

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

Consolidated Financial Statements and
Supplementary Information as of and for the
Years Ended December 31, 2018 and 2017, and
Independent Auditors' Report

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

TABLE OF CONTENTS

| | Page |
|--|-------------|
| INDEPENDENT AUDITORS' REPORT | 1-2 |
| CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017: | |
| Balance Sheets | 3 |
| Statements of Comprehensive Income (Loss) | 4 |
| Statements of Changes in Shareholder's Equity | 5 |
| Statements of Cash Flows | 6-7 |
| Notes to Consolidated Financial Statements | 8-50 |
| INDEPENDENT AUDITORS' REPORT ON THE EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING | 51-52 |
| REPORT OF MANAGEMENT ON WILTON RE U.S. HOLDINGS, INC. AND SUBSIDIARIES' INTERNAL CONTROL OVER FINANCIAL REPORTING | 53 |
| SUPPLEMENTARY INFORMATION: | 54 |
| Independent Auditors' Report on Supplementary Information | 55 |
| Consolidating Balance Sheets | 56-57 |
| Consolidating Statements of Comprehensive Income (Loss) | 58-59 |

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Wilton Re U.S. Holdings, Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of comprehensive income, changes in shareholder's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Wilton Re U.S. Holdings, Inc. and its subsidiaries as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Internal Control over Financial Reporting

We have also audited, in accordance with auditing standards generally accepted in the United States of America, the Company's internal control over financial reporting as of December 31, 2018 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 29, 2019 expressed an unmodified opinion on the Company's internal control over financial reporting.

Deloitte & Touche LLP

March 29, 2019

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

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2018 AND 2017

(Amounts in thousands of US Dollars, except share amounts)

| | 2018 | 2017 |
|--|---------------------|---------------------|
| Assets | | |
| Fixed maturity and equity securities | \$23,766,220 | \$21,975,239 |
| Commercial mortgage loans | 1,039,952 | 1,174,996 |
| Policy loans | 324,902 | 339,458 |
| Funds withheld at interest | 4,675,922 | 5,162,421 |
| Short term investments | 3,970 | 4,909 |
| Other invested assets | <u>514,481</u> | <u>361,703</u> |
| Total investments | 30,325,447 | 29,018,726 |
| Cash and cash equivalents | 597,429 | 635,937 |
| Accrued investment income | 224,494 | 202,130 |
| Premiums receivable | 73,632 | 70,159 |
| Reinsurance recoverable | 19,867,584 | 20,260,399 |
| Net deferred acquisition costs | 361,608 | 302,494 |
| Value of in-force business acquired | 331,238 | 330,779 |
| Net deferred income taxes | 375,107 | 159,007 |
| Other assets | 446,142 | 281,393 |
| Separate account assets | <u>33,927</u> | <u>38,389</u> |
| Total assets | <u>\$52,636,608</u> | <u>\$51,299,413</u> |
| Liabilities and shareholder's equity | | |
| Reserves for future policy benefits | \$16,842,972 | \$13,277,805 |
| Interest sensitive contract liabilities | 15,663,138 | 16,139,311 |
| Other reinsurance liabilities | 160,259 | 34,284 |
| Funds held under reinsurance treaties | 17,525,481 | 19,071,953 |
| Long-term debt | 250,000 | 250,000 |
| Surplus notes | 815,864 | - |
| Subordinated affiliate debt | - | 904,845 |
| Other liabilities | 665,260 | 508,513 |
| Separate account liabilities | <u>33,927</u> | <u>38,389</u> |
| Total liabilities | <u>51,956,901</u> | <u>50,225,100</u> |
| Shareholder's equity: | | |
| Class A common shares—\$0.01 par value; 500 shares authorized, issued and outstanding at December 31, 2018 and 2017 | - | - |
| Class B common shares—\$0.01 par value 500 shares authorized, issued and outstanding at December 31, 2018 and 2017 | - | - |
| Additional paid-in capital | 134,807 | 134,807 |
| Retained earnings and accumulated other comprehensive income | <u>544,900</u> | <u>939,506</u> |
| Total shareholder's equity | <u>679,707</u> | <u>1,074,313</u> |
| Total liabilities and shareholder's equity | <u>\$52,636,608</u> | <u>\$51,299,413</u> |

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, 2018 AND 2017 (Amounts in thousands of US Dollars)

| | 2018 | 2017 |
|---|---------------------|------------------|
| Revenues | | |
| Net premiums | \$ 268,921 | \$ 209,434 |
| Policy fees and charges | 458,221 | 522,789 |
| Inuring third-party reinsurance commissions | 34,241 | 34,064 |
| Investment earnings—net | 417,493 | 490,120 |
| Net change in unrealized gains (losses) on investments classified as trading and other | (1,282,269) | 756,260 |
| Change in value of derivatives and embedded derivatives—net | <u>775,066</u> | <u>(461,625)</u> |
| Total revenues | <u>671,673</u> | <u>1,551,042</u> |
| Benefits and expenses | | |
| Claims and policy benefits—net of reinsurance ceded | 509,183 | 772,090 |
| Interest credited to interest sensitive contract liabilities | 228,090 | 239,283 |
| Acquisition costs and other insurance expenses | (35,081) | 108,009 |
| Operating expenses | 212,868 | 143,617 |
| Interest expense | <u>16,158</u> | <u>15,092</u> |
| Total benefits and expenses | <u>931,218</u> | <u>1,278,091</u> |
| Net income (loss) and comprehensive income (loss) before income taxes and net earnings of equity method investee | (259,545) | 272,951 |
| Income tax expense (benefit) | <u>(106,180)</u> | <u>191,339</u> |
| Net income (loss) and comprehensive income (loss) before net earnings of equity method investee | (153,365) | 81,612 |
| Share of net earnings of equity method investee | <u>8,759</u> | <u>-</u> |
| Net income (loss) and comprehensive income (loss) | <u>\$ (144,606)</u> | <u>\$ 81,612</u> |

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, 2018 AND 2017 (Amounts in thousands of US Dollars)

| | 2018 | 2017 |
|---|-------------------|---------------------|
| 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—beginning and end of year | 134,807 | 134,807 |
| Retained earnings | | |
| Balance—beginning of year | 939,506 | 857,894 |
| Dividends to shareholders | (250,000) | - |
| Net income (loss) and comprehensive income (loss) | <u>(144,606)</u> | <u>81,612</u> |
| Balance—end of year | <u>544,900</u> | <u>939,506</u> |
| Total shareholder's equity | <u>\$ 679,707</u> | <u>\$ 1,074,313</u> |

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, 2018 AND 2017 (Amounts in thousands of US Dollars)

| | 2018 | 2017 |
|---|--------------|-------------|
| Cash flows from operating activities | | |
| Net income (loss) and comprehensive income (loss) | \$ (144,605) | \$ 81,612 |
| Adjustments to reconcile net income (loss) and comprehensive income (loss) to net cash from (used in) operating activities: | | |
| Proceeds from sales of fixed maturity and equity securities | 2,914,687 | 3,167,099 |
| Proceeds from maturities of fixed maturity and equity securities | 791,447 | 887,051 |
| Purchases of fixed maturity and equity securities | (3,477,960) | (5,056,964) |
| Amortization of net investment premium, discounts and other | 37,182 | 60,657 |
| Investment related realized (gains) losses, net | 183,690 | (120,257) |
| Investment related unrealized (gains) losses, net | 1,298,205 | (760,951) |
| Earnings of equity method investee | (7,936) | - |
| Mark-to-market on embedded derivative | (801,276) | 466,470 |
| Amortization and other adjustments to deferred acquisition costs | 17,087 | 11,721 |
| Amortization and other adjustments to value of business acquired | 40,780 | 33,355 |
| Interest credited to interest sensitive contracts | 439,651 | 409,203 |
| Other reserve changes of interest sensitive contract liabilities | (757,033) | (235,457) |
| Cash from closed block reinsurance | 204,495 | 1,495,867 |
| Change in assets and liabilities: | | |
| Accrued investment income | 29,120 | 7,000 |
| Deferred income taxes | (74,103) | 112,142 |
| Premiums receivable | (2,949) | 13,925 |
| Reinsurance recoverable | 486,441 | 2,399 |
| Funds withheld at interest | 324,478 | (633,108) |
| Deferred acquisition costs | (76,200) | (33,133) |
| Value of in-force business acquired | (41,239) | 30,265 |
| Other assets | (165,780) | 125,003 |
| Reserves for future policy benefits | (463,179) | (221,321) |
| Funds held under reinsurance treaties | (583,175) | 743,238 |
| Other reinsurance liabilities | 123,183 | (3,328) |
| Other liabilities | 97,245 | (52,531) |
| Net cash flows from (used in) operating activities | 392,254 | 529,958 |

(Continued)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (Amounts in thousands of US Dollars)

| | 2018 | 2017 |
|---|-------------------|-------------------|
| Cash flows from investing activities | | |
| Sales, maturities and repayments of: | | |
| Commercial mortgage loans | \$ 129,302 | \$ 97,476 |
| Limited partnership interests | 3,673 | - |
| Other invested assets | 19,419 | 13,603 |
| Purchases of: | | |
| Commercial mortgage loans | (24,968) | (5,797) |
| Limited partnership interests | (102,654) | - |
| Equity method investment in affiliate | (33,900) | - |
| Other invested assets | (31,558) | (55,528) |
| Change in policy loans | 14,556 | 11,567 |
| Change in short-term investments | <u>5,321</u> | <u>132,131</u> |
| Net cash flows from (used in) investing activities | (20,811) | 193,453 |
| Cash flows from financing activities | | |
| Repayment of subordinated affiliate debt | - | (10,772) |
| Repayment of funding agreements | - | (139,663) |
| Dividend to shareholder | (250,000) | - |
| Deposits into interest sensitive contracts | 527,329 | 528,354 |
| Redemption and benefit payments on interest sensitive contracts | <u>(687,280)</u> | <u>(605,135)</u> |
| Net cash flows from (used in) financing activities | <u>(409,951)</u> | <u>(227,216)</u> |
| Increase (decrease) in cash and cash equivalents | (38,508) | 496,195 |
| Cash and cash equivalents—Beginning of the year | <u>635,937</u> | <u>139,742</u> |
| Cash and cash equivalents—End of the year | <u>\$ 597,429</u> | <u>\$ 635,937</u> |
| Supplemental disclosure of cash flow information: | | |
| Cash received (paid) during the period for—income taxes | <u>\$ 214,370</u> | <u>\$ 106,289</u> |

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

(Concluded)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (Amounts in thousands of US Dollars, except share amounts)

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.
- Wilco Life Insurance Company (WLCO), a wholly owned subsidiary of WRAC, is an Indiana domiciled life insurer.
- Wilcac Life Insurance Company (WCAC), a wholly owned subsidiary of WRAC, is an Illinois domiciled life insurer.
- Redding Reassurance Company 2 (RRE2), a wholly owned subsidiary of WRAC, organized as a South Carolina special purpose financial captive insurance company, was dissolved in October 2018.
- Redding Reassurance Company 3 LLC (RRE3), a wholly owned subsidiary of WRAC, was organized in April 2018 as a Missouri special purpose financial captive insurance company.

