,727)	(969,793)
Net cash flows used in financing activities	(514,470)	(1,007,935)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	36,335	(101,696)
CASH AND CASH EQUIVALENTS—Beginning of the year	103,407	205,103
CASH AND CASH EQUIVALENTS—End of the year	$ 139,742	$ 103,407
SUPPLEMENTARY DISCLOSURE OF CONSOLIDATED CASH FLOW INFORMATION—Cash (paid) received during the period for—income taxes	$ (59,716)	$ 125,222

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. Heritage Union Life Insurance Company (HULC), a wholly owned subsidiary of WRAC, a Minnesota domiciled life insurer, was merged with and into WLCO effective December 31, 2015, with WLCO being the surviving company.
- Wilcac Life Insurance Company (WCAC), a wholly owned subsidiary of WRAC, is an Illinois domiciled life insurer.
- Dunmore, LLC (DUNM), a wholly owned subsidiary of Wilton Re US Holdings and a limited liability corporation, was sold on May 1, 2015.
- Woodstown LLC (WDTN), a wholly owned subsidiary of WRAC and a Delaware limited liability company, was sold on May 1, 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) 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 (U.S. GAAP) and include the accounts of Wilton Re US Holdings and its subsidiaries which include WRSI, WRFL, DUNM, WRAC, WRNY, TLIC, WLCO, WCAC, RRE2, and WDTN. All significant intercompany accounts and transactions have been eliminated in consolidation.

b) 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.

c) Investments and Investment Earnings—Included in the Company's investments are 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.

The Company's investments in life settlement policies are accounted for under the investment method and are carried at the initial investment purchase price plus all direct external costs. The Company does not recognize earnings until the insured dies, at which time the Company recognizes in earnings the difference between the carrying amount of the life settlement policy and the life insurance proceeds of the underlying policy. All life settlement contracts were sold in 2015.

The Company elects the Fair Value Option (FVO) for commercial mortgage loans which are recorded at fair value and are classified as other invested assets on the consolidated balance sheets. 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).

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.

d) 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.

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

f) 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.

g) 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 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, 2016 and 2015, the fair value of these embedded derivatives, and the changes in fair value for the years then ended, included:

	2016		2015	
	Fair Value	Change in Fair Value	Fair Value	Change in Fair Value
Funds withheld at interest	$ 33,996	$10,242	$ 23,754	$(39,827)
Funds held under reinsurance treaties	(40,157)	(6,421)	(33,736)	16,742
		$ 3,821		$(23,085)

h) 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, 2016 and 2015, the fair value of these derivatives, and the changes in fair value for the years then ended, included:

	2016		2015	
	Fair Value	Change in Fair Value	Fair Value	Change in Fair Value
Funds withheld at interest	$23,163	$17,100	$9,406	$(21,511)
Other invested assets	1,846	1,227	599	(1,450)
		$18,327		$(22,961)

i) 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, 2016 or 2015.

j) 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 2016 or 2015. 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 continued reasonableness. Adjustments to EGPs require that amortization rates be revised retroactively to the date of the contract issuance (“unlocking”).

k) 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.

l) 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 4.89% and 4.58% for 2016 and 2015, 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, 2016, the fair value of these derivatives were $17,971, an increase of $14,144 from December 31, 2015. At December 31, 2015, the fair value of these derivatives were $3,827, a decrease of $20,093 from December 31, 2014.

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 claims incurred but not reported (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.

m) 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 4.60% and 4.44% during 2016 and 2015, respectively.

n) 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.

o) Closed Block Acquisitions—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.

p) 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 May 2015, the FASB issued authoritative guidance that removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The guidance also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. The guidance is effective for fiscal years beginning after December 15, 2016, with early adoption permitted. A reporting entity should apply the guidance retrospectively to all periods presented. The Company is currently assessing the impact the guidance will have on its disclosures upon adoption.

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.

q) 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.

r) Subsequent Events—The Company has evaluated the impact of subsequent events through March 30, 2017, representing the date at which the consolidated financial statements were available to be issued.

3. INVESTMENTS

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, 2016 and 2015 are as follows:

	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 investments	$11,184,879	$353,629	$(148,392)	$11,390,116

	2015			
	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Fair Value
U.S. government and agencies	$ 285,445	$ 17,415	$ (2,293)	$ 300,567
State and political subdivisions	1,338,891	88,116	(16,573)	1,410,434
Foreign sovereign	21,599	1,157	(2)	22,754
Corporate securities	5,561,378	142,995	(245,921)	5,458,452
Residential mortgage-backed securities	878,733	28,605	(7,484)	899,854
Commercial mortgage-backed securities	1,126,570	22,270	(15,410)	1,133,430
Asset-backed securities	777,776	14,848	(7,610)	785,015
Collateralized debt obligations	361,012	5,990	(3,546)	363,455
Issuer obligations—affiliates	996,631	-	-	996,631
Total fixed maturities	11,348,035	321,396	(298,839)	11,370,592
Preferred stock	126,778	5,622	(1,216)	131,184
Common stock	34,033	-	(1)	34,032
Total investments	$11,508,846	$327,018	$(300,056)	$11,535,808

The 2015 information presented above has been restated for the reclassification of approximately $342 million of securities from asset-backed securities to collateralized debt obligations.

