

Wilton Reinsurance Bermuda Limited

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

WILTON REINSURANCE BERMUDA LIMITED

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
AUDITED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017:	
Balance Sheets	2
Statements of Comprehensive Income	3
Statements of Changes in Shareholder's Equity	4
Statements of Cash Flows	5-6
Notes to Financial Statements	7-39

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Wilton Reinsurance Bermuda Limited:

We have audited the accompanying financial statements of Wilton Reinsurance Bermuda Limited (Wilton Re Bermuda or the Company), which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of comprehensive income, changes in shareholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity 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 financial statements that are free of material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Wilton Reinsurance Bermuda Limited at December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

April 19, 2019

WILTON REINSURANCE BERMUDA LIMITED

BALANCE SHEETS

AS OF DECEMBER 31, 2018 AND 2017

(Expressed in thousands of U.S. dollars, except share amounts)

	2018	2017
Assets		
Fixed maturity and equity securities	\$ 525,242	\$ 703,324
Policy loans	26,986	27,992
Funds withheld at interest	18,127,939	19,734,288
Short term investments	-	9,992
Other invested assets	<u>260,639</u>	<u>14,737</u>
Total investments	18,940,806	20,490,333
Cash and cash equivalents	39,592	14,933
Accrued investment income	4,112	4,592
Premiums receivable	18,424	18,933
Reinsurance recoverable	293	4,984
Other reinsurance receivables	83,906	-
Net deferred acquisition costs	55,720	61,847
Value of in-force business acquired	847,513	602,135
Net deferred income taxes	460,396	-
Other assets	<u>193,519</u>	<u>232,557</u>
Total assets	<u>\$ 20,644,281</u>	<u>\$21,430,314</u>
Liabilities and shareholder's equity		
Reserves for future policy benefits	\$ 9,875,132	\$10,039,211
Interest sensitive contract liabilities	9,602,366	9,892,436
Other reinsurance liabilities	2,642	2,539
Other liabilities	<u>28,988</u>	<u>145,855</u>
Total liabilities	<u>19,509,128</u>	<u>20,080,041</u>
Shareholder's equity:		
Class A common shares		
December 31, 2018 : 0 shares issued and outstanding		
December 31, 2017 : \$1.00 par value; 250,000 shares authorized, issued and outstanding	-	250
Class A-1 common shares		
December 31, 2018 : \$1.00 par value; 31,780 shares authorized, issued and outstanding		
December 31, 2017 : 0 shares issued and outstanding	32	-
Class A-2 common shares		
December 31, 2018 : \$1.00 par value; 50,000 shares authorized, 10,594 issued and outstanding		
December 31, 2017 : 0 shares issued and outstanding	11	-
Class B common shares		
December 31, 2018 : \$1.00 par value; 218,220 shares authorized, issued and outstanding		
December 31, 2017 : 0 shares issued and outstanding	218	-
Additional paid-in capital	798,110	764,221
Retained earnings and accumulated other comprehensive income	<u>336,782</u>	<u>585,802</u>
Total shareholder's equity	<u>1,135,153</u>	<u>1,350,273</u>
Total liabilities and shareholder's equity	<u>\$ 20,644,281</u>	<u>\$21,430,314</u>

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

WILTON REINSURANCE BERMUDA LIMITED

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (Expressed in thousands of U.S. dollars)