In April 2018, the Company acquired a 4.1% interest, and became a 25% voting shareholder of Wilton Reinsurance Bermuda Limited (WREB), an affiliate incorporated under the laws of Bermuda as a long-term insurer.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation and Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) and include the accounts of Wilton Re US Holdings and its subsidiaries which include WRSI, WRFL, WRAC, WRNY, TLIC, WLCO, WCAC, RRE2 and RRE3. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

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

Investments and Investment Earnings

Fixed Maturity and Equity Securities

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

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

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

Commercial Mortgage Loans

The Company elects the Fair Value Option (FVO) for commercial mortgage loans. The change in fair value is reported as net change in unrealized gains (losses) on investments

classified as trading and other in the consolidated statements of comprehensive income (loss). The fair value is determined using a net present value calculation of future cash flows using credit and liquidity spreads added to an interpolated Treasury yield to determine the discount rate. Credit and liquidity spreads are derived from data provided by third parties considered market-makers in commercial mortgage loans.

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

A mortgage loan is considered to be impaired when, based on the current information and events, the Company does not have a reasonable expectation that it will be able to collect all amounts due according to the contractual terms of the mortgage agreement. Although all available and applicable factors are considered in the Company’s analysis, loan-to-value, debt service coverage ratios and delinquency status are critical factors in determining impairment.

Policy Loans

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

Funds Withheld at Interest and Funds Held under Reinsurance Treaties

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

The Company accounts for the embedded derivatives in modified coinsurance and funds withheld contracts as total return swaps. Accordingly, the value of the derivative is equal to the unrealized gain or loss on the assets underlying the funds withheld portfolio associated with each agreement. The Company’s funds withheld are recorded at fair value with the changes in the fair value of the embedded derivative reflected in the change in value of derivatives and embedded derivatives, net, in the statements of comprehensive income (loss). At December 31, 2018 and 2017, the fair value of these embedded derivatives, and the changes in fair value for the years then ended, included:

| | 2018 | | 2017 | |
|---------------------------------------|-------------------|-----------------------------|-------------------|-----------------------------|
| | Fair Value | Change in Fair Value | Fair Value | Change in Fair Value |
| Funds withheld at interest | \$ 2,461 | \$ (67,198) | \$ 69,658 | \$ 35,662 |
| Funds held under reinsurance treaties | 326,185 | <u>868,474</u> | (542,289) | <u>(502,132)</u> |
| | | <u>\$ 801,276</u> | | <u>\$ (466,470)</u> |

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, 2018 and 2017, the fair value of these derivatives, and the changes in fair value for the years then ended, included:

| | 2018 | | 2017 | |
|----------------------------|-------------------|-----------------------------|-------------------|-----------------------------|
| | Fair Value | Change in Fair Value | Fair Value | Change in Fair Value |
| Funds withheld at interest | \$ 4,257 | \$(23,145) | \$27,492 | \$ 3,619 |
| Other invested assets | 101 | <u>(3,064)</u> | 2,707 | <u>1,226</u> |
| | | <u>\$(26,209)</u> | | <u>\$ 4,845</u> |

Short Term Investments

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

Other Invested Assets

In addition to the derivatives discussed above, other invested assets include investments in limited partnerships and limited liability corporations (limited partnerships), surplus debentures and the equity method investment in an affiliate.

Limited partnerships

Limited partnerships are accounted for using the equity method when the Company has more than a minor ownership interest or more than a minor influence over the investees operations. The most recently available financial information provided by the general partner or manager of each of the investments is used, which is one to three months prior to the end of our reporting period. Changes in the fair value of these securities are included in investment earnings – net in the consolidated statements of comprehensive income (loss).

Surplus debentures

Surplus debentures are similar to corporate securities, but are subordinated obligations of insurance companies and may be subject to restrictions by the insurance commissioners and are carried at fair value.

Equity Method Investment in Affiliate

With the ability to exercise significant influence over WREB, this investment is accounted for under the equity method. At December 31, 2018, the carrying value of the investment included within other invested assets on the consolidated balance sheet was \$42,659.

Income from the investment is presented, in share of net earnings of equity method investee in the consolidated statement of comprehensive income (loss).

Cash and Cash Equivalents

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

Premiums Receivable

Premiums receivable are recognized when due from the policyholder or other party and adjusted for lapsed policies. 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, 2018 or 2017.

Reinsurance Recoverable

Reinsurance recoverables include an estimate of the amount of policy and claim reserves that are ceded under the terms of reinsurance agreements, including claims incurred but not reported (IBNR). Reinsurers and the respective amounts recoverable are regularly evaluated and a provision for uncollectible reinsurance is recorded if needed. No allowances for uncollectible reinsurance were recorded as of December 31, 2018 or 2017.

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 2018 or 2017. 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 including unrealized gains (losses) on investments classified as trading and mortality and expense margins, over the amortization period. EGPs are updated periodically with actual gross profits, and the assumptions underlying future EGPs are evaluated for reasonableness. Adjustments to EGPs require that amortization rates be revised retroactively to the date of the contract issuance ("unlocking").

Income Taxes

The income tax provision is calculated under the liability method. Deferred tax assets and liabilities result from temporary differences between the carrying amounts of assets and liabilities recorded in the consolidated financial statements and their respective tax bases.

The effect on deferred tax assets and liabilities of a change in tax rates would be recognized in the consolidated statements of comprehensive income (loss) in the period in which the tax rate change is enacted. A valuation allowance for a portion or all of deferred tax assets is recorded as a reduction to deferred tax assets when it is more likely than not that such portion or all of such deferred tax assets will not be realized.

Separate Accounts

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

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

Reserves for Future Policy Benefits

The Company's liabilities for direct and payout annuity (with life contingencies) policies and reinsurance of traditional life insurance, accident and health (including long-term care) and payout annuities (including structured settlements) with life contingencies 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, morbidity, persistency, interest and expenses established when the contract is underwritten. These assumptions are based on anticipated experience with a margin for adverse deviation. For reinsurance assumed, such estimates are based primarily on historical experience provided by ceding companies with the exception of investment returns and expenses.

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.

The average discount rates used to compute the Company's reserves for future policy benefits are as follows:

| | <u>2018</u> | <u>2017</u> |
|---|-------------|-------------|
| Traditional life insurance | 4.90% | 4.93% |
| Payout annuities with life contingencies | 2.19% | 2.18% |
| Accident & health, including long-term care | 3.50% | - |

Interest Sensitive Contract Liabilities

Liabilities for interest sensitive insurance products such as universal life and deferred annuities are established based on account values before applicable surrender charges. Liabilities for payout annuities without life contingencies are recorded at the present value of future benefits. 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, 2018, the fair value of these derivatives were \$101, a decrease of \$19,421 from December 31, 2017. At December 31, 2017, the fair value of these derivatives were \$19,522, an increase of \$1,551 from December 31, 2016.

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. The calculation of these liabilities is based on management's best estimates and assumptions regarding expected mortality, lapse, persistency, expenses and investment experience, which are reviewed and unlocked at least annually if necessary. Additional liabilities are established for universal life products related to unearned policy charges.

Claim Reserves

For both non-interest sensitive and interest sensitive life insurance, liabilities are established for estimated death benefits that have been incurred, but not yet reported. These liabilities are based on periodic analysis of the actual reporting lag between when a claim occurs and when it is reported to the Company, including a provision for adverse deviation.

Long-term care claim reserves are established for continuing benefit payments are calculated using assumptions of anticipated mortality and claim continuance rates that are based on established industry tables adjusted for the ceding company's historical experience. Long-term care claims reserves are discounted at 3.50% for 2018.

Recognition of Revenue and Expenses

Assumed reinsurance and policy premiums related to traditional life products and long-duration accident and health contracts 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 4.49% and 4.39% during 2018 and 2017, respectively.

Closed Block Reinsurance

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

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

The net liability recorded (reserves for future policy benefits net of DAC and VOBA) represents management's best estimate of future cash flows, with provisions for adverse

deviation as appropriate. Such estimates are subject to refinement within one year of acquisition.

New Accounting Pronouncements

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

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

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

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

In August 2018, the FASB modified the disclosure requirements for fair value measurements by removing, modifying and adding certain disclosures. The guidance removes the requirement to disclose:

- (i) The amount and reasons for any transfers between Level 1 and Level 2 of the fair value hierarchy;
- (ii) A description of the valuation processes used to value Level 3 fair value measurements;
- (iii) The policy for timing of transfers between levels; and,

- (iv) The changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period.

Additionally, in lieu of a rollforward for Level 3 fair value measurements, a nonpublic entity is required to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities. The additional disclosures added by the guidance are not applicable to nonpublic entities. The guidance is effective for annual periods beginning after December 15, 2019. Early adoption is permitted. The Company is currently evaluating the impact of this guidance on its consolidated financial statements—contractual basis.

In August 2018, the FASB issued an accounting standard update with the objective of making targeted improvements to the existing recognition, measurement, presentation, and disclosure requirements for long-duration contracts issued by an insurance entity. The standard prescribes significant and comprehensive changes to recognition, measurement, presentation and disclosure as summarized below:

- Requires the review and if necessary update of future policy benefit assumptions at least annually for traditional and limited pay long-duration contracts, with the recognition and separate presentation of any resulting re-measurement gain or loss (except for discount rate changes as noted below) in the income statement.
- Requires the discount rate assumption to be updated at the end of each reporting period using an upper medium grade (low-credit risk) fixed income instrument yield that maximizes the use of observable market inputs and recognizes the impact of changes to discount rates in other comprehensive income.
- Simplifies the amortization of DAC to a constant level basis over the expected term of the related contracts with adjustments for unexpected terminations, but no longer requires an impairment test.
- Requires the measurement of all market risk benefits associated with deposit (or account balance) contracts at fair value through the income statement with the exception of instrument-specific credit risk changes, which will be recognized in other comprehensive income.
- Increased disclosures of disaggregated roll-forwards of policy benefits, account balances, market risk benefits, separate account liabilities and information about significant inputs, judgments and methods used in measurement and changes thereto and impact of those changes.

The Company plans to adopt the standard on its effective date of January 1, 2022. We are evaluating the method of adoption and impact of the standard on our reported consolidated financial statements and required disclosures. The adoption of this standard is expected to have a significant impact on our consolidated financial statements and required disclosures, as well as systems, processes and controls.

Accumulated Other Comprehensive Income

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

Reclassification

The Company has reclassified the presentation of certain prior period information on the consolidated statement of cash flows and related footnotes to conform to the 2018 presentation relative to other reserve changes of interest sensitive contract liabilities, now separately stated but previously included within reserve for future policy benefits and relative to purchases and sales of certain cash flows from investing activities, now separately stated but previously included as net activity.

3. CLOSED BLOCK REINSURANCE

2018 Transaction

Effective July 1, 2018, WRAC reinsured from CNO's Bankers Life and Casualty Company, a closed block of long-term care business on a coinsurance basis. The initial balance sheet effect of this transaction was as follows:

| Assets | Assumed |
|--------------------------------------|---------------------|
| Fixed maturity and equity securities | \$ 3,594,535 |
| Short term investments | 4,384 |
| Other invested assets | <u>1,785</u> |
| Total investments | 3,600,704 |
| Cash and cash equivalents | 365,521 |
| Accrued investment income | 51,484 |
| Premiums receivable | 524 |
| Net deferred tax assets | <u>239,382</u> |
| Total assets | <u>\$ 4,257,616</u> |
| Liabilities | |
| Reserves for future policy benefits | \$ 4,002,082 |
| Other reinsurance liabilities | 2,791 |
| Other Liabilities | <u>252,743</u> |
| Total liabilities | <u>\$ 4,257,616</u> |

2017 Transactions

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

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

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

Pursuant to contractual amendments to the initial transaction during 2018, the Company's reinsurance recoverable increased \$93,626, reserve for future policy benefits increased \$26,263, cash of \$33,119 was returned to Aegon's Transamerica life subsidiaries and cash of \$127,907 was paid to WREB.