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, 2016 and 2015, are as follows:

	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 investments	$3,548,713	$(101,449)	$644,118	$(46,943)	$4,192,831	$(148,392)

	2015					
	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	$ 95,651	$ (2,293)	$ -	$ -	$ 95,651	$ (2,293)
State and political subdivisions	392,674	(13,966)	5,195	(2,607)	397,868	(16,573)
Foreign sovereign	1,417	(2)	-	-	1,417	(2)
Corporate securities	2,995,115	(206,648)	183,712	(39,273)	3,178,827	(245,921)
Residential mortgage-backed securities	284,902	(5,594)	34,145	(1,890)	319,047	(7,484)
Commercial mortgage-backed securities	635,009	(14,833)	44,525	(577)	679,534	(15,410)
Asset-backed securities	485,111	(7,045)	10,975	(564)	496,085	(7,610)
Collateralized debt obligations	205,714	(3,185)	15,596	(362)	221,310	(3,547)
Total fixed maturities	5,095,593	(253,566)	294,148	(45,273)	5,389,739	(298,839)
Preferred stock	35,002	(1,216)	-	-	35,002	(1,216)
Common stock	-	(1)	-	-	-	(1)
Total investments	$5,130,595	$ (254,783)	$ 294,148	$ (45,273)	$ 5,424,743	$ (300,056)

The 2015 information presented above has been restated for the reclassification of approximately $212 million of securities from asset-backed securities to collateralized debt obligations.

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. At December 31, 2015, one hundred thirty-six fixed maturity securities with a total unrealized loss of $45,273 had been in an unrealized loss position for twelve months or more. Of those securities in an unrealized loss of twelve months or more, eighteen securities had fair values below 70% of book value with a total unrealized loss of $11,311.

Contractual maturities of the Company's fixed maturity securities as of December 31, 2016, 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.

	2016	
	Amortized Cost	**Fair Value**
One or less	$ 50,861	$ 51,198
One through five	868,546	893,606
After five through ten	1,165,387	1,189,434
After ten through twenty	2,167,759	2,234,605
After twenty	3,578,734	3,643,025
Residential mortgage-backed securities	698,200	713,657
Commercial mortgage-backed securities	1,067,926	1,070,695
Asset-backed securities	896,968	896,480
Collateralized debt obligations	527,916	533,285
Total fixed maturities	$11,022,297	$11,225,985

Major sources of investment earnings are as follows:

	2016	**2015**
Cash and cash equivalents	$ 298	$ 85
Short term investments	641	216
Fixed maturities	477,331	454,479
Policy loans	26,900	25,905
Other invested assets	20,270	38,916
Total investment income	525,440	519,601
Investment expense	(14,208)	(14,574)
Subtotal investment income	511,232	505,027
Realized gains on investments	48,056	35,120
Realized losses on investments	(45,527)	(39,580)
Investment income on funds withheld at interest	26,949	29,467
Realized gains on funds withheld at interest	4,443	18,117
Realized losses on funds withheld at interest	(7,921)	(1,445)
Investments results ceded on funds held under reinsurance treaties	(34,855)	(33,642)
Investment earnings—net	$502,377	$513,064

Credit ratings of the Company's fixed maturity securities as of December 31, 2016 and 2015, 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.

	2016		2015	
	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**
AAA	$ 1,333,173	$ 1,366,954	$ 1,604,494	$ 1,657,850
AA	1,431,681	1,502,031	1,497,409	1,560,880
A	4,465,121	4,549,758	4,180,442	4,232,154
BBB	3,419,983	3,430,269	3,652,201	3,525,520
BB	222,749	224,541	227,731	218,638
B	49,161	48,897	59,204	50,493
CCC or lower	100,430	103,535	126,554	125,057
Total fixed maturity securit	$ 11,022,297	$ 11,225,985	$ 11,348,035	$ 11,370,592

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 comprise 2.6%, of total investments.

The Company's largest five exposures by issuer as of December 31, 2015 were Comcast Corporation, The Phoenix Companies, Twenty-First Century Fox, American Municipal Power, and The Metropolitan Transportation Authority, each of which comprised less than 5%, and in aggregate comprise 2.4%, of total investments.

Policy loans comprised approximately 2.7% and 2.8% of the Company's investments as of December 31, 2016 and 2015, 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.

At December 31, 2016 and 2015, fixed maturity securities with a fair value of $58,171 and $61,320, 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.

4. FUNDS WITHHELD AT INTEREST AND FUNDS HELD UNDER REINSURANCE TREATIES

Funds withheld at interest comprised approximately 5.8% and 5.7% of the Company's total investments as of December 31, 2016 and 2015, 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 balance on the consolidated balance sheets of $746,060 and $743,366, is supported by 623,968 and $617,814 of invested assets as of December 31, 2016 and 2015, respectively. The following exhibits relate to the composition of those specific assets. The remaining balances of $122,092 and $125,552 as of December 31, 2016 and 2015, respectively, are 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 specific assets supporting the funds withheld at interest as of December 31, 2016 and 2015, are as follows:

	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 investments	$ 589,972	$ 41,231	$ (7,235)	$ 623,968

	2015			
	Amortized Cost	**Unrealized Appreciation**	**Unrealized Depreciation**	**Fair Value**
U.S. government and agencies	$ 12,881	$ 378	$ (33)	$ 13,226
State and political subdivisions	64,443	6,993	(81)	71,355
Corporate securities	367,830	25,716	(12,997)	380,549
Residential mortgage-backed securities	67,437	2,678	(542)	69,573
Commercial mortgage-backed securities	55,894	1,434	(708)	56,620
Asset-backed securities	20,181	172	(106)	20,247
Total fixed maturities	588,666	37,371	(14,467)	611,570
Preferred stock	5,095	684	(69)	5,710
Common stock	301	257	(24)	534
Total investments	$ 594,062	$ 38,312	$ (14,560)	$ 617,814

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 specific assets supporting the funds withheld at interest at December 31, 2016 and 2015, are as follows:

	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)
Common stock	-	-	-	-		
Total	$ 123,267	$ (3,955)	$ 21,732	$ (3,280)	$ 144,999	$ (7,235)

	2015					
	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	$ 1,466	$ (33)	$ -	$ -	$ 1,466	$ (33)
State and political subdivisions	6,115	(81)	-	-	6,115	(81)
Corporate securities	92,262	(8,320)	7,282	(4,677)	99,544	(12,997)
Residential mortgage-backed securities	23,766	(398)	1,272	(144)	25,038	(542)
Commercial mortgage-backed securities	25,290	(548)	2,181	(160)	27,471	(708)
Asset backed securities	13,856	(89)	68	(17)	13,924	(106)
Total fixed maturities	162,755	(9,469)	10,803	(4,998)	173,558	(14,467)
Preferred stock	1,486	(69)	-	-	1,486	(69)
Common stock	162	(24)	-	-	162	(24)
Total	$ 164,403	$ (9,562)	$ 10,803	$ (4,998)	$ 175,206	$ (14,560)

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. At December 31, 2015, eighteen fixed maturity investments with a total unrealized loss of $4,998 had been in an unrealized loss position for twelve months or more. Of those securities in an unrealized loss twelve months or more, seven securities had a fair value below 70% of book value with a total unrealized loss of $4,120.

The contractual maturities of the specific fixed maturity securities supporting the funds withheld at interest as of December 31, 2016, 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.

	2016	
	Amortized Cost	**Estimated Fair Value**
One or less	$ 11,748	$ 11,891
One through five	92,711	99,690
After five through ten	79,519	82,593
After ten through twenty	66,893	73,756
After twenty	190,778	205,100
Residential mortgage-backed securities	61,276	63,223
Commercial mortgage-backed securities	54,859	55,248
Asset-backed securities	26,664	26,541
Total	$ 584,448	$ 618,042

Credit ratings of the specific fixed maturities supporting the funds withheld at interest, as provided by the ceding company, are shown below as of December 31, 2016 and 2015.

	Cost	**Fair Value**	**Cost**	**Fair Value**
AAA	$143,927	$146,775	$144,429	$147,929
AA	55,962	61,155	60,174	65,458
A	159,248	175,273	154,226	165,124
BBB	191,444	200,823	197,771	203,101
BB	16,722	16,706	16,198	13,456
B	6,181	5,591	1,246	1,293
CCC or lower	10,964	11,719	14,622	15,209
Total	$584,448	$618,042	$588,666	$611,570

As of December 31, 2016, the funds held under reinsurance treaties liability balance of $650,070 is comprised of reinsurance ceded to Wilton Reinsurance Bermuda Limited, an affiliate (WREB), for $440,500, with the remaining $209,570 ceded to unaffiliated third parties. As of December 31, 2015, the funds held under reinsurance treaties liability balance of $656,253 is comprised of reinsurance ceded to WREB for $419,891, with the remaining $236,362 ceded to unaffiliated third parties.

5. CONCENTRATION OF CREDIT RISK

As of December 31, 2016 and 2015, substantially all of the Company's cash, cash equivalent and short term investment funds were held in three financial institutions that the Company considers to be of high quality.

6. REINSURANCE

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, 2016 and 2015, no allowances were deemed necessary.

In addition to a million dollar life and accidental death and dismemberment excess of reinsurance catastrophic loss cover, 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.

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 five percent of the total as of December 31, 2016 and 2015:

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 %

2015

Reinsurer	**A. M. Best Rating**	**Amount**	**% of Total**
Affiliate:			
Wilton Reinsurance Bermuda Limited	A	$ 413,988	23.8 %
Non-affiliate:			
Reinsurer A	A+	706,856	40.1
Reinsurer B	A+	160,370	9.1
Reinsurer C	A-	147,501	8.4
Reinsurer D	A+	91,774	5.2
Other reinsurers		242,548	13.7
Total		$ 1,763,037	100.0 %

Included in the total reinsurance recoverable balance were $103,178 and $131,958 of claims recoverable, of which $2,962 and $4,612 were in excess of 90 days past due but were deemed collectible as December 31, 2016 and 2015, respectively.

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

	2016	**2015**
Direct	$ 138,913	$ 150,171
Reinsurance assumed	316,703	354,562
Reinsurance ceded—affiliate	(94,441)	(95,668)
Reinsurance ceded—non-affiliate	(152,330)	(160,948)
Net premiums	$ 208,845	$ 248,117

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

	2016	**2015**
Direct	$ 507,901	$ 604,316
Reinsurance assumed	367,550	337,294
Reinsurance ceded—affiliate	(65,150)	(90,133)
Reinsurance ceded—non-affiliate	(169,047)	(197,291)
Net claims and policy benefits	$ 641,254	$ 654,186

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

	Direct	**Assumed**	**Ceded**	**Net**	**Net %**
December 31, 2016	$ 64,559,584	$ 63,263,148	$ (22,306,293)	$ 105,516,439	59.96 %
December 31, 2015	65,933,795	66,643,995	(24,159,886)	108,417,904	61.47 %

Reinsurance assumed in connection with acquiring closed blocks of business via coinsurance is reported net of the effect of existing inuring reinsurance agreements between the ceding company and other reinsurers. The VOBA established in connection with closed blocks of business acquired via coinsurance includes, as an element of the present value of future profits, ceding allowances received from the inuring reinsurance agreements. Failure of the inuring reinsurers to honor their obligations could result in losses to the Company. Consequently, VOBA would be written off to the extent it is deemed not recoverable, or additional reserves for future policy benefits would be recorded.