	2018	2017
Revenues		
Net premiums	\$ 77,845	\$ 81,292
Policy fees and charges	103,954	78,043
Inuring third-party reinsurance commissions	3,246	2,624
Investment earnings—net	511,556	570,292
Net change in unrealized gains (losses) on investments classified as trading and other	(25,239)	7,032
Change in value of derivatives and embedded derivatives—net	<u>(896,167)</u>	<u>516,198</u>
Total revenues	<u>(224,805)</u>	<u>1,255,481</u>
Benefits and expenses		
Claims and policy benefits—net of reinsurance ceded	402,898	341,682
Interest credited to interest sensitive contract liabilities	230,162	188,591
Acquisition costs and other insurance expenses	(166,743)	222,403
Operating expenses	<u>12,193</u>	<u>13,432</u>
Total benefits and expenses	<u>478,510</u>	<u>766,108</u>
Net income (loss) and comprehensive income (loss) before income taxes and net earnings of equity method investee	(703,315)	489,373
Income tax expense (benefit)	<u>(442,861)</u>	<u>-</u>
Net income (loss) and comprehensive income (loss) before net earnings of equity method investee	(260,454)	489,373
Share of net earnings of equity method investee	<u>11,434</u>	<u>-</u>
Net income (loss) and comprehensive income (loss)	<u>\$ (249,020)</u>	<u>\$ 489,373</u>

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

WILTON REINSURANCE BERMUDA LIMITED

STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (Expressed in thousands of U.S. dollars)

	2018	2017
Common shares		
Balance—beginning of year	\$ 250	\$ 250
Common shares redeemed	<u>(250)</u>	<u>-</u>
Balance—end of year	-	250
Common shares (Class A-1)		
Balance—beginning of year	-	-
Common shares issued	<u>32</u>	<u>-</u>
Balance—end of year	32	-
Common shares (Class A-2)		
Balance—beginning of year	-	-
Common shares issued	<u>11</u>	<u>-</u>
Balance—end of year	11	-
Common shares (Class B)		
Balance—beginning of year	-	-
Common shares issued	<u>218</u>	<u>-</u>
Balance—end of year	218	-
Additional paid-in capital		
Balance—beginning of year	764,221	202,134
Contributed capital	<u>33,889</u>	<u>562,087</u>
Balance—end of year	798,110	764,221
Retained earnings		
Balance—beginning of year	585,802	96,429
Net income (loss) and comprehensive income (loss)	<u>(249,020)</u>	<u>489,373</u>
Balance—end of year	<u>336,782</u>	<u>585,802</u>
Total shareholder's equity	<u>\$ 1,135,153</u>	<u>\$ 1,350,273</u>

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

WILTON REINSURANCE BERMUDA LIMITED

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(Expressed in thousands of U.S. dollars)

	2018	2017
Cash flows from operating activities		
Net income (loss) and comprehensive income (loss)	\$ (249,019)	\$ 489,373
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	280,210	13,852
Proceeds from maturities of fixed maturity and equity securities	16,696	11,434
Purchases of fixed maturity and equity securities	(170,389)	(615,872)
Amortization of net investment premium, discounts and other	872	629
Investment related realized (gains) losses, net	14,731	66
Investment related unrealized (gains) losses, net	23,673	(6,965)
Earnings of equity method investee	(8,575)	-
Mark-to-market on embedded derivative	896,167	(516,198)
Amortization and other adjustments to deferred acquisition costs	6,559	8,856
Amortization and other adjustments to value of business acquired	13,560	7,529
Interest credited to interest sensitive contracts	230,162	188,591
Other reserve changes of interest sensitive contract liabilities	(145,283)	199,716
Cash from closed block reinsurance	127,907	6,616
Change in assets and liabilities:		
Accrued investment income	480	(4,165)
Deferred income taxes	(460,396)	-
Premiums receivable	509	884
Reinsurance recoverable	4,690	(221)
Other reinsurance receivables	(83,906)	-
Funds withheld at interest	615,358	(198,477)
Deferred acquisition costs	(432)	262
Value of in-force business acquired	(260,909)	172,503
Other assets	38,008	6,832
Reserves for future policy benefits	(190,343)	(121,570)
Other reinsurance liabilities	103	407
Other liabilities	(143,385)	93,921
Net cash flows from (used in) operating activities	557,048	(261,997)

(Continued)

WILTON REINSURANCE BERMUDA LIMITED

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(Expressed in thousands of U.S. dollars)