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

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

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

For the closed block reinsurance transactions described above, the non-cash assets and liabilities assumed and ceded have been excluded from the statement of cash flows. The 2018 and 2017 net cash received of \$299,319 and \$1,495,867, respectively, is included in cash flows from operating activities within the statement of cash flows.

4. INVESTMENTS

Fixed Maturity and Equity Securities

The amortized cost, fair value and related gross unrealized gain and loss of fixed maturity and common and preferred stock investments, all of which are classified as trading, except for the issuer obligation—non-affiliates and affiliates which are held-to-maturity, as of December 31, 2018 and 2017 are as follows:

| | 2018 | | | Fair Value |
|--|-----------------------|------------------------|------------------------|----------------------|
| | Amortized Cost | Unrealized Gain | Unrealized Loss | |
| U.S. government and agencies | \$ 2,007,838 | \$ 21,179 | \$ (80,883) | \$ 1,948,134 |
| State and political subdivisions | 1,684,555 | 92,258 | (12,506) | 1,764,307 |
| Foreign sovereign | 77,190 | 609 | (3,386) | 74,413 |
| Corporate securities | 13,070,540 | 171,199 | (440,450) | 12,801,289 |
| Residential mortgage-backed securities | 1,776,448 | 26,706 | (27,945) | 1,775,209 |
| Commercial mortgage-backed securities | 1,412,965 | 20,132 | (29,837) | 1,403,260 |
| Asset-backed securities | 1,770,770 | 24,409 | (17,215) | 1,777,964 |
| Collateralized debt obligations | 1,099,491 | 7,949 | (48,218) | 1,059,222 |
| Issuer obligations—non-affiliates | <u>815,864</u> | <u> </u> | <u> </u> | <u>815,864</u> |
| Total fixed maturities | 23,715,661 | 364,441 | (660,440) | 23,419,662 |
| Preferred stock | 335,594 | 1,115 | (19,099) | 317,610 |
| Common stock | <u>28,948</u> | <u>-</u> | <u>-</u> | <u>28,948</u> |
| Total fixed maturity and equity securities | <u>\$ 24,080,203</u> | <u>\$ 365,556</u> | <u>\$ (679,539)</u> | <u>\$ 23,766,220</u> |

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

The unrealized loss and fair values by investment category and by the duration of the fixed maturity securities in a continuous unrealized loss position at December 31, 2018 and 2017, are as follows:

| | 2018 | | | | | |
|--|----------------------------|----------------------------|--------------------------|----------------------------|--------------------------|----------------------------|
| | Less than 12 Months | | 12 Months or More | | Total | |
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| U.S. government and agencies | \$ 826,869 | \$ (28,924) | \$ 611,244 | \$ (51,959) | \$ 1,438,113 | (80,883) |
| State and political subdivisions | 262,177 | (11,184) | 20,245 | (1,322) | 282,422 | (12,506) |
| Foreign sovereign | 41,208 | (2,592) | 7,081 | (794) | 48,289 | (3,386) |
| Corporate securities | 8,283,059 | (383,551) | 660,310 | (56,899) | 8,943,369 | (440,450) |
| Residential mortgage-backed securities | 665,100 | (14,905) | 402,781 | (13,040) | 1,067,881 | (27,945) |
| Commercial mortgage-backed securities | 545,510 | (14,012) | 238,183 | (15,824) | 783,693 | (29,836) |
| Asset-backed securities | 561,847 | (13,794) | 114,119 | (3,421) | 675,966 | (17,215) |
| Collateralized debt obligations | <u>868,405</u> | <u>(47,571)</u> | <u>13,875</u> | <u>(647)</u> | <u>882,280</u> | <u>(48,218)</u> |
| Total fixed maturities | 12,054,175 | (516,533) | 2,067,838 | (143,906) | 14,122,013 | (660,439) |
| Preferred stock | 224,888 | (12,795) | 42,410 | (6,305) | 267,298 | (19,100) |
| Common stock | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total fixed maturity and equity securities | <u>\$ 12,279,063</u> | <u>\$(529,328)</u> | <u>\$ 2,110,248</u> | <u>\$(150,211)</u> | <u>\$ 14,389,311</u> | <u>\$(679,539)</u> |

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

At December 31, 2018, five hundred forty-two fixed maturity securities with a total unrealized loss of \$143,906 had been in an unrealized loss position for twelve months or more. Of those securities in an unrealized loss for twelve months or more, nine securities had fair values below 70% of book value with a total unrealized loss of \$785.

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

Contractual maturities of the Company's fixed maturity securities as of December 31, 2018, 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.

| | 2018 | |
|--|---------------------------|-----------------------|
| | Amortized Cost | Fair Value |
| One or less | \$ 190,874 | \$ 191,043 |
| One through five | 669,862 | 672,320 |
| After five through ten | 1,707,980 | 1,704,888 |
| After ten through twenty | 6,795,454 | 6,783,351 |
| After twenty | 8,291,817 | 8,052,405 |
| Residential mortgage-backed securities | 1,776,448 | 1,775,209 |
| Commercial mortgage-backed securities | 1,412,965 | 1,403,260 |
| Asset-backed securities | 1,770,770 | 1,777,964 |
| Collateralized debt obligations | <u>1,099,491</u> | <u>1,059,222</u> |
| Total fixed maturity securities | <u>\$ 23,715,661</u> | <u>\$ 23,419,662</u> |

Credit ratings of the Company's fixed maturity securities as of December 31, 2018 and 2017, 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.

| | 2018 | | 2017 | |
|---------------------------------|-----------------------|----------------------|-----------------------|----------------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| AAA | \$ 4,838,581 | \$ 4,765,766 | \$ 3,847,710 | 3,929,361 |
| AA | 2,263,170 | 2,299,607 | 2,158,031 | 2,307,089 |
| A | 8,097,574 | 8,082,414 | 7,955,424 | 8,344,670 |
| BBB | 7,391,775 | 7,193,168 | 6,358,270 | 6,680,576 |
| BB | 822,235 | 779,254 | 308,143 | 321,134 |
| B | 95,159 | 93,455 | 56,788 | 58,630 |
| CCC or lower | <u>207,167</u> | <u>205,998</u> | <u>85,454</u> | <u>89,671</u> |
| Total fixed maturity securities | <u>\$ 23,715,661</u> | <u>\$ 23,419,662</u> | <u>\$ 20,769,820</u> | <u>\$ 21,731,131</u> |

The Company's largest five exposures by issuer as of December 31, 2018 were Wal-Mart Stores, Inc., Twenty-First Century Fox, Inc., Berkshire Hathaway, Inc., Anheuser-Busch InBev, and Comcast, each of which comprised less than 1%, and in aggregate comprised 2.3%, of total investments.

The Company's largest five exposures by issuer as of December 31, 2017 were Comcast Corporation, Wal-Mart Stores, Inc., Berkshire Hathaway, Inc., Twenty-First Century Fox, Inc., and The Kraft Heinz Company, each of which comprised less than 5%, and in aggregate comprised 3.0%, of total investments.

At December 31, 2018 and 2017, fixed maturity securities with a fair value of \$52,925 and \$57,749, respectively, were held on deposit with various state insurance departments in which WRAC, TLIC, WRNY, WLCO, and WCAC are licensed to operate to provide security and to meet regulatory requirements.

Investment Earnings—Net

Major sources of investment earnings are as follows:

| | 2018 | 2017 |
|---|-------------------|-------------------|
| Fixed maturity and equity securities | \$ 987,250 | \$ 761,708 |
| Commercial mortgage loans | 41,645 | 39,185 |
| Policy loans | 25,360 | 24,551 |
| Funds withheld at interest | 48,780 | 43,734 |
| Short term investments and cash and cash equivalents | 8,383 | 5,482 |
| Other invested assets | <u>13,831</u> | <u>19,645</u> |
| Investment income | 1,125,249 | 894,305 |
| Investment income ceded on funds withheld | (617,078) | (438,649) |
| Investment expense | <u>(27,631)</u> | <u>(20,972)</u> |
| Investment income—net | 480,540 | 434,684 |
| Realized gains on investments | 48,414 | 141,293 |
| Realized losses on investments | (264,713) | (18,419) |
| Realized gains on funds withheld at interest | 24,168 | 29,096 |
| Realized losses on funds withheld at interest | (6,304) | (2,651) |
| Realized net (gains) / losses ceded on funds withheld | <u>135,388</u> | <u>(93,882)</u> |
| Investment earnings—net | <u>\$ 417,493</u> | <u>\$ 490,120</u> |

Commercial Mortgage Loans

Commercial mortgage loans (CMLs) represented approximately 3.43% and 4.05% of the Company's investments as of December 31, 2018 and 2017. The amortized cost, fair value and the related gross unrealized gain (loss) as of December 31, 2018 and 2017, are as follows:

| | Amortized Cost | Unrealized Gain | Unrealized Loss | Fair Value |
|-------------------|---------------------------|----------------------------|----------------------------|-----------------------|
| December 31, 2018 | \$ 1,047,210 | \$ 4,414 | \$ (11,672) | \$ 1,039,952 |
| December 31, 2017 | 1,168,798 | 9,651 | (3,453) | 1,174,996 |

The unrealized loss and fair values by the duration of the CMLs in a continuous unrealized loss position at December 31, 2018 and 2017, are as follows:

| | Less than 12 Months | | 12 Months or More | | Total | |
|-------------------|----------------------------|----------------------------|--------------------------|----------------------------|-----------------------|----------------------------|
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| December 31, 2018 | \$ 370,597 | \$ (3,908) | \$ 430,312 | \$ (7,764) | \$ 800,909 | \$ (11,672) |
| December 31, 2017 | 572,988 | (3,296) | 5,939 | (157) | 578,927 | (3,453) |

The Company's CML portfolio is collateralized by a variety of commercial real estate property types located across the United States. The principal geographic distribution as of December 31, 2018 and 2017, are shown below. No other state represented more than 5% of the portfolio.

| Percentage of Loan Portfolio Fair Value | 2018 | 2017 |
|--|-------------|-------------|
| New York | 17.2 % | 16.0 % |
| California | 16.8 | 16.2 |
| Virginia | 10.9 | 10.0 |
| Ohio | 6.4 | 6.2 |
| Washington | 6.0 | 5.8 |
| Tennessee | 5.1 | 4.9 |

The types of properties collateralizing the CMLs as of December 31, 2018 and 2017, are as follows:

| Percentage of Loan Portfolio Fair Value | 2018 | 2017 |
|--|----------------|----------------|
| Multifamily | 33.4 % | 32.3 % |
| Retail | 26.5 | 25.3 |
| Office buildings | 21.3 | 21.7 |
| Other commercial | 10.1 | 8.8 |
| Industrial | <u>8.7</u> | <u>11.9</u> |
| Total | <u>100.0 %</u> | <u>100.0 %</u> |

The contractual maturities of the CML portfolio as of December 31, 2018, are as follows:

| | Number of Loans | Fair Value | Percent |
|------------|----------------------------|-----------------------|----------------|
| 2019 | 6 | \$ 17,161 | 1.7 % |
| 2020 | 12 | 47,715 | 4.6 |
| 2021 | 13 | 24,864 | 2.4 |
| 2022 | 9 | 30,260 | 2.9 |
| 2023 | 19 | 217,317 | 20.9 |
| Thereafter | <u>105</u> | <u>702,634</u> | <u>67.5</u> |
| Total | <u>164</u> | <u>\$ 1,039,952</u> | <u>100.0 %</u> |

Loan-to-value (LTV) and debt service coverage (DSC) ratios are measures commonly used to assess risk and quality of CMLs. The LTV ratio, calculated at time of origination, is expressed as a percentage of the amount of the loan relative to the value of the underlying property. An LTV ratio in excess of 100% indicates the unpaid loan amount exceeds the value of the underlying collateral. There were no loans at December 31, 2018 or 2017, with a LTV ratio greater than 75%. The DSC ratio, based upon the most recently received financial statements, is expressed as a percentage of the amount of estimated cash flows from the property available to the borrower to meet principal and interest payment obligations. A DSC ratio of less than 1.0 indicates that property's operations do not generate sufficient cash flows to cover the debt payments. There were no loans at December 31, 2018 or 2017, with a DSC ratio less than 1.0.