The VOBA, amount of life insurance in-force and reserves for future policy benefits assumed via coinsurance on acquired closed blocks of business are reported net of the following approximate amounts attributable to inuring reinsurance as of December 31, 2016 and 2015:

	2016	2015
Value of business acquired	$ (73,099)	$ (51,000)
Reserves for future policy benefits	1,110,204	996,000
Life insurance in-force	89,627,654	82,366,000

The Company regularly evaluates the financial condition of its reinsurers, retrocessionaires, and inuring reinsurers.

At December 31, 2016 and 2015, approximately 44% and 47%, respectively, of the Company's aggregate indirect exposure to reinsurer-related credit risk (measured based on in-force ceded) is attributable to four groups of reinsurers. Together, these four groups of reinsurers have a weighted average AM Best rating of A+ as of December 31, 2016 and 2015. Also at December 31, 2016 and 2015, approximately 13% and 14%, respectively, of the Company's aggregate exposure related to credit risk (measured based on in-force ceded) is attributable to one reinsurer which was not rated by AM Best.

7. DEFERRED ACQUISITION COSTS AND VALUE OF BUSINESS ACQUIRED

The balances and changes in DAC for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
Beginning of year	$240,239	$206,881
Capitalized	52,933	44,689
Amortized	(11,903)	(15,484)
Attributable to realized/unrealized gains and losses	(590)	1,158
Impact of unlocking	404	2,995
End of year	$281,083	$240,239

The balances and changes in VOBA for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
Beginning of year	$416,221	$435,275
Amortized	(30,472)	(43,623)
Attributable to realized/unrealized gains and losses	(1,697)	22,034
Impact of unlocking	10,347	2,535
End of year	$394,399	$416,221

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

2017	$38,775
2018	36,030
2019	32,917
2020	29,124
2021	28,719

8. INCOME TAXES

At December 31, 2016, the Company had net operating loss and tax credit carryforwards of approximately $79,958 and $7,127, respectively. Of the total net operating loss carryforward, $39,831 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, 2016 and 2015, is as follows:

	2016	**2015**
Current tax (benefit) expense	$ 37,590	$ 76,177
Deferred tax expense (benefit)	76,196	(183,086)
	$ 113,786	$ (106,909)

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:

	2016	**2015**
Computed expected tax expense (benefit) at 35%	$ 113,538	$ (106,925)
Other	248	16
Actual income tax expense (benefit)	$ 113,786	$ (106,909)

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and liabilities at December 31, 2016 and 2015, are presented in the following table:

	2016	2015
Deferred income tax assets:		
Differences between tax and financial reporting amounts concerning certain reinsurance transactions	$ 782,364	$ 773,328
Net operating losses	27,985	30,762
Tax credit carryforwards	7,127	7,126
Nondeductible accruals	20,647	17,681
Deferred acquisition costs/value of business acquired	217,747	219,735
Investments	193,129	236,368
Other	5,000	3,770
Total deferred tax assets	1,253,999	1,288,770
Deferred income tax liabilities:		
Reserves for future policy benefits	(1,039,665)	(998,240)
Total deferred tax liabilities	(1,039,665)	(998,240)
Valuation allowance	(648)	(648)
Net deferred tax asset	$ 213,686	$ 289,882

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. As noted previously, a t December 31, 2016 and 2015, a valuation allowance of $648 was recorded against a portion of WLCO's tax credit carryforwards which are limited under Sec. 383 and expected to expire unused. The Company believes its remaining deferred tax assets related to operations will be recognized against future anticipated taxable income.

The Company's U.S. subsidiaries' federal income tax returns for tax years 2013–2016 are open and subject to examination by the Internal Revenue Service.

As of December 31, 2016 or 2015, the Company had no unrecognized tax benefits.

9. 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, 2016 and 2015, 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 2017 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 $9,376 in 2017 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 $33,800 in 2017, with $13,800 available to be paid after June 2, 2017, and $20,000 available to be paid after December 19, 2017, 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 $5,803 in 2017 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 can pay dividends of $3,642 in 2017 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, 2016 and 2015:

	2016	2015
Wilton Reassurance Company	$674,174	$866,407
Wilton Reassurance Life Company of New York	96,258	90,771
Texas Life Insurance Company	79,653	98,384
Wilcac Life Insurance Company	145,970	139,380
Wilco Life Insurance Company	156,889	200,625
Redding Reassurance Company 2	141,823	114,140

The following table presents statutory net income (loss) of WRAC, WRNY, TLIC, WCAC, WLCO, and RRE2 for the years ended December 31, 2016 and 2015:

	2016	2015
Wilton Reassurance Company	$ 21,378	$184,106
Wilton Reassurance Life Company of New York	4,852	(12,081)
Texas Life Insurance Company	30,818	49,962
Wilcac Life Insurance Company	4,563	25,229
Wilco Life Insurance Company	11,089	56,152
Redding Reassurance Company 2	50,845	24,882

10. 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 allocated 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 2016 and 2015, the Company incurred expenses of $30,914 and $9,105, respectively, related to awards vesting in 2019.

11. RELATED PARTY TRANSACTIONS

All transactions between Wilton Re US Holdings and its subsidiaries have been eliminated in consolidation.

Wilton Re Services provides among others, certain accounting, actuarial and administrative services to WRL; WREB; and Redding Funding Ltd., a Nova Scotia company (Redding Funding), each affiliates of the Company. Services charged to affiliates during 2016 and 2015 amounted to $3,189 and $5,939, respectively, and $2,252 and $1,972 of this was recorded as other assets at December 31, 2016 and 2015, respectively. Services charged to affiliates are generally paid quarterly.