	2018	2017
Cash flows from investing activities		
Sales, maturities and repayments of:		
Limited partnership interests	\$ 26,844	\$ -
Purchases of:		
Life settlement contracts	(213,394)	-
Limited partnership interests	(14,635)	(14,737)
Change in policy loans	1,006	(348)
Change in short-term investments	<u>10,000</u>	<u>1,004</u>
Net cash flows from (used in) investing activities	(190,179)	(14,081)
Cash flows from financing activities		
Proceeds from issuance of common shares	11	-
Contributed capital	33,889	562,087
Deposits into interest sensitive contracts	27,340	14,941
Redemption and benefit payments on interest sensitive contracts	<u>(403,450)</u>	<u>(310,217)</u>
Net cash flows from (used in) financing activities	<u>(342,210)</u>	<u>266,811</u>
Increase (decrease) in cash and cash equivalents	24,659	(9,267)
Cash and cash equivalents—Beginning of the year	<u>14,933</u>	<u>24,200</u>
Cash and cash equivalents—End of the year	<u>\$ 39,592</u>	<u>\$ 14,933</u>
Supplemental disclosure of cash flow information:		
Cash received (paid) during the period for—income taxes	<u>\$ 23,500</u>	<u>\$ -</u>

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

(Concluded)

WILTON REINSURANCE BERMUDA LIMITED

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (Expressed in thousands of U.S. dollars, except share amounts)

1. ORGANIZATION

Wilton Reinsurance Bermuda Limited (the Company) is a subsidiary of Wilton Re Ltd. (96%) and Wilton Re U.S. Holdings, Inc. (4%) and was incorporated under the laws of Bermuda as a long term insurer on December 17, 2004.

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 corporation in the Company's holding company system.

In April 2018, the Wilton Re U.S. Holdings, Inc. (Wilton Re US Holdings), an affiliate incorporated in Delaware, acquired a 4% interest and became a 25% voting shareholder of the Company. Previously, the Company was wholly owned by WRL.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

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 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 financial statements reflect management's best estimates and assumptions, the actual results could be materially different from the amounts reported in the financial statements.

Investments and Investment Earnings

Fixed Maturity and Equity Securities

Fixed maturity and equity securities include publicly-traded fixed maturity securities and preferred stocks which are classified as trading and are recorded at fair value with the change in fair value reported as net unrealized gains (losses) on investments classified as trading and other in the statements of comprehensive income. 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 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 consist primarily of interest and the accretion of discount or amortization of premium on fixed maturity securities. Investment earnings are presented net of investment management, investment accounting and custody expenses on the statements of comprehensive income. 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.

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

Funds withheld at interest represent amounts contractually withheld by ceding companies in accordance with reinsurance agreements. For agreements written on a modified coinsurance basis and agreements written on a coinsurance funds withheld basis, assets equal to the statutory reserves, net of reinsurance, are withheld and legally owned by the ceding company. Investment income on funds withheld at interest includes the interest income earned on these segregated 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 at interest 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. At December 31, 2018 and 2017, the fair value of these embedded derivatives, and the change in fair value for the year then ended, included:

Funds Withheld at Interest	2018	2017
Fair value	\$ (342,224)	\$ 553,943
Change in fair value	(896,167)	516,198

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

Other invested assets include investments in limited partnerships and limited liability corporations (limited partnerships), surplus debentures and life settlement contracts.

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 statements of comprehensive income.

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.

Life Settlement Contracts – Direct Investment

The Company acquired the ownership and beneficiary rights of underlying life insurance policies through the acquisition of life settlement contracts from the owners of the life insurance contracts. The Company accounts for its investments in life settlement contracts using the fair value method. Under the fair value method, each life settlement contract is carried at its fair value at the end of each reporting period within other invested assets on the balance sheets. The change in fair value, life insurance proceeds received and periodic maintenance costs, such as premiums, necessary to keep the underlying policy in force, are recorded in the investment earnings—net in the statements of comprehensive income.