The following table reflects the distribution of the Company's CMLs across these two risk and quality measures as of December 31, 2018:

| Loan-to-Value Ratios | Debt Service Coverage Ratio | | | | Total |
|-----------------------------|------------------------------------|--------------------|---------------------|-------------------|---------------------|
| | 1.0 to 1.25 | 1.26 to 1.5 | 1.51 to 1.75 | Above 1.75 | |
| Less than 50% | \$ 32,654 | \$ 53,874 | \$ 227,204 | \$ 558,529 | \$ 872,260 |
| 50% to 60% | 12,895 | 64,638 | 78,545 | 8,528 | 164,607 |
| 60% to 75% | <u>3,085</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>3,085</u> |
| Total | <u>\$ 48,634</u> | <u>\$ 118,512</u> | <u>\$ 305,749</u> | <u>\$ 567,057</u> | <u>\$ 1,039,952</u> |

Policy Loans

Policy loans comprised approximately 1.1% and 1.2% of the Company's investments as of December 31, 2018 and 2017, respectively. These policy loans present minimal credit risk because the amount of the loan cannot exceed the obligation due the ceding company or the insured upon the death of the insured or surrender of the underlying policy. The provisions of the underlying policies determine the policy loan interest rates. Because policy loans represent advances of policy benefits, they have the effect of reducing future disintermediation risk. In addition, the Company earns a spread between the interest rate earned on policy loans and the interest rate credited to corresponding liabilities.

5. CONCENTRATION OF CREDIT RISK

As of December 31, 2018, substantially all of the Company's cash, cash equivalent and short term investment funds were held in four financial institutions, respectively, that the Company considers being of high credit quality.

6. FUNDS WITHHELD AT INTEREST

Funds withheld at interest comprised approximately 15.4% and 17.8% of the Company's total investments as of December 31, 2018 and 2017, respectively. The risk of loss to the Company due to the insolvency of a ceding company is mitigated by the Company's contractual right to offset amounts it owes the ceding company for claims or allowances with amounts owed to the Company from the ceding company. Interest generally accrues on these assets based upon the investment earnings on the underlying investments. The Company is subject to the investment performance on the funds withheld assets in a fashion similar to its invested assets.

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

| | 2018 | 2017 |
|---|---------------------|---------------------|
| Segregated portfolio of assets—general account | \$ 1,211,250 | \$ 1,415,419 |
| Segregated portfolio of assets—separate account | 3,392,352 | 3,634,816 |
| Non-segregated portfolio of assets | <u>72,320</u> | <u>112,186</u> |
| Funds withheld at interest—at fair value | <u>\$ 4,675,922</u> | <u>\$ 5,162,421</u> |

The disclosures that follow are for the segregated portfolio—general account only and exclude other invested assets, short-term investments and cash of \$113,129 and \$139,633 as of December 31, 2018 and 2017, respectively. The segregated portfolio—separate account is supported by assets with specific underlying investment objectives and are in accounts legally segregated from the ceding company for which the policyholder has assumed substantially all the risk and reward. The non-segregated portfolio is supported by a proportionate share of the assets held by the ceding company.

The amortized cost, fair value and related gross unrealized gain and loss of the segregated portfolio—general account assets supporting the funds withheld at interest as of December 31, 2018 and 2017, are as follows:

| | 2018 | | | |
|--|---------------------------|----------------------------|----------------------------|-----------------------|
| | Amortized Cost | Unrealized Gain | Unrealized Loss | Fair Value |
| U.S. government and agencies | \$ 126,977 | \$ 1,689 | \$ (2,445) | \$ 126,221 |
| State and political subdivisions | 63,973 | 6,646 | (86) | 70,533 |
| Foreign Sovereign | 1,405 | - | (110) | 1,295 |
| Corporate securities | 710,807 | 15,446 | (18,738) | 707,515 |
| Residential mortgage-backed securities | 80,794 | 1,706 | (1,398) | 81,102 |
| Commercial mortgage-backed securities | 58,483 | 300 | (1,049) | 57,734 |
| Asset-backed securities | 33,266 | 163 | (228) | 33,201 |
| Collateralized Debt Obligations | <u>16,457</u> | <u>41</u> | <u>(108)</u> | <u>16,390</u> |
| Total fixed maturities | 1,092,162 | 25,991 | (24,162) | 1,093,991 |
| Preferred stock | <u>3,803</u> | <u>425</u> | <u>(98)</u> | <u>4,130</u> |
| Total fixed maturity and equity securities | <u>\$ 1,095,965</u> | <u>\$ 26,416</u> | <u>\$ (24,260)</u> | <u>\$ 1,098,121</u> |
| | 2017 | | | |
| | Amortized Cost | Unrealized Gain | Unrealized Loss | Fair Value |
| U.S. government and agencies | \$ 71,968 | \$ 471 | \$ (383) | \$ 72,056 |
| State and political subdivisions | 68,066 | 10,829 | (5) | 78,890 |
| Foreign Sovereign | 1,402 | 7 | 0 | 1,409 |
| Corporate securities | 883,216 | 57,025 | (1,758) | 938,483 |
| Residential mortgage-backed securities | 72,319 | 2,639 | (390) | 74,568 |
| Commercial mortgage-backed securities | 59,887 | 703 | (457) | 60,133 |
| Asset-backed securities | <u>45,079</u> | <u>259</u> | <u>(182)</u> | <u>45,156</u> |
| Total fixed maturities | 1,201,937 | 71,933 | (3,175) | 1,270,695 |
| Preferred stock | <u>4,280</u> | <u>812</u> | <u>(1)</u> | <u>5,091</u> |
| Total fixed maturity and equity securities | <u>\$ 1,206,217</u> | <u>\$72,745</u> | <u>\$ (3,176)</u> | <u>\$ 1,275,786</u> |

The unrealized loss and fair values by investment category and by duration of the fixed maturity securities in a continuous unrealized loss position of the segregated portfolio—general account assets supporting the funds withheld at interest at December 31, 2018 and 2017, are as follows:

| | 2018 | | | | | |
|--|----------------------------|------------------------|--------------------------|------------------------|-------------------|------------------------|
| | Less than 12 Months | | 12 Months or More | | Total | |
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| U.S. government and agencies | \$ 40,865 | \$ (1,261) | \$ 31,435 | \$ (1,184) | \$ 72,300 | \$ (2,445) |
| State and political subdivisions | 3,345 | (40) | 3,184 | (46) | 6,529 | (86) |
| Foreign Sovereign | 1,296 | (110) | - | - | 1,296 | (110) |
| Corporate securities | 395,678 | (15,741) | 68,637 | (2,997) | 464,315 | (18,738) |
| Residential mortgage-backed securities | 23,277 | (451) | 25,963 | (947) | 49,240 | (1,398) |
| Commercial mortgage-backed securities | 16,445 | (328) | 16,671 | (721) | 33,116 | (1,049) |
| Asset-backed securities | 13,340 | (68) | 8,364 | (160) | 21,704 | (228) |
| Collateralized Debt Obligations | <u>10,948</u> | <u>(108)</u> | <u>-</u> | <u>-</u> | <u>10,948</u> | <u>(108)</u> |
| Total fixed maturities | 505,194 | (18,107) | 154,254 | (6,055) | 659,448 | (24,162) |
| Preferred stock | <u>1,442</u> | <u>(98)</u> | <u>-</u> | <u>-</u> | <u>1,442</u> | <u>(98)</u> |
| Total fixed maturity and equity securities | <u>\$ 506,636</u> | <u>\$ (18,205)</u> | <u>\$ 154,254</u> | <u>\$ (6,055)</u> | <u>\$ 660,890</u> | <u>\$ (24,260)</u> |

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

At December 31, 2018, one hundred-seventeen fixed maturity investments with a total unrealized loss of \$6,055 had been in an unrealized loss position for twelve months or more. Of those securities in an unrealized loss twelve months or more, one security had a fair value below 70% of book value with a total unrealized loss of \$668.

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

The contractual maturities of the segregated portfolio—general account's fixed maturity securities supporting the funds withheld at interest as of December 31, 2018, 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.

| | 2018 | |
|--|---------------------------|-------------------------|
| | Amortized Cost | Fair Value |
| One or less | \$ 37,645 | \$ 37,702 |
| One through five | 216,664 | 215,934 |
| After five through ten | 146,714 | 145,674 |
| After ten through twenty | 233,456 | 237,801 |
| After twenty | 268,683 | 268,452 |
| Residential mortgage-backed securities | 80,794 | 81,102 |
| Commercial mortgage-backed securities | 58,483 | 57,734 |
| Asset-backed securities | 33,266 | 33,201 |
| Collateralized debt obligations | <u>16,457</u> | <u>16,391</u> |
| Total fixed maturity securities | <u>\$ 1,092,162</u> | <u>\$ 1,093,991</u> |

Credit ratings of the segregated portfolio—general account fixed maturities supporting the funds withheld at interest, as provided by the ceding company, are shown below as of December 31, 2018 and 2017.

| | 2018 | | 2017 | |
|--------------|---------------------------|-------------------------|---------------------------|-------------------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| AAA | \$ 295,704 | \$ 294,401 | \$ 238,574 | \$ 242,019 |
| AA | 110,105 | 114,150 | 100,909 | 109,997 |
| A | 348,847 | 353,932 | 463,861 | 495,120 |
| BBB | 310,096 | 305,296 | 366,681 | 389,758 |
| BB | 13,765 | 13,025 | 18,990 | 20,060 |
| B | 2,932 | 2,960 | 3,595 | 3,454 |
| CCC or lower | <u>10,713</u> | <u>10,227</u> | <u>9,327</u> | <u>10,287</u> |
| Total | <u>\$1,092,162</u> | <u>\$ 1,093,991</u> | <u>\$ 1,201,937</u> | <u>\$ 1,270,695</u> |

7. FUNDS HELD UNDER REINSURANCE TREATIES

As of December 31, 2018, the funds held under reinsurance treaties liability balance of \$17,525,481 is comprised of reinsurance ceded to WREB for \$17,338,299, with the remaining \$187,182 ceded to unaffiliated third parties.