On December 29, 2014, the 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 Investments 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, 2015 carry value	$ 1,200,000	$ 1,200,000
Paydown—March	(155,000)	(155,000)
Paydown—June	(6,553)	(6,553)
Paydown—September	(11,160)	(11,160)
Paydown—December	(30,656)	(30,656)
December 31, 2015 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
2016 interest (paid) received	$ (66,734)	$ 54,818
2015 interest (paid) received	(75,348)	62,277

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 Wilton Re Ltd. Interest is payable quarterly in cash or at the sole option of Wilton Re US Holdings it is added quarterly to the principal amount. All remaining aggregate principal, together with any accrued and unpaid interest, is payable on the final maturity date. The Promissory Notes may be prepaid in whole or in part, at any time without penalty. The Promissory Notes are classified as subordinated affiliate debt on the balance sheets. Information regarding the Promissory Notes are as follows:

	Note
January 1, 2015 carry value	$ 300,000
Paydown—July	(130,000)
December 31, 2015 carry value	170,000
Paydown—September	(170,000)
December 31, 2016 carry value	$ -
2016 interest paid	$ 9,515
2015 interest paid	18,604

In May 2015, Wilton Re US Holdings paid off three Promissory Notes issued to Wilton Re Ltd. in 2011 and 2012. Information concerning those notes are as follows:

	Note 1	Note 2	Note 3
January 1, 2015 carry value	$ 11,555	$ 11,802	$ 14,071
Paydown—May	(11,555)	(11,802)	(14,071)
December 31, 2015 carry value	$ -	$ -	$ -
2015 interest paid	$ 259	$ 239	$ 208

12. 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, 2016 and 2015, the carrying value of the FHLB common stock was $22,625 and $22,768, respectively. As of December 31, 2016 and 2015, collateralized borrowings from the FHLB totaled $137,000 and $207,000, 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, 2016 and 2015, the carrying value on the consolidated balance sheets includes accrued interest of $250 and $250, respectively, and a fair value adjustment from the acquisition of WLCO of $2,414 and $6,088, respectively, which is being amortized over the remaining life of the funding agreements. The borrowings are collateralized by investments with an estimated fair value of $195,072 and $339,054 at December 31, 2016 and 2015, respectively, which are maintained in a custodial account for the benefit of the FHLB. All of such investments are classified as fixed maturities, trading, in the accompanying consolidated balance sheets. Interest expense of $1,710 and $3,014 was recognized in 2016 and 2015, respectively, related to the borrowings.

The following summarizes the terms of the borrowings:

Maturity Date	Interest Rate	Amount Borrowed at December 31, 2016	Amount Borrowed at December 31, 2015
January 2016	Fixed rate—0.34%	$ -	$ 70,000
July 2017	Fixed rate—3.90%	100,000	100,000
November 2017	Fixed rate—3.75%	37,000	37,000
		$137,000	$207,000

The fixed rate borrowings are pre-payable subject to payment of a yield maintenance fee based on current market interest rates. At December 31, 2016 and 2015, the aggregate yield maintenance fee to prepay all fixed rate borrowings was $2,280 and $6,043, respectively.

At December 31, 2016 and 2015, WLCO had pledged collateral sufficient to support approximately $8,031 and $60,423 of LOCs/advances and WRAC had pledged collateral sufficient to support approximately $23,085 and $27,091, respectively, of LOCs/advances.

13. COMMITMENTS AND CONTINGENCIES

Liquidity Facilities—Wilton Re Ltd. 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 July 2015, Wilton Re Ltd. amended its existing credit facility with Wells Fargo (the Wells Fargo Facility I) from a $400,000 to $175,000 senior letter of credit facility expiring in 2016 which included a reduction in the revolving line of credit sublimit from $200,000 to $75,000. The Wells Fargo Facility I contained financial covenant restrictions that required Wilton Re Ltd. not to exceed a consolidated leverage ratio of greater than 0.325 to 1.000, and maintain a minimum consolidated tangible net worth. Borrowings under the senior revolving credit facility bore interest, at Wilton Re Ltd.'s option, at either a base rate or a LIBOR rate, 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 (i) WREB and (ii) WRAC. The applicable margin for base rate loans ranged from 0.750% to 1.500%. The applicable margin for LIBOR loans ranged from 1.750% to 2.500%. LOCs issued under the Wells Fargo I facility could be collateralized by either a pledge of common stock of Wilton Re US Holdings and WREB, or qualifying cash and securities (liquid collateral). The market value of the collateral held by the Company at December 31, 2015, was $20,657. At December 31, 2015, there were approximately $17,689 of outstanding bank letters of credit issued by the Company under the facility and $0 borrowed under the revolving line of credit.

In March, 2016, Wilton Re Ltd. replaced the Wells Fargo Facility I 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, Wilton Re Ltd., along with Wilton Re U.S. Holdings, replaced the Wells Fargo Facility II with a $500,000, senior letter of credit facility with Wells Fargo that expires in 2021 (Wells Fargo Facility III) which includes a $100,000 letter of credit sublimit. The Wells Fargo Facility III contains financial covenant restrictions that require the Company and certain affiliates not to exceed a combined leverage ratio of greater than 0.35 to 1.000, and maintain 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 Canadian Dollar Offered Rate or “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%.

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, 2016 was $28,750. At December 31, 2016, there were approximately $25,961 of outstanding bank letters of credit issued by the Company under the facility and $0, borrowed under the line of credit.

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 Wilton Re US Holdings. 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, 2016 and 2015, was $3,372,865 and $3,486,138, 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 (now known as Wilco 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. The plaintiffs allege breach of contract and seek declaratory relief, compensatory damages, attorney fees and costs. On November 30, 2012, WLCO 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 WLCO. The plaintiffs filed an amended complaint in October 2014. On April 9, 2015, the court granted WLCO'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 the plaintiffs' case. The appeal has now been fully briefed and the parties are now being considered for oral argument in mid-April 2017. The Company believes it has meritorious defenses to plaintiffs' claims, both on appeal and in any other actions plaintiffs might seek to pursue 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.