Life Settlement Contracts – Equity Method Investment

The Company owned a 25% economic and voting interest in Leargas Fund I, LLC (the Leargas Fund) a life settlement fund managed by Leargas Capital LLC, a specialized mortality-linked investment manager. With the ability to exercise significant influence over the Leargas Fund, this investment is accounted for under the equity method. On April 2, 2018, the Company sold its interest in the Leargas Fund to Wilton Re Overseas Limited, an affiliate, for \$21,504. Income from the investment is presented in Share of net earnings of equity method investee in the statements of comprehensive income.

Cash and Cash Equivalents

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

Premiums Receivable

Premiums receivables are recognized when due and in accordance with information received from the ceding company. 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 did not believe a provision for doubtful accounts was necessary as of December 31, 2018 or 2017. Included in the premiums receivable balance at December 31, 2018 and 2017 is \$17,594 and \$18,933, respectively from affiliates.

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 continued 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 on those operations that are subject to income taxes. Deferred tax assets and liabilities result from temporary differences between the carrying amounts of assets and liabilities recorded in the 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 statements of comprehensive income 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.

Reserves for Future Policy Benefits

The Company's liabilities for reinsurance of traditional life insurance and payout annuities (including structured settlements) with life contingencies are recognized as reserves for future policy benefits. The Company monitors actual experience and revises assumptions and related reserve estimates as permitted. The reserve is estimated using the net level premium method utilizing assumptions for mortality, persistency, interest, and expenses established when the contract is underwritten. These assumptions are based on anticipated experience with a margin for adverse deviation.

If the reserves for future policy benefits plus the present value of expected future gross premiums are insufficient to provide for expected future benefits and expense, deferred policy acquisition costs are expensed and, if required, a premium deficiency reserve is established by a charge to claims and policy benefits. Benefit liabilities for traditional life contingent payout annuities and structured settlements are recorded at the present value of expected future benefit payments. Where required, the Company also establishes an unearned profit reserve and amortizes it over expected benefit payments.

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	5.24%	5.25%
Payout annuities with life contingencies	3.72%	3.72%

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. Certain universal life products contain features that link interest credited to an equity index. These features create an embedded derivative that is not clearly and closely related to the host insurance contract. The embedded derivative is carried at fair value with changes in the fair value reported in the accompanying statements of comprehensive income. The Company had no such derivatives in 2018 or 2017.

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 analyses of the actual reporting lag between when a claim occurs and when it is reported to the Company, including a provision for adverse deviation.

Recognition of Revenue and Expenses

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

For each of its reinsurance contracts, the Company determines 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 balance sheets. Fees earned on these contracts are reflected as policy fees and charges, as opposed to premiums, on the statements of comprehensive income.

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 rate for interest-sensitive products was 3.70% and 3.71% during 2018 and 2017, respectively.

Related-Party Transactions

The Company is party to a Service Agreement with its affiliate, Wilton Re Services, Inc., (Wilton Services) under which Wilton Services provides certain accounting, actuarial and administrative services to the Company (the Services Agreement). During 2018 and 2017, the Company incurred \$517 and \$261, respectively of expenses for these services. Amounts payable to parents, subsidiaries and affiliates of \$1,056 and \$622 at December 31, 2018 and 2017, respectively, were primarily related to the Services Agreement.

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 on the balance sheet at the date of acquisition at fair value, except for the reserves for future policy benefits and value of inforce 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 expenses 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 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 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 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 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 amendment on its financial statements.

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.

We plan 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 financial statements and required disclosures. The adoption of this standard is expected to have a significant impact on our 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.