As of December 31, 2017, the funds held under reinsurance treaties liability balance of \$19,071,953 is comprised of reinsurance ceded to WREB for \$18,868,392, with the remaining \$203,561 ceded to unaffiliated third parties.

8. REINSURANCE CEDED

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

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

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, 2018 and 2017, no allowances were deemed necessary.

At December 31, 2018, 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 5% of the total as of December 31, 2018 and 2017:

| 2018 | | | |
|------------------------------------|--------------------------|----------------------|-------------------|
| Reinsurer | A. M. Best Rating | Amount | % of Total |
| Affiliate: | | | |
| Wilton Reinsurance Bermuda Limited | A+ | \$ 18,655,100 | 93.9 % |
| Non-affiliate: | | | |
| Other reinsurers | | <u>1,212,484</u> | <u>6.1</u> |
| Total | | <u>\$ 19,867,584</u> | <u>100.0 %</u> |
| 2017 | | | |
| Reinsurer | A. M. Best Rating | Amount | % of Total |
| Affiliate: | | | |
| Wilton Reinsurance Bermuda Limited | A+ | \$ 18,988,669 | 93.7 % |
| Non-affiliate: | | | |
| Other reinsurers | | <u>1,271,730</u> | <u>6.3</u> |
| Total | | <u>\$ 20,260,399</u> | <u>100.0 %</u> |

Included in the total reinsurance recoverable balance were \$118,179 and \$150,567 of claims recoverable, of which \$3,630 and \$2,092 were in excess of 90 days past due but were deemed collectible as December 31, 2018 and 2017, respectively.

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

| | 2018 | 2017 |
|---------------------------------|-------------------|-------------------|
| Direct | \$ 129,255 | \$ 134,071 |
| Reinsurance assumed | 354,622 | 302,773 |
| Reinsurance ceded—affiliate | (76,066) | (80,618) |
| Reinsurance ceded—non-affiliate | <u>(138,890)</u> | <u>(146,792)</u> |
| Net premiums | <u>\$ 268,921</u> | <u>\$ 209,434</u> |

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

| | 2018 | 2017 |
|---|-------------------|-------------------|
| Direct | \$ 441,822 | \$ 703,787 |
| Reinsurance assumed | 646,723 | 730,828 |
| Reinsurance ceded—affiliate | (390,764) | (482,040) |
| Reinsurance ceded—non-affiliate | <u>(188,598)</u> | <u>(180,485)</u> |
| Claims and policy benefits—net of reinsurance ceded | <u>\$ 509,183</u> | <u>\$ 772,090</u> |

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

| | Direct | Assumed | Ceded | Net |
|-------------------|----------------------|----------------------|------------------------|-----------------------|
| December 31, 2018 | <u>\$ 63,507,859</u> | <u>\$ 72,369,993</u> | <u>\$ (34,292,227)</u> | <u>\$ 101,585,625</u> |
| December 31, 2017 | <u>\$ 63,981,527</u> | <u>\$ 75,906,012</u> | <u>\$ (36,651,818)</u> | <u>\$ 103,235,721</u> |

9. DEFERRED ACQUISITION COSTS AND VALUE OF BUSINESS ACQUIRED

The balances and changes in DAC for the years ended December 31, 2018 and 2017, are as follows:

| | 2018 | 2017 |
|--|------------------|------------------|
| Beginning of year | \$302,494 | \$281,083 |
| Capitalized | 51,656 | 50,542 |
| Amortized | (17,087) | (11,721) |
| Attributable to realized/unrealized gains and losses | 6,045 | (4,420) |
| Impact of unlocking | <u>18,500</u> | <u>(12,990)</u> |
| End of year | <u>\$361,608</u> | <u>\$302,494</u> |

The balances and changes in VOBA for the years ended December 31, 2018 and 2017, are as follows:

| | 2018 | 2017 |
|--|------------------|------------------|
| Beginning of year | \$330,779 | \$394,399 |
| Amortized | (40,780) | (33,355) |
| Attributable to realized/unrealized gains and losses | 28,789 | (14,271) |
| Impact of unlocking | <u>12,450</u> | <u>(15,994)</u> |
| End of year | <u>\$331,238</u> | <u>\$330,779</u> |

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

| | |
|------|-----------|
| 2019 | \$ 32,918 |
| 2020 | 29,984 |
| 2021 | 28,621 |
| 2022 | 27,038 |
| 2023 | 23,232 |

10. INCOME TAXES

Tax Reform

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

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

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

BEAT is expected to apply to deductible amounts paid or accrued by the U.S. subsidiaries to foreign affiliated subsidiaries. WREB filed a 953(d) election effective January 1, 2018 and upon expected approval by the Internal Revenue Service, amounts paid or accrued to it by U.S. affiliates are not subject to the BEAT.

Income Taxes

At December 31, 2018, the Company had net operating loss and tax credit carryforwards of approximately \$39,493 and \$7,127, respectively. Of the total net operating loss carryforward, \$20,840 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 has \$758 of capital loss carryforwards which will begin to expire in 2023.

Income tax expense attributable to income from continuing operations for the years ended December 31, 2018 and 2017, is as follows:

| | 2018 | 2017 |
|--------------------------------|---------------------|------------------|
| Current tax expense (benefit) | \$ 109,920 | \$136,660 |
| Deferred tax expense (benefit) | <u>(216,100)</u> | <u>54,679</u> |
| Income tax expense (benefit) | <u>\$ (106,180)</u> | <u>\$191,339</u> |

The income tax expense differs from applying the U.S. federal income tax rate of 21% in 2018 and 35% in 2017 to income before taxation as a result of the following:

| | 2018 | 2017 |
|--|---------------------|------------------|
| Computed expected tax expense (benefit) | \$ (50,165) | \$ 95,532 |
| Tax reform rate reduction impact to deferred taxes | - | 98,506 |
| Rate reduction impact to DAC-related deferred taxes | (36,145) | - |
| Rate reduction impact to capital losses to be carried back | (16,850) | - |
| Other | <u>(3,020)</u> | <u>(2,699)</u> |
| Income tax expense (benefit) | <u>\$ (106,180)</u> | <u>\$191,339</u> |

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and liabilities at December 31, 2018 and 2017, are presented in the following table:

| | 2018 | 2017 |
|--|-------------------|-------------------|
| Deferred income tax assets: | | |
| Differences between tax and financial reporting amounts concerning certain reinsurance transactions | \$ 756,867 | \$ 107,232 |
| Net operating losses | 8,294 | 12,578 |
| Capital loss carryforwards | 159 | - |
| Tax credit carryforwards | 7,127 | 7,127 |
| Nondeductible accruals | 41,740 | 23,604 |
| Deferred acquisition costs/value of business acquired | 85,522 | 345,617 |
| Investments | 183,943 | 59,022 |
| Other | <u>2,916</u> | <u>825</u> |
| Total deferred tax assets | <u>1,086,568</u> | <u>556,058</u> |
| Deferred income tax liabilities: | | |
| Reserves for future policy benefits | <u>(710,813)</u> | <u>(396,403)</u> |
| Total deferred tax liabilities | <u>(710,813)</u> | <u>(396,403)</u> |
| Valuation allowance | <u>(648)</u> | <u>(648)</u> |
| Net deferred tax asset | <u>\$ 375,107</u> | <u>\$ 159,007</u> |

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

The Company's U.S. subsidiaries' federal income tax returns for tax years 2015-2018 are open and subject to examination by the Internal Revenue Service.

As of December 31, 2018 or 2017, the Company had no unrecognized tax benefits.

11. STATUTORY REQUIREMENTS AND DIVIDEND RESTRICTIONS

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

WRAC, WRNY, TLIC, WLCO, WCAC, and RRE3 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, 2018 and 2017, all of the Company's insurance and reinsurance subsidiaries 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 2019 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 \$10,005 in 2019 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 \$38,700 in 2019, with \$21,800 available to be paid prior to June 6, 2019, 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 \$13,062 after August 15, 2019 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 \$27,573 in 2019 without prior regulatory approval.

RRE3 is subject to statutory regulations of the state of Missouri. 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 Missouri Department of Insurance.

The following table presents statutory capital and surplus as of December 31, 2018 and 2017:

| | 2018 | 2017 |
|---|-------------|-------------|
| Wilton Reassurance Company | \$ 950,182 | \$ 655,691 |
| Wilton Reassurance Life Company of New York | 100,047 | 92,867 |
| Texas Life Insurance Company | 94,987 | 74,390 |
| Wilcac Life Insurance Company | 120,455 | 143,176 |
| Wilco Life Insurance Company | 161,399 | 113,828 |
| Redding Reassurance Company 2 | - | 88,531 |
| Redding Reassurance Company 3 LLC | 97,581 | - |

The following table presents statutory net income (loss) for the years ended December 31, 2018 and 2017:

| | 2018 | 2017 |
|---|-------------|-------------|
| Wilton Reassurance Company | \$ 44,779 | \$ 21,376 |
| Wilton Reassurance Life Company of New York | 8,703 | 7,811 |
| Texas Life Insurance Company | 38,777 | 37,043 |
| Wilcac Life Insurance Company | 13,062 | 10,340 |
| Wilco Life Insurance Company | 40,573 | 2,211 |
| Redding Reassurance Company 2 | 715,321 | 44,303 |
| Redding Reassurance Company 3 LLC | (658,572) | - |

12. LONG-TERM INCENTIVE PLAN

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

Initiated in 2014, the plan's expense is recognized ratably over the requisite performance period as a component of operating expenses. At December 31, 2018 and 2017, included within other liabilities of the accompanying consolidated balance sheets, is the Company's payable of \$158,188 and \$74,067, respectively, resulting in incurred expenses of \$84,121 and \$34,048 for the years ended 2018 and 2017, respectively, related to awards vesting in 2019, 2020 and 2021.

13. RELATED PARTY TRANSACTIONS

Services

Wilton Re Services provides among others, certain accounting, actuarial and administrative services to affiliates of the Company. Services charged to affiliates during 2018 and 2017 amounted to \$4,521 and \$4,440, respectively, and \$1,200 and \$995 of this was recorded

as other assets at December 31, 2018 and 2017, respectively. Services charged to affiliates are generally paid quarterly.

RRE2 Surplus Note—Redding Funding Secured Support Note

On December 29, 2014, RRE2 issued \$1.2 billion of its face amount 7.00% Surplus Notes, final maturity December 31, 2053 (the Surplus Note), in exchange for an equivalent face amount of 5.75% Secured Support Notes, final maturity December 2058 (the Secured Support Note) issued by Redding Funding Ltd. Both notes were retired on July 27, 2018.