14. 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, 2016 and 2015:

	2016		2015	
	Carrying Value	**Estimated Fair Value**	**Carrying Value**	**Estimated Fair Value**
Financial assets:				
Investments	$ 11,390,116	$ 11,390,116	$ 11,535,808	$ 11,535,808
Short term investments	92,274	92,274	125,769	125,769
Policy loans	351,025	351,025	359,236	359,236
Funds withheld at interest	746,060	746,060	743,366	743,366
Other invested assets	317,829	317,829	259,180	259,180
Separate account assets	39,662	39,662	47,181	47,181
Financial liabilities:				
Annuities—deferred and without life contingencies	$ 979,032	$ 1,111,233	$ 948,056	$ 987,563
Structured settlements	213,537	221,442	489,912	457,458
Funds held under reinsurance treaties	650,070	650,070	656,253	656,253
Funding agreements	139,663	142,193	213,338	213,509
Long-term debt	250,093	254,781	250,227	262,525
Subordinated affiliate debt	915,524	915,524	1,166,631	1,166,631
Separate account liabilities	39,662	39,662	47,181	47,181

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.

Investments—Publicly traded fixed maturity securities, included in investments and funds withheld at interest are valued based on quoted market prices. Private placement securities, included in investments 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.

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

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.

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 commercial mortgage loans (included in other invested assets) and 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, 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 securitie	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 bonds	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	271,313	317,181	-	89,732	227,449
Separate account assets	39,662	39,662	-	39,662	-
Total financial assets	$ 10,812,352	$ 11,063,451	$ 338,255	$ 10,132,105	$ 593,091
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 securitie	54,859	55,248	-	55,248	-
Asset backed securities	26,664	26,541	-	26,541	-
Total bonds	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	$ -

	December 31, 2015				
	Amortized Cost	Fair Value	Level 1	Level 2	Level 3
U.S. government and agencies	$ 285,445	$ 300,567	$ 100,157	$ 200,410	$ -
State and political subdivisions	1,338,891	1,410,434	-	1,386,989	23,445
Foreign sovereign	21,599	22,754	-	22,754	-
Corporate securities	5,561,378	5,458,452	11,043	5,298,422	148,987
Residential mortgage-backed securities	878,733	899,854	-	894,584	5,270
Commercial mortgage-backed securitie	1,126,570	1,133,430	-	1,133,430	-
Asset backed securities	777,777	785,026	-	683,207	101,819
Collateralized debt obligations	361,012	363,444	-	358,129	5,315
Total bonds	10,351,404	10,373,961	111,200	9,977,925	284,836
Preferred stocks	126,778	131,184	-	131,184	-
Common stocks	34,032	34,032	11,264	22,768	-
Cash and short term investments	229,176	229,176	224,031		5,145
Other invested assets	230,043	258,478	-	76,336	182,142
Separate account assets	47,181	47,181	-	47,181	-
Total financial assets	$ 11,018,615	$ 11,074,013	$ 346,496	$ 10,255,394	$ 472,123
Funds withheld at interest					
U.S. government and agencies	$ 12,881	$ 13,226	$ 13,226	$ -	$ -
State and political subdivisions	64,443	71,355	-	71,355	-
Corporate securities	367,830	380,549	-	380,549	-
Residential mortgage-backed securities	67,437	69,573	-	69,573	-
Commercial mortgage-backed securitie	55,894	56,620	-	56,620	-
Asset backed securities	20,181	20,247	-	20,247	-
Total bonds	588,666	611,570	13,226	598,344	-
Preferred stocks	5,095	5,710	-	5,710	-
Common stock	301	534	534		
Cash and short term investments	16,051	16,053	12,395	3,658	-
Total financial assets	$ 610,113	$ 633,867	$ 26,155	$ 607,712	$ -

The 2015 information presented above has been restated to include approximately $83 million of mortgage loan securities in other invested assets (Level 3) which were omitted in the prior year presentation.

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, 2016 or 2015. 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 of our 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 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 significant to the estimated fair value 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, 2016 and 2015, the application of market standard valuation techniques applied to similar assets has been consistent.

U.S. Government and Agency Securities, State and Political Subdivisions, Foreign Sovereign Securities, and Corporate Securities—U.S. 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 U.S. 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.

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.

Commercial Mortgage Loans are also included in other invested assets and 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. These investments are considered level 3 in the fair value hierarchy due to the limited transaction activity and unobservable inputs.

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, 2016 and 2015:

	State and Political Subdivisions	Corporate Securities	Residential Mortgage-Backed Securities	Asset Backed Securities	Collateralized Debt Obligations	Short Term Investments	Other Invested Assets	Total
December 31, 2016								
Beginning Balance, January 1	$ 23,445	$148,987	$ 5,270	$ 101,819	$ 5,315	$ 5,145	$182,142	$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			1	623
Impairment Loss								
Net unrealized appreciation (depreciation)	(992)	(2,539)	153	14	205	(7)	11,629	8,463
Purchases / acquisitions	16,883	46,513		22,750	138,138	(4,235)	66,315	286,364
Sales / disposals	(337)	(21,266)	(145)	(77,412)	(29,499)		(32,520)	(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	$ 38,998	$156,395	$ 25	$ 55,162	$ 114,160	$ 903	$227,449	$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)	(992)	(1,391)	154	90	205	(6)	11,986	10,046