3. CLOSED BLOCK REINSURANCE

Effective April 1, 2017, Wilton Reassurance Company, a Minnesota domiciled insurance affiliate (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 initial balance sheet effect of these transactions was as follows:

Assets	Assumed
Policy loans	\$ 10,896
Funds withheld at interest	<u>15,911,031</u>
Total investments	15,921,927
Cash and cash equivalents	(54,760)
Value of in-force business acquired	747,571
Other assets	<u>239,063</u>
Total assets	<u>\$ 16,853,801</u>
Liabilities	
Reserves for future policy benefits	\$ 7,995,699
Interest sensitive contract liabilities	8,811,568
Other liabilities	<u>46,534</u>
Total liabilities	<u>\$ 16,853,801</u>

Effective April 1, 2017, Wilcac Life Insurance Company, an Illinois domiciled insurance affiliate (WCAC), reinsured its block of payouts to WREB on a 100% coinsurance funds withheld basis.

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

Assets	Assumed
Funds withheld at interest	<u>\$ 1,767,614</u>
Total investments	1,767,614
Cash and cash equivalents	<u>61,376</u>
Total assets	<u>\$ 1,828,990</u>
 Liabilities	
Reserves for future policy benefits	\$ 1,634,944
Interest sensitive contract liabilities	<u>194,046</u>
Total liabilities	<u>\$ 1,828,990</u>

For the closed block reinsurance transactions described above, the non-cash assets and liabilities assumed have been excluded from the statement of cash flows. The cash received of \$6,616 is included in cash flows from operating activities within the statement of cash flows.

Pursuant to contractual amendments to the Aegon transaction during 2018, the Company's funds withheld at interest decreased \$94,824, VOBA decreased \$1,971, reserve for future policy benefits increased \$26,263 and cash of \$125,724 was received from WRAC.

As of December 31, 2018, quarterly settlement receivables of \$25,194 and \$58,712 were recorded as other reinsurance receivables on the balance sheet relative to WRAC and WCAC, respectively. As of December 31, 2017, quarterly settlement payables of \$57,738 and \$57,402 were recorded as other liabilities on the balance sheet relative to WRAC and WCAC, respectively.

4. INVESTMENTS

Fixed Maturity and Equity Securities

The amortized cost, fair value and related gross unrealized gain and loss of investments, classified as trading as of December 31, 2018 and 2017, are as follows:

December 31, 2018	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
Fixed maturities:				
U.S. government and agencies	\$ 71,784	\$ 551	\$ (852)	\$ 71,483
State and political subdivisions	40,003	585	(532)	40,056
Foreign sovereign	6,863	16	(497)	6,382
Corporate securities	206,214	524	(12,830)	193,908
Residential mortgage-backed securities	74,152	722	(1,605)	73,269
Commercial mortgage-backed securities	66,617	235	(2,872)	63,980
Asset-backed securities	55,373	502	(897)	54,978
Collateralized debt obligations	<u>20,034</u>	<u>61</u>	<u>(422)</u>	<u>19,673</u>
Total fixed maturities	541,040	3,196	(20,507)	523,729
Preferred stocks	<u>1,563</u>	<u>-</u>	<u>(50)</u>	<u>1,513</u>
Total fixed maturity and equity securities	<u>\$ 542,603</u>	<u>\$ 3,196</u>	<u>\$ (20,557)</u>	<u>\$ 525,242</u>

December 31, 2017	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
Fixed maturities:				
U.S. government and agencies	\$ 71,710	\$ 366	\$ (321)	\$ 71,755
State and political subdivisions	33,974	978	(12)	34,940
Foreign sovereign	6,847	100	-	6,947
Corporate securities	338,046	6,486	(894)	343,638
Residential mortgage-backed securities	98,414	495	(377)	98,532
Commercial mortgage-backed securities	81,843	357	(895)	81,305
Asset-backed securities	41,872	579	(53)	42,398
Collateralized debt obligations	<u>21,714</u>	<u>113</u>	<u>(53)</u>	<u>21,774</u>
Total fixed maturities	694,420	9,474	(2,605)	701,289
Preferred stocks	<u>1,839</u>	<u>196</u>	<u>-</u>	<u>2,035</u>
Total fixed maturity and equity securities	<u>\$ 696,259</u>	<u>\$ 9,670</u>	<u>\$ (2,605)</u>	<u>\$ 703,324</u>