The Surplus Note is classified as subordinated affiliate debt and the Secured Support Note is a component of fixed maturity and equity securities on the balance sheets. Considering the “linked” and illiquid nature of the Secured Support Note and Surplus Note, both notes are classified as held-to-maturity and carried at amortized cost. The 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, 2017 carry value | \$915,524 | \$915,524 |
| Paydown—March | - | - |
| Paydown—June | - | - |
| Paydown—September | - | - |
| Paydown—December | <u>(10,679)</u> | <u>(10,679)</u> |
| December 31, 2017 carry value | 904,845 | 904,845 |
| Paydown—March | (61,989) | (61,989) |
| Paydown—June | (31,559) | (31,559) |
| Paydown—September | (811,297) | (811,297) |
| Paydown—December | <u> </u> | <u> </u> |
| December 31, 2018 carry value | <u>\$ -</u> | <u>\$ -</u> |
| 2018 interest (paid) received | <u>\$(34,786)</u> | <u>\$ 28,574</u> |
| 2017 interest (paid) received | <u>\$(64,056)</u> | <u>\$ 52,617</u> |

14. FUNDING AGREEMENTS

Two of the Company’s insurance subsidiaries 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. As a condition of membership in the FHLB, they are required to hold certain minimum amounts of FHLB common stock, and additional amounts based on the amount of the borrowings. At December 31, 2018 and 2017, the carrying value of the FHLB common stock was \$28,948 and \$22,428, respectively.

As of December 31, 2018 and 2017, there were no collateralized borrowings from the FHLB. Investments with an estimated fair value of \$21,673 and \$22,398 at December 31, 2018 and 2017, respectively, are maintained in a custodial account for the benefit of the FHLB. All such investments are classified as fixed maturities, trading, in the accompanying consolidated balance sheets. Interest expense of \$0 and \$1,036 was recognized in 2018 and 2017, respectively, related to the borrowings

At December 31, 2018 and 2017, WLCO pledged collateral sufficient to support LOCs/advances of approximately \$0 and \$0 and WRAC pledged collateral sufficient to support approximately \$19,670 and \$20,388, respectively.

15. COMMITMENTS AND CONTINGENCIES

Funding of investments

The Company's commitments to fund investments as of December 31, 2018, are presented in the following table:

| | 2018 | |
|---------------------------|-------------------|-------------------|
| | Commitment | Unfunded |
| Limited partnerships | \$ 412,000 | \$ 306,104 |
| Commercial mortgage loans | <u>76,672</u> | <u>76,672</u> |
| Total | <u>\$ 488,672</u> | <u>\$ 382,776</u> |

The Company anticipates that the majority of its current limited partnership commitments will be invested over the next five years; however, these commitments could become due any time at the request of the counterparties. The Company anticipates that the CML commitments will fund within 90 days.

RRE3 Surplus Note—Weston2038 LLC Credit-Linked Note

On July 27, 2018, RRE3 issued approximately \$845,738 of its face amount 6.00% Variable Funding Surplus Notes, final maturity July 1, 2038 (the R3 Surplus Note) in exchange for an equivalent face amount of 6.00% Variable Funding Credit-Linked Notes, final maturity July 1, 2038 (the CLN) issued by Weston2038 LLC, an "orphan" special purpose Delaware limited liability company (Weston) established by RRE3 and Hannover Life Reassurance Company of America (Bermuda), Ltd. (Hannover). The principal amount of the R3 Surplus Note will always mirror the principal amount of the CLN; and the R3 Surplus Note and the CLN will each accrue interest on the outstanding principal amount at 6.00% per annum, which amounts will be fully offset pursuant to a netting agreement. The CLN supports non-economic reserves required to be carried by the Company's domestic insurance subsidiaries under Regulation XXX and Guideline AXXX.

Concurrently with the issuance of the CLN, Weston entered into a risk transfer agreement with Hannover pursuant to which, in exchange for a fee, Hannover will provide liquidity to Weston for any redemption/monetization of the CLN. As of July 27, 2018, AM Best assigned a Long-Term Issue Credit Rating of "a" to the CLN. Upon request by WRAC for payment under the CLN, the CLN will be drawn down in the amount of such request and Hannover will back such request through operation of the risk transfer agreement. In connection with each draw, the outstanding principal balance of the Surplus Note and the

CLN will be reduced by the amount of the draw and a 6.00% Funded Surplus Note in the same amount of the draw will be issued to Hannover.

The R3 Surplus Note is classified as surplus note and the CLN is a component of fixed maturity and equity securities on the balance sheets. Considering the “linked” and illiquid nature of the CLN and R3 Surplus Note, both notes are classified as held-to-maturity and carried at amortized cost. The net interest expense paid by RRE3 is recognized in investment earnings—net and the fee is recognized in interest expense, in the statements of comprehensive income (loss). Information regarding the two notes are as follows:

| | R3 Surplus Note | Credit- Linked Note |
|-------------------------------|----------------------------|------------------------------------|
| July 27, 2018 carry value | \$ 845,738 | \$ 845,738 |
| Paydown—December | <u>(29,874)</u> | <u>(29,874)</u> |
| December 31, 2018 carry value | <u>\$ 815,864</u> | <u>\$ 815,864</u> |
| 2018 interest (paid) received | <u>\$ (21,813)</u> | <u>\$ 21,813</u> |
| 2018 fee (paid) | <u>\$ (1,069)</u> | |

Liquidity Facilities

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

In October 2018, WRL, along with the Company, extended its existing credit facility with a \$500,000 senior revolving credit facility (Wells Fargo Facility I) 2 years, with new expiry in 2023 with a syndicate of lenders. The facility includes a \$100,000 letter of credit sublimit. The facility also requires WRL’s combined leverage ratio not to be greater than 0.35 to 1.00 and that WRL maintain a minimum adjusted consolidated tangible net worth. Borrowings under the Wells Fargo Facility I 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 majority of the financial strength rating of WRAC, WREB, and ivari. The applicable margin for base rate loans ranges from 0.125% to 1.000%. The applicable margin for LIBOR loans/CDOR Loans ranges from 1.125% to 2.000%. Any amounts borrowed may be repaid at any time without prepayment penalty.

LOCs issued under the Wells Fargo Facility I may be collateralized by qualifying cash and securities (liquid collateral). The market value of the collateral held by the Company at December 31, 2018 and 2017 was \$34,326 and \$31,848, respectively. At December 31, 2018 and 2017, there were approximately \$28,890 and \$28,790, respectively of outstanding bank letters of credit issued by the Company under the facility and \$0 borrowed under the line of credit.

In October 2018, WRL, along with the Company, renewed its 364-day \$500,000 senior revolving credit facility (Wells Fargo Facility II), which was first added in October 2017, with a syndicate of lenders. Wells Fargo Facility II has the same financial covenant restrictions as Wells Fargo Facility I. Borrowings under Wells Fargo Facility II bear interest, at the applicable borrower's option, at either a base rate or a LIBOR rate (or, in the case of borrowings denominated in Canadian Dollars, at the CDOR), in each case, plus an applicable margin that is determined according to a sliding scale based upon the majority of the financial strength rating of WRAC, WREB, and ivari. The applicable margin for base rate loans ranges from 0.125% to 1.000%. The applicable margin for LIBOR loans/CDOR Loans ranges from 1.125% to 2.000%. At December 31, 2018 and 2017, there was \$0 borrowed under the facility.

Fixed-to-Floating Rate Senior Notes

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

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

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

Collateral Arrangements

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

operating subsidiaries pursuant to these arrangements as of December 31, 2018 and 2017, was \$16,902,501 and \$15,407,984, respectively.

Legal Proceedings

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

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

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

16. FAIR VALUE

The Company 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, US 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 US 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.

Recurring Fair Value Measurements

The assets and liabilities measured at fair value on a recurring basis and their placement in the fair value hierarchy, including those items for which the Company has elected the FVO, are summarized below at:

| December 31, 2018 | Fair Value | Level 1 | Level 2 | Level 3 |
|--|-----------------------------|---------------------|----------------------|---------------------|
| Invested assets | | | | |
| U.S. government and agencies | \$ 1,948,134 | \$ 1,438,640 | \$ 509,494 | \$ - |
| State and political subdivisions | 1,764,307 | - | 1,724,257 | 40,050 |
| Foreign sovereign | 74,413 | - | 74,413 | - |
| Corporate securities | 12,801,289 | - | 12,362,948 | 438,341 |
| Residential mortgage-backed securities | 1,775,209 | - | 1,775,180 | 29 |
| Commercial mortgage-backed securities | 1,403,260 | - | 1,403,260 | - |
| Asset-backed securities | 1,777,964 | - | 1,384,055 | 393,909 |
| Collateralized debt obligations | <u>1,059,222</u> | <u>-</u> | <u>933,934</u> | <u>125,288</u> |
| Total fixed maturity | 22,603,798 | 1,438,640 | 20,167,541 | 997,617 |
| Preferred stocks | 317,610 | - | 317,610 | - |
| Common stocks | <u>28,948</u> | <u>-</u> | <u>28,948</u> | <u>-</u> |
| Total fixed maturity and equity securities | 22,950,356 ¹ | 1,438,640 | 20,514,099 | 997,617 |
| Commercial mortgage loans | 1,039,952 | - | - | 1,039,952 |
| Other invested assets | <u>366,938</u> ² | <u>-</u> | <u>116,620</u> | <u>250,318</u> |
| Total | 24,357,246 | 1,438,640 | 20,630,719 | 2,287,887 |
| Funds withheld at interest | | | | |
| U.S. government and agencies | 126,221 | 29,631 | 96,590 | - |
| State and political subdivisions | 70,533 | - | 70,533 | - |
| Foreign Sovereign | 1,295 | - | 1,295 | - |
| Corporate securities | 707,515 | - | 707,515 | - |
| Residential mortgage-backed securities | 81,102 | - | 81,102 | - |
| Commercial mortgage-backed securities | 57,734 | - | 57,734 | - |
| Asset backed securities | 33,201 | - | 33,201 | - |
| Collateralized debt obligations | <u>16,390</u> | <u>-</u> | <u>16,390</u> | <u>-</u> |
| Total fixed maturity | 1,093,991 | 29,631 | 1,064,360 | - |
| Preferred stocks | 4,130 | - | 4,130 | - |
| Other invested assets | <u>7,274</u> | <u>-</u> | <u>7,274</u> | <u>-</u> |
| Funds withheld at interest : Segregated portfolio of assets - General account | 1,105,395 ³ | 29,631 | 1,075,764 | - |
| Funds withheld at interest : Segregated portfolio of assets - Separate account | 3,392,352 | - | 3,392,352 | - |
| Funds withheld at interest : Non- Segregated | <u>72,320</u> | <u>-</u> | <u>72,320</u> | <u>-</u> |
| Total funds withheld at interest | 4,570,067 | 29,631 | 4,540,436 | - |
| Other assets | | | | |
| Separate account assets | <u>33,927</u> | <u>-</u> | <u>33,927</u> | <u>-</u> |
| Total | <u>\$ 28,961,240</u> | <u>\$ 1,468,271</u> | <u>\$ 25,205,082</u> | <u>\$ 2,287,887</u> |

¹ Issuer obligations – non-affiliates of \$815,864 are a component of Total fixed maturities not measured at fair value on a recurring basis.

² Components of other invested assets not measured at fair value on a recurring basis are equity method investment in affiliate of \$42,659 and limited partnerships of \$104,883.