	State and Political Subdivisions	Corporate Securities	Residential Mortgage-Backed Securities	Asset Backed Securities	Collateralized Debt Obligations	Short Term Investments	Other Invested Assets	Total
December 31, 2015								
Beginning Balance, January 1	$	$170,272	$ 9,546	$156,037	$	$	$216,491	$552,346
Total realized / unrealized gains (losses) included in earnings, net:								
Net investment income		(1,353)	122	599			(1,286)	(1,918)
Net investment gains (losses)		372		(9)			(385)	(22)
Impairment Loss							(1,202)	(1,202)
Net unrealized appreciation (depreciation)	(55)	(4,434)	(365)	(775)	(127)		681	(5,075)
Purchases / acquisitions	23,500	12,520		29,934	5,900	5,144	7,016	84,014
Sales / disposals		(18,033)	(1,336)	(33,065)	(458)		(39,172)	(92,064)
Transfers into Level 3		3,091	142	67				3,300
Transfers out of Level 3		(13,448)	(2,839)	(50,968)				(67,255)
Ending Balance--December 31	$ 23,445	$148,987	$ 5,270	$101,820	$ 5,315	$ 5,144	$182,143	$472,124
Total gains (losses) related to assets still held at the reporting date included in earnings:								
Net investment income	$ 0	$ (1,048)	$ 122	$ 599			$ (879)	$ (1,206)
Net investment gains (losses)		206		(12)			(384)	(190)
Net unrealized appreciation (depreciation)	(55)	(1,866)	(365)	(610)	(127)		635	(2,388)

The 2015 information presented above has been restated to (1) include approximately $125 million and $83 million of mortgage loan securities in other invested assets at January 1, 2015 and December 31, 2015, respectively, which were omitted in the prior year presentation, and (2) reclassify approximately $81 million of securities previously included as transfers into Level 3 to purchases/acquisitions.

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.

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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 subsidiaries (the "Company") as of December 31, 2016, based on the criteria established in the Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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, 2016, 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, 2016 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, 2017 expressed an unmodified opinion on those financial statements

Deloitte & Touche LLP

March 30, 2017

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, 2016, 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, 2016, in providing reasonable assurance regarding the reliability of financial reporting in accordance with generally accepted accounting principles.

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
Chief Executive Officer
Wilton Re U.S. Holdings, Inc.

Steve D. Lash
Senior Vice President and Chief Financial Officer
Wilton Re Services Inc.

March 30, 2017

SUPPLEMENTARY INFORMATION

Deloitte.

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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 sheet as of December 31, 2016 and the supplementary consolidating statement of comprehensive income (loss) for the year 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. The 2015 supplementary information was subjected to auditing procedures by other auditors whose report, dated March 30, 2016 stated that such information is fairly stated in all material respects in relation to the 2015 consolidated financial statements as a whole

Deloitte & Touche LLP

March 30, 2017

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

CONSOLIDATING BALANCE SHEET
AS OF DECEMBER 31, 2016
(Expressed in thousands of U.S. dollars, except share amounts)

	WRUS	WRSI WRFL	WRAC	WRNY	TLIC	WLCO	WSSI WCAC	RRE2	Eliminations	WRUS Consolidated
ASSETS										
Investments	$ 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
Short term investments	3,609	64	22,730	1,188	21,716	21,970	17,062	3,935	-	92,274
Policy loans	-	-	102,556	15,189	42,245	149,532	-	41,503	-	351,025
Funds withheld at interest	-	-	743,971	-	-	-	2,089	-	-	746,060
Other invested assets	300,000	-	162,164	10,968	35,937	93,566	15,194	-	(300,000)	317,829
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 BALANCE SHEET
AS OF DECEMBER 31, 2015
(Expressed in thousands of U.S. dollars, except share amounts)