³ Cash and short-term investments of \$105,855 are a component of funds withheld at interest: segregated portfolio of assets – general account not measured at fair value on a recurring basis.

| December 31, 2017 | Fair Value | Level 1 | Level 2 | Level 3 |
|--|-----------------------------|---------------------|----------------------|---------------------|
| Invested assets | | | | |
| U.S. government and agencies | \$ 1,691,574 | \$ 1,490,886 | \$ 200,688 | \$ - |
| State and political subdivisions | 1,634,354 | - | 1,592,436 | 41,918 |
| Foreign sovereign | 118,527 | - | 118,527 | - |
| Corporate securities | 13,409,810 | - | 13,176,572 | 233,238 |
| Residential mortgage-backed securities | 1,246,540 | - | 1,193,695 | 52,845 |
| Commercial mortgage-backed securities | 1,224,487 | - | 1,224,487 | - |
| Asset-backed securities | 1,161,717 | - | 949,846 | 211,871 |
| Collateralized debt obligations | <u>339,277</u> | <u>-</u> | <u>236,757</u> | <u>102,520</u> |
| Total fixed maturity | 20,826,286 | 1,490,886 | 18,693,008 | 642,392 |
| Preferred stocks | 221,680 | - | 221,680 | - |
| Common stocks | <u>22,428</u> | <u>-</u> | <u>22,429</u> | <u>-</u> |
| Total fixed maturity and equity securities | 21,070,394 ¹ | 1,490,886 | 18,937,117 | 642,392 |
| Commercial mortgage loans | 1,174,996 | - | - | 1,174,996 |
| Other invested assets | <u>355,296</u> ² | <u>-</u> | <u>97,057</u> | <u>258,239</u> |
| Total invested assets | 22,600,686 | 1,490,886 | 19,034,174 | 2,075,627 |
| Funds withheld at interest | | | | |
| U.S. government and agencies | 72,056 | 8,876 | 63,180 | - |
| State and political subdivisions | 78,890 | - | 78,890 | - |
| Foreign Sovereign | 1,409 | - | 1,409 | - |
| Corporate securities | 938,483 | - | 938,483 | - |
| Residential mortgage-backed securities | 74,568 | - | 74,568 | - |
| Commercial mortgage-backed securities | 60,133 | - | 60,133 | - |
| Asset-backed securities | <u>45,156</u> | <u>-</u> | <u>45,156</u> | <u>-</u> |
| Total fixed maturity | 1,270,695 | 8,876 | 1,261,819 | - |
| Preferred stocks | 5,092 | - | 5,092 | - |
| Common stocks | 67,558 | 59,932 | 7,626 | - |
| Other invested assets | <u>6,131</u> | <u>-</u> | <u>6,131</u> | <u>-</u> |
| Funds withheld at interest : Segregated portfolio of assets - General account | 1,349,476 ³ | 68,808 | 1,280,668 | - |
| Funds withheld at interest : Segregated portfolio of assets - Separate account | 3,634,816 | - | 3,634,816 | - |
| Funds withheld at interest : Non- Segregated | <u>112,186</u> | <u>-</u> | <u>112,186</u> | <u>-</u> |
| Total funds withheld at interest | 5,096,478 | 68,808 | 5,027,670 | - |
| Other assets | | | | |
| Separate account assets | <u>38,389</u> | <u>-</u> | <u>38,389</u> | <u>-</u> |
| Total | <u>\$ 27,735,553</u> | <u>\$ 1,559,694</u> | <u>\$ 24,100,233</u> | <u>\$ 2,075,627</u> |

¹ Issuer obligations – affiliates of \$904,845 are a component of Total fixed maturities not measured at fair value on a recurring basis.

² Limited partnerships of \$6,407 are a component of other invested assets not measured at fair value on a recurring basis.

³ Cash and short-term investments of \$133,502 are a component of funds withheld at interest: segregated portfolio of assets – general account not measured at fair value on a recurring basis.

Valuation Methodologies

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 describes the valuation methodologies used to measure assets and liabilities at fair value. The description includes the valuation techniques and key inputs for each category of assets or liabilities that are classified within Level 2 and Level 3 of the fair value hierarchy.

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 years ended December 31, 2018 and 2017. The transfers into Level 3 primarily result from securities where a lack of observable market data (versus the previous year) resulted in reclassifying assets into Level 3. The transfers out of Level 3 primarily result from observable market data becoming available for that asset, thus eliminating the need to extrapolate market data beyond observable points.

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

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

reported trades, the third-party pricing services and brokers may use market observable inputs in their matrix or model processes to develop a security price.

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

The use of different techniques, assumptions and inputs may have a material effect on the estimated fair values of the Company's securities holdings. For the years ended December 31, 2018 and 2017, the application of market standard valuation techniques applied to similar assets has been consistent.

Fixed Maturity and Equity Securities

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

US Government and Agency Securities, States and Political Subdivisions, Corporate Securities and Foreign Securities

US Treasury securities, which trade based on quoted prices for identical assets in an active market, are included in Level 1.

The fair value of Level 2 bonds and securities in this category 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 in this category primarily represent investments in privately placed bonds, credit tenant loans and other less liquid corporate and municipal bonds for which prices are not readily available. To determine a fair value, the Company may rely on modeling for market valuation using both observable and unobservable inputs. These inputs are entered into industry standard pricing models to determine the final price of the security. These inputs typically include: projected cash flows, discount rate, industry sector, underlying collateral, credit quality of the issuer, maturity, embedded options, recent new issuance, comparative bond analysis, and seniority of debt.

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

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

Mortgage-Backed Securities, Asset-Backed Securities and Collateralized Debt Obligations

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

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

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

Preferred and Common Stock

The fair values of preferred and common stocks are primarily based upon quoted market prices in active markets and are classified within Level 1 in the fair value hierarchy. The fair values of preferred and common stocks, for which quoted market prices are not readily available, are based on prices obtained from independent pricing services and are generally classified within Level 2 in the fair value hierarchy.

Commercial Mortgage Loans

The Company elects the FVO for CMLs. The loans are valued using a net present value calculation of future cash flows. The calculation uses a credit spread plus a liquidity spread

and is added to an interpolated Treasury yield to determine the discount rate. Credit and liquidity spreads are derived from industry spread curve data provided by third parties that are considered market-makers in commercial mortgage loans.

The CMLs are considered Level 3 in the fair value hierarchy due to the limited transaction activity and unobservable inputs.

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.

Separate Account Assets

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

Changes of Level 3 assets and liabilities measured at fair value on a recurring basis

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 we do not adjust broker quotes when used as the fair value measurement for an asset or liability. In addition, some prices are determined based on discounted cash flow models.

For all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3), the following table presents select activity for the years ended December 31, 2018 and 2017:

| | 2018 | | | 2017 | | |
|--|-------------------|----------------------|------------------------|---------------------|----------------------|------------------------|
| | Purchases | Transfer into | Transfer out of | Purchases | Transfer into | Transfer out of |
| Invested assets | | | | | | |
| Corporate securities | \$ 306,483 | \$ 11,485 | \$ (63,729) | \$ 112,978 | \$ 413 | \$ - |
| Residential mortgage-backed securities | 334 | - | (50,848) | 52,829 | - | - |
| Asset-backed securities | 228,557 | - | (2,733) | 164,555 | - | (57) |
| Collateralized debt obligations | - | - | - | 14,337 | - | - |
| Commercial mortgage loans | 24,968 | - | - | 1,172,794 | - | - |
| Other invested assets | <u>1,945</u> | <u>-</u> | <u>-</u> | <u>17,760</u> | <u>80,362</u> | <u>-</u> |
| Total invested assets | <u>\$ 562,287</u> | <u>\$ 11,485</u> | <u>\$ (117,310)</u> | <u>\$ 1,535,253</u> | <u>\$ 80,775</u> | <u>\$ (57)</u> |

17. SUBSEQUENT EVENTS

The Company has evaluated the impact of subsequent events through March 29, 2019, representing the date at which the consolidated financial statements were available to be issued.

Scottish Re US

On March 8, 2019, one of the Company's reinsurance counterparties, Scottish Re US, was put into receivership by the Delaware Department of Insurance. Through its insurance subsidiaries, the Company has current and future reinsurance recoverables of \$81,000 valued on a statutory reserve basis that may be deferred or ultimately become uncollectible. However, Management currently estimates any uncollectible reinsurance would not be material to the Company's financial statements.

INDEPENDENT AUDITORS' REPORT

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

We have audited the internal control over financial reporting of Wilton Re U.S. Holdings, Inc. and its subsidiaries (the "Company") as of December 31, 2018, based on the criteria established in the Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

As described in Management's Report on Wilton Re U.S. Holdings, Inc. and Subsidiaries' Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting performed at Bankers Life and Casualty Company ("Bankers") associated with the assumed reinsurance transaction with Bankers effective on April 1, 2018 (the "Bankers reinsurance transaction"), as the financial reporting for the Bankers reinsurance transaction has not yet been integrated into the Company's financial reporting process and, as such, the Company did not have the practical ability to perform an assessment of internal control over financial reporting at Bankers associated with the insurance policy liabilities assumed in the Bankers reinsurance transaction and related policy administration, in time for this current year-end. Insurance policy liabilities assumed from Bankers represent 8% of the Company's total liabilities as of December 31, 2018, and related revenues and expenses represent 16% and 11% of the Company's total revenue and expenses, respectively, for the year ended December 31, 2018. Accordingly, our audit did not include the internal control over financial reporting performed at Bankers associated with the Bankers reinsurance transaction.

Management's Responsibility for Internal Control over Financial Reporting

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

Auditors' Responsibility

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

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

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

Definition and Inherent Limitations of Internal Control over Financial Reporting

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

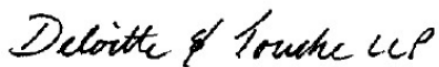
Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or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

Opinion

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, 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, 2018 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 29, 2019 expressed an unmodified opinion on those financial statements

The image shows a handwritten signature in cursive script that reads "Deloitte & Touche LLP". The signature is written in black ink and is positioned above the date "March 29, 2019".

March 29, 2019

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 controls over financial reporting as of December 31, 2018, 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 controls over financial reporting are effective as of December 31, 2018, in providing reasonable assurance regarding the reliability of financial reporting in accordance with generally accepted accounting principles.

Management excluded from its assessment the internal controls over financial reporting performed at Bankers Life and Casualty Company ("Bankers") associated with the assumed reinsurance transaction with Bankers effective on April 1, 2018 (the "Bankers reinsurance transaction"), as the financial reporting for the Bankers reinsurance transaction has not yet been integrated into the Company's financial reporting process and, as such, the Company did not have the practical ability to perform an assessment of internal controls over financial reporting at Bankers associated with the insurance policy liabilities assumed in the Bankers reinsurance transaction and related policy administration, in time for this current year-end. Insurance policy liabilities assumed from Bankers represent 8% of the Company's total liabilities as of December 31, 2018, and related revenues and expenses represent 16% and 11% of the Company's total revenue and expenses, respectively, for the year ended December 31, 2018.