	WRUS	WRSI WRFL	WRAC	WRNY	TLIC	WLCO	WSSI WCAC	RRE2	Eliminations	WRUS Consolidated
ASSETS										
Investments	$ -	$ 50,449	$1,857,549	$ 863,837	$1,001,645	$3,243,186	$2,582,264	$1,986,878	$ (50,000)	$11,535,808
Short term investments	9,072	78	14,748	2,984	18,315	24,952	38,871	16,749	-	125,769
Policy loans	-	-	106,710	16,154	39,103	157,604	-	39,665	-	359,236
Funds withheld at interest	-	-	741,277	-	-	-	2,089	-	-	743,366
Other invested assets	300,000	-	121,871	7,450	24,258	99,817	5,784	-	(300,000)	259,180
Total investments	309,072	50,527	2,842,155	890,425	1,083,321	3,525,559	2,629,008	2,043,292	(350,000)	13,023,359
Cash and cash equivalents	356	12,571	18,155	23,000	13,504	19,898	15,923	-	-	103,407
Accrued investment income	-	2	26,261	6,587	8,099	36,643	29,819	12,081	-	119,492
Premiums receivable	-	-	30,064	778	1,271	39,485	17	28,284	1,719	101,618
Reinsurance recoverable	-	-	1,738,304	410,687	11,555	327,878	771,747	-	(1,497,134)	1,763,037
Deferred acquisition costs	-	-	55,362		184,874	3	-	-	-	240,239
Value of in-force business acquired	-	-	169,026	34,108	20,084	-	-	193,003	-	416,221
Net deferred tax assets	12,542	960	5,757		2,885	355,623	187,215	-	(275,100)	289,882
Other assets	880,318	320,316	463,681	1,844	6,306	3,552	1,134	2	(1,566,865)	110,288
Separate account assets	-	-	-	630	-	-	46,551	-	-	47,181
TOTAL ASSETS	$1,202,288	$384,376	$5,348,765	$1,368,059	$1,331,899	$4,308,641	$3,681,414	$2,276,662	$ (3,687,380)	$16,214,724
LIABILITIES AND SHAREHOLDER'S EQUITY										
LIABILITIES:										
Reserves for future policy benefits	$ -	$ -	$1,461,770	$ 129,978	$ 224,709	$ 703,337	$2,828,563	$ 480,306	$ (491,237)	$ 5,337,426
Interest sensitive contract liabilities	-	-	2,634,242	981,734	850,647	2,906,341	574,949	687,933	(1,008,972)	7,626,874
Other reinsurance liabilities	-	-	(1,117)	717	10,010	17,141	43	(2,678)	4,728	28,844
Funds held under reinsurance treaties	-	-	470,618	14,978	-	168,920	1,737	-	-	656,253
Funding agreements	-	-	-	-	-	213,338	-	-	-	213,338
Net deferred tax liabilities	-	-	-	29,775	-	-	-	245,325	(275,100)	-
Long-term debt	253,672	350,734	-	-	-	227	-	-	(354,406)	250,227
Subordinated affiliate debt	170,000	-	300,000	-	-	-	-	996,631	(300,000)	1,166,631
Other liabilities	(3,479)	17,997	(154,317)	16,138	30,183	109,085	177,961	(12,165)	(75,549)	105,855
Separate account liabilities	-	-	-	630	-	-	46,551	-	-	47,181
Total liabilities	420,193	368,731	4,711,196	1,173,950	1,115,549	4,118,389	3,629,804	2,395,352	(2,500,536)	15,432,629
SHAREHOLDER'S EQUITY:										
Class A common shares	-	-	1,000	2,502	1,854	4,178	21,831	250	(31,615)	-
Class B common shares	-	-	-	-	-	-	-	-	-	-
Additional paid-in capital	134,807	26,925	158,461	119,367	14,531	192,164	80,841	(110,015)	(482,273)	134,807
Retained earnings and accumulated other comprehensive income (loss)	647,288	(11,280)	478,108	72,240	199,965	(6,090)	(51,062)	(8,925)	(672,956)	647,288
Total shareholder's equity	782,095	15,645	637,569	194,109	216,350	190,252	51,610	(118,690)	(1,186,844)	782,095
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$1,202,288	$384,376	$5,348,765	$1,368,059	$1,331,899	$4,308,641	$3,681,414	$2,276,662	$ (3,687,380)	$16,214,724

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

CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEAR ENDED DECEMBER 31, 2016
(Expressed in thousands of U.S. dollars, except share amounts)

	WRUS	WRSI WRFL	WRAC	WRNY	TLIC	WLCO	WSSI 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 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

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

CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEAR ENDED DECEMBER 31, 2015
(Expressed in thousands of U.S. dollars, except share amounts)

	WRUS	WRSI WRFL DUNM WDTN	WRAC	WRNY	TLIC	WLCO	WSSI WCAC	RRE2	Eliminations	WRUS Consolidated
REVENUES:										
Net premiums	$ -	$ -	$134,150	$ 4,594	$ 29,740	$ (26,095)	$ 293	$105,435	$ -	$ 248,117
Policy fees and charges	-	-	99,259	9,438	123,289	218,019	-	36,226	-	486,231
Inuring third-party reinsurance commissions	-	-	9,117	488	-	-	-	26,395	-	36,000
Investment earnings—net	(30,026)	21,559	135,155	42,526	56,555	129,800	113,886	47,470	(3,861)	513,064
Net unrealized appreciation (depreciation) on investments classified as trading and other	-	(895)	(64,138)	(31,361)	(31,725)	(106,395)	(150,208)	(63,752)	-	(448,474)
Change in value of derivatives and embedded derivatives—net	-	-	(51,154)	-	-	5,108	-	-	-	(46,046)
Total revenues	(30,026)	20,664	262,389	25,685	177,859	220,437	(36,029)	151,774	(3,861)	788,892
EXPENSES:										
Claims and policy benefits—net of reinsurance ceded	-	14,002	157,867	13,291	126,051	139,372	100,983	102,620	-	654,186
Interest credited to interest sensitive contract liabilities	-	-	61,800	27,754	21,800	93,082	362	35,114	-	239,912
Acquisition costs and other insurance expenses	-	-	35,488	(2,690)	3,552	1,523	(160)	21,398	(13)	59,098
Operating expenses	1,022	1,762	44,828	5,658	21,932	39,902	6,463	4,510	13	126,090
Interest expense	-	18,935	-	-	-	18	-	-	(3,846)	15,107
Total benefits and expenses	1,022	34,699	299,983	44,013	173,335	273,897	107,648	163,642	(3,846)	1,094,393
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) BEFORE INCOME TAXES AND AND EQUITY IN NET INCOME OF SUBSIDIARIES	(31,048)	(14,035)	(37,594)	(18,328)	4,524	(53,460)	(143,677)	(11,868)	(15)	(305,501)
INCOME TAX EXPENSE/(BENEFIT)	(10,620)	2,359	(18,752)	(6,536)	1,191	(18,800)	(51,440)	(4,311)	-	(106,909)
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	(20,428)	(16,394)	(18,842)	(11,792)	3,333	(34,660)	(92,237)	(7,557)	(15)	(198,592)
EQUITY IN NET INCOME (LOSS) OF SUBSIDIARIES	(178,149)	-	-	-	-	-	-	-	178,149	-
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	$(198,577)	$(16,394)	$ (18,842)	$(11,792)	$ 3,333	$ (34,660)	$ (92,237)	$ (7,557)	$178,134	$ (198,592)