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



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



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

March 29, 2019

SUPPLEMENTARY INFORMATION



Deloitte & Touche LLP
695 East Main Street
P.O. Box 10098
Stamford, CT 06901-2150
USA
Tel: + 1 203 708 4000
www.deloitte.com

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

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

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary consolidating balance sheets as of December 31, 2018 and 2017 and the supplementary consolidating statement of comprehensive income (loss) for the years then ended are presented for the purpose of additional analysis and are not a required part of the consolidated financial statements. This supplementary information is the responsibility of the Company's management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion such information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Deloitte & Touche LLP

March 29, 2019

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

CONSOLIDATING BALANCE SHEET AS OF DECEMBER 31, 2018 (Amounts in thousands of US dollars)

| | WRUS | WRSI WRFL | WRAC | WRNY | TLIC | WLCO | WCAC | RRE3 | Eliminations | WRUS Consolidated |
|--|-------------------|------------------|---------------------|--------------------|--------------------|--------------------|--------------------|--------------------|-----------------------|----------------------|
| Assets | | | | | | | | | | |
| Fixed maturity and equity securities | \$ 10,075 | \$ 50,000 | \$15,305,280 | \$ 799,266 | \$1,092,722 | \$2,541,457 | \$2,260,857 | \$1,756,563 | \$ (50,000) | \$23,766,220 |
| Commercial mortgage loans | - | - | 1,001,362 | - | - | 26,804 | 11,786 | - | - | 1,039,952 |
| Policy loans | - | - | 92,906 | 13,020 | 45,282 | 122,076 | - | 51,618 | - | 324,902 |
| Funds withheld at interest | - | - | 4,673,833 | - | - | - | 2,089 | - | - | 4,675,922 |
| Short term investments | - | - | - | 3,970 | - | - | - | - | - | 3,970 |
| Other invested assets | 342,659 | - | 331,479 | 20,770 | 30,633 | 54,002 | 34,938 | - | (300,000) | 514,481 |
| Total investments | 352,734 | 50,000 | 21,404,860 | 837,026 | 1,168,637 | 2,744,339 | 2,309,670 | 1,808,181 | (350,000) | 30,325,447 |
| Cash and cash equivalents | 5,680 | 15,417 | 284,899 | 32,513 | 54,000 | 85,250 | 109,833 | 9,837 | - | 597,429 |
| Accrued investment income | 45 | - | 148,680 | 5,872 | 8,900 | 26,036 | 22,801 | 12,160 | - | 224,494 |
| Premiums receivable | - | - | 67,877 | 1,481 | 1,409 | 2,347 | (1) | 18,624 | (18,106) | 73,631 |
| Reinsurance recoverable | - | - | 18,061,355 | 351,467 | 8,650 | 315,437 | 2,473,397 | - | (1,342,721) | 19,867,585 |
| Net deferred acquisition costs | - | - | 42,165 | - | 319,492 | (49) | - | - | - | 361,608 |
| Value of in-force business acquired | - | - | 132,780 | 29,670 | 16,106 | - | - | 152,682 | - | 331,238 |
| Net deferred income taxes | 2,262 | 1,473 | 248,389 | - | 29,529 | 181,944 | 39,040 | - | (127,530) | 375,107 |
| Other assets | 570,010 | 314,927 | 729,857 | 1,550 | 4,325 | 3,191 | 412 | (30,323) | (1,147,807) | 446,142 |
| Separate account assets | - | - | - | 615 | - | - | 33,312 | - | - | 33,927 |
| Total assets | <u>\$ 930,731</u> | <u>\$381,817</u> | <u>\$41,120,862</u> | <u>\$1,260,194</u> | <u>\$1,611,048</u> | <u>\$3,358,495</u> | <u>\$4,988,464</u> | <u>\$1,971,161</u> | <u>\$ (2,986,164)</u> | <u>\$52,636,608</u> |
| Liabilities and shareholder's equity | | | | | | | | | | |
| Reserves for future policy benefits | \$ - | \$ - | \$13,048,389 | \$ 102,750 | \$ 252,376 | \$ 567,370 | \$2,864,845 | \$ 366,921 | \$ (359,679) | \$16,842,972 |
| Interest sensitive contract liabilities | - | - | 11,121,174 | 926,401 | 1,185,317 | 2,460,623 | 248,144 | 705,635 | (984,156) | 15,663,138 |
| Other reinsurance liabilities | - | - | 94,321 | 1,725 | 12,057 | 11,396 | 58,751 | (999) | (16,992) | 160,259 |
| Funds held under reinsurance treaties | - | - | 15,690,673 | 10,362 | - | 142,214 | 1,682,232 | - | - | 17,525,481 |
| Net deferred tax liabilities | - | - | - | 10,043 | - | - | - | 117,487 | (127,530) | - |
| Long-term debt | 250,000 | 350,000 | - | - | - | - | - | - | (350,000) | 250,000 |
| Surplus notes | - | - | - | - | - | - | - | 815,864 | - | 815,864 |
| Subordinated affiliate debt | - | - | 300,000 | - | - | - | - | - | (300,000) | - |
| Other liabilities | 1,023 | 31,472 | 523,742 | 10,868 | 15,368 | 78,549 | 27,181 | 1,359 | (24,302) | 665,260 |
| Separate account liabilities | - | - | - | 615 | - | - | 33,312 | - | - | 33,927 |
| Total liabilities | <u>251,023</u> | <u>381,472</u> | <u>40,778,299</u> | <u>1,062,764</u> | <u>1,465,118</u> | <u>3,260,152</u> | <u>4,914,465</u> | <u>2,006,267</u> | <u>(2,162,659)</u> | <u>51,956,901</u> |
| Shareholder's equity: | | | | | | | | | | |
| Class A common shares | - | - | 1,000 | 2,503 | 1,854 | 4,178 | 4,366 | - | (13,901) | - |
| Class B common shares | - | - | - | - | - | - | - | - | - | - |
| Additional paid-in capital | 134,807 | 26,929 | - | 101,456 | - | 92,164 | 51,087 | - | (271,636) | 134,807 |
| Retained earnings and accumulated other comprehensive income | 544,901 | (26,584) | 341,563 | 93,471 | 144,076 | 2,001 | 18,546 | (35,106) | (537,968) | 544,900 |
| Total shareholder's equity | <u>679,708</u> | <u>345</u> | <u>342,563</u> | <u>197,430</u> | <u>145,930</u> | <u>98,343</u> | <u>73,999</u> | <u>(35,106)</u> | <u>(823,505)</u> | <u>679,707</u> |
| Total liabilities and shareholder's equity | <u>\$ 930,731</u> | <u>\$381,817</u> | <u>\$41,120,862</u> | <u>\$1,260,194</u> | <u>\$1,611,048</u> | <u>\$3,358,495</u> | <u>\$4,988,464</u> | <u>\$1,971,161</u> | <u>\$ (2,986,164)</u> | <u>\$52,636,608</u> |

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

CONSOLIDATING BALANCE SHEET

AS OF DECEMBER 31, 2017

(Amounts in thousands of US dollars)

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

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

CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)

FOR THE YEAR ENDED DECEMBER 31, 2018

(Amounts in thousands of US dollars)

| | WRUS | WRSI WRFL | WRAC | WRNY | TLIC | WLCO | WCAC | RRE3 RRE2 | Eliminations | WRUS Consolidated |
|--|--------------------|-------------------|------------------|--------------------|------------------|--------------------|--------------------|---------------------|------------------|----------------------|
| Revenues | | | | | | | | | | |
| Net premiums | \$ - | \$ - | \$ 185,614 | \$ 3,346 | \$ 33,323 | \$ (27,172) | \$ (496) | \$ 74,306 | \$ - | \$ 268,921 |
| Policy fees and charges | - | - | 104,377 | 9,036 | 115,819 | 186,335 | - | 42,654 | - | 458,221 |
| Inuring third-party reinsurance commissions | - | - | 16,920 | 553 | - | - | - | 16,768 | - | 34,241 |
| Investment earnings—net | 20,338 | 20,639 | 185,036 | 41,203 | 57,056 | 108,768 | 22,184 | 40,647 | (78,378) | 417,493 |
| Net change in unrealized gains (losses) on investments classified as trading and other | 79 | - | (877,968) | (41,266) | (61,763) | (115,724) | (114,098) | (71,529) | - | (1,282,269) |
| Change in value of derivatives and embedded derivatives—net | - | - | 701,341 | - | - | 2,541 | 88,199 | (17,015) | - | 775,066 |
| Total revenues | <u>20,417</u> | <u>20,639</u> | <u>315,320</u> | <u>12,872</u> | <u>144,435</u> | <u>154,748</u> | <u>(4,211)</u> | <u>85,831</u> | <u>(78,378)</u> | <u>671,673</u> |
| Benefits and expenses | | | | | | | | | | |
| Claims and policy benefits—net of reinsurance ceded | - | - | 211,171 | 10,197 | 77,609 | 98,999 | 25,460 | 85,747 | - | 509,183 |
| Interest credited to interest sensitive contract liabilities | - | - | 61,632 | 25,527 | 26,492 | 72,659 | (1,381) | 43,161 | - | 228,090 |
| Acquisition costs and other insurance expenses | - | - | (95,703) | (1,676) | (14,531) | (6) | (2,570) | 79,423 | (18) | (35,081) |
| Operating expenses | 1,578 | 5,333 | 134,453 | 7,485 | 26,751 | 22,401 | 7,224 | 7,625 | 18 | 212,868 |
| Interest expense | 14,688 | 20,964 | - | - | - | - | - | 1,069 | (20,563) | 16,158 |
| Total benefits and expenses | <u>16,266</u> | <u>26,297</u> | <u>311,553</u> | <u>41,533</u> | <u>116,321</u> | <u>194,053</u> | <u>28,733</u> | <u>217,025</u> | <u>(20,563)</u> | <u>931,218</u> |
| Net income (loss) and comprehensive income (loss) before income taxes, net earnings of equity method investee and equity in net income (loss) of subsidiaries | 4,151 | (5,658) | 3,767 | (28,661) | 28,114 | (39,305) | (32,944) | (131,194) | (57,815) | (259,545) |
| Income tax expense (benefit) | <u>2,656</u> | <u>403</u> | <u>(62,518)</u> | <u>(6,170)</u> | <u>5,804</u> | <u>(8,206)</u> | <u>(6,956)</u> | <u>(31,193)</u> | <u>-</u> | <u>(106,180)</u> |
| Net income (loss) and comprehensive income (loss) before net earnings of equity method investee and equity in net income (loss) of subsidiaries | 1,495 | (6,061) | 66,285 | (22,491) | 22,310 | (31,099) | (25,988) | (100,001) | (57,815) | (153,365) |
| Share of net earnings of equity method investee | <u>8,759</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>8,759</u> |
| Net income (loss) and comprehensive income (loss) before equity in net income (loss) of subsidiaries | 10,254 | (6,061) | 66,285 | (22,491) | 22,310 | (31,099) | (25,988) | (100,001) | (57,815) | (144,606) |
| Equity in net income (loss) of subsidiaries | <u>(97,045)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>97,045</u> | <u>-</u> |
| Net income (loss) and comprehensive income (loss) | <u>\$ (86,791)</u> | <u>\$ (6,061)</u> | <u>\$ 66,285</u> | <u>\$ (22,491)</u> | <u>\$ 22,310</u> | <u>\$ (31,099)</u> | <u>\$ (25,988)</u> | <u>\$ (100,001)</u> | <u>\$ 39,230</u> | <u>\$ (144,606)</u> |

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

CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS) FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of US dollars)

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