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

	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
At December 31, 2018						
Fixed maturities:						
U.S. government and agencies	\$ 12,251	\$ (551)	\$ 19,192	\$ (301)	\$ 31,443	\$ (852)
State and political subdivisions	14,031	(509)	1,049	(23)	15,080	(532)
Foreign sovereign	5,874	(497)	-	-	5,874	(497)
Corporate securities	119,145	(8,244)	52,920	(4,586)	172,065	(12,830)
Residential mortgage-backed securities	24,755	(872)	28,889	(733)	53,644	(1,605)
Commercial mortgage-backed securities	17,450	(868)	30,860	(2,004)	48,310	(2,872)
Asset-backed securities	19,535	(624)	7,994	(273)	27,529	(897)
Collateralized debt obligations	<u>12,684</u>	<u>(335)</u>	<u>5,952</u>	<u>(87)</u>	<u>18,636</u>	<u>(422)</u>
Total fixed maturities	225,725	(12,500)	146,856	(8,007)	372,581	(20,507)
Preferred stock	<u>1,513</u>	<u>(50)</u>	<u>-</u>	<u>-</u>	<u>1,513</u>	<u>(50)</u>
Total fixed maturity and equity securities	<u>\$ 227,238</u>	<u>\$ (12,550)</u>	<u>\$ 146,856</u>	<u>\$ (8,007)</u>	<u>\$ 374,094</u>	<u>\$ (20,557)</u>
At December 31, 2017						
Fixed maturities:						
U.S. government and agencies	\$ 42,080	\$ (321)	\$ -	\$ -	\$ 42,080	\$ (321)
State and political subdivisions	4,754	(12)	-	-	4,754	(12)
Corporate securities	109,921	(838)	1,345	(56)	111,266	(894)
Residential mortgage-backed securities	59,253	(359)	302	(18)	59,555	(377)
Commercial mortgage-backed securities	58,760	(542)	2,151	(353)	60,911	(895)
Asset-backed securities	15,727	(39)	984	(14)	16,711	(53)
Collateralized debt obligations	<u>17,360</u>	<u>(53)</u>	<u>-</u>	<u>-</u>	<u>17,360</u>	<u>(53)</u>
Total fixed maturities	307,855	(2,164)	4,782	(441)	312,637	(2,605)
Preferred stock	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fixed maturity and equity securities	<u>\$ 307,855</u>	<u>\$ (2,164)</u>	<u>\$ 4,782</u>	<u>\$ (441)</u>	<u>\$ 312,637</u>	<u>\$ (2,605)</u>

At December 31, 2018, ninety-six fixed-maturity investments with a total unrealized loss of \$8,007 had been in an unrealized loss position for 12 months or more. At December 31, 2017, sixteen fixed-maturity investments with a total unrealized loss of \$441 had been in an unrealized loss position for 12 months or more.

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 prepay obligations with or without call or prepay penalties:

2018	Amortized Cost	Fair Value
One or less	\$ 12,097	\$ 12,076
One through five	8,925	8,448
After five through ten	106,410	103,246
After ten through twenty	87,147	85,300
After twenty	110,285	102,759
Residential mortgage-backed securities	74,152	73,269
Commercial mortgage-backed securities	66,617	63,980
Asset-backed securities	55,373	54,978
Collateralized debt obligations	<u>20,034</u>	<u>19,673</u>
Total fixed maturity securities	<u>\$ 541,040</u>	<u>\$ 523,729</u>

Major sources and related amounts of investment earnings are as follows:

	2018	2017
Fixed maturity and equity securities	\$ 27,366	\$ 8,923
Policy loans	1,523	1,600
Funds withheld at interest, net of reinsurance ceded	629,423	458,690
Short-term investments and cash and cash equivalents	1,028	2,699
Other invested assets	<u>10,536</u>	<u>46</u>
Investment income	669,876	471,958
Investment expenses	<u>(1,800)</u>	<u>(1,921)</u>
Investment income—net	668,076	470,037
Realized gains on investments	296	246
Realized losses on investments	(26,556)	(339)
Net realized gains (losses) on funds withheld at interest	<u>(130,260)</u>	<u>100,348</u>
Investment earnings—net	<u>\$ 511,556</u>	<u>\$ 570,292</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 Investor's Service or Fitch Ratings:

	2018		2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
AAA	\$ 193,553	\$ 190,964	\$ 210,869	\$ 211,074
AA	64,707	63,209	56,906	57,965
A	160,486	154,237	204,030	206,359
BBB	114,736	108,062	215,693	218,590
BB	6,633	6,290	5,281	5,341
B	650	597	766	771
CCC or lower	275	370	875	1,189
Total fixed maturity securities	<u>\$ 541,040</u>	<u>\$ 523,729</u>	<u>\$ 694,420</u>	<u>\$ 701,289</u>

The Company's largest five exposures by issuer as of December 31, 2018, were Africa Finance Corporation, United Nations, Successor Agency to the Pomona Redevelopment Agency, FBI Bronx Trust 2018, and Banco Santander, S.A., each of which comprised less than 2.5%, and in aggregate comprise 0.1%, of total investments.

The Company's largest five exposures by issuer as of December 31, 2017, were Africa Finance Corporation, Intel Corporation, Banco Santander, S.A., American Financial Group, Inc. and MetLife, Inc., each of which comprised less than 1.8%, and in aggregate comprise 0.1%, of total investments.

Life Settlement Contracts – Direct Investment

The Company uses an actuarial model to estimate the aggregate face amount of life insurance that are expected to settle in each future year and the corresponding fair value. This model projects the likelihood of the insured's death for each inforce policy based upon the estimated mortality rates, which may vary due to the relatively small size of the portfolio of life settlement contracts. The number of life settlement contracts presented in the following table is based upon the average face amount of inforce policies estimated to settle in each future year:

	Number of Contracts	Face Amount of Policies	Carry Value
2019	3	\$ 5,600	\$ 4,088
2020	17	52,750	32,421
2021	28	83,582	49,469
2022	35	92,961	44,754
2023	37	88,869	36,088
Thereafter	<u>103</u>	<u>278,437</u>	<u>72,000</u>
Total	<u>223</u>	<u>\$ 602,199</u>	<u>\$ 238,820</u>

Policy Loans

Policy loans comprised approximately 0.1% and 0.1% 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 policyholder 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 premature distributions of policy liabilities, they have the effect of reducing future disintermediation risk. In addition, the Company earns a spread between the interest rate earned on policy loans and the interest rate credited to corresponding liabilities.

5. FUNDS WITHHELD AT INTEREST

Funds withheld at interest comprised approximately 95.7% and 96.3% 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 is comprised of the following:

Affiliated Ceding Company	2018	2017
Segregated portfolio of assets—general account	\$ 13,480,347	\$ 14,569,209
Segregated portfolio of assets—separate account	3,392,352	3,634,816
Non-segregated portfolio of assets	<u>466,012</u>	<u>664,367</u>
Funds withheld at interest, at fair value—affiliated	<u>17,338,711</u>	<u>18,868,392</u>
Unaffiliated Ceding Company		
Segregated portfolio of assets—general account	779,812	852,672
Non-segregated portfolio of assets	<u>9,416</u>	<u>13,223</u>
Funds withheld at interest, at fair value—unaffiliated	<u>789,228</u>	<u>865,895</u>
Total funds withheld at interest, at fair value	<u>\$ 18,127,939</u>	<u>\$ 19,734,287</u>

The disclosures that follow are for the segregated portfolio—general account only, both affiliated and unaffiliated, and exclude commercial mortgage loans, other invested assets, short term investments and cash of \$1,505,284 and \$1,502,849 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. 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 of assets—general account supporting the funds withheld at interest as of December 31, 2018 and 2017, are as follows:

At December 31, 2018	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
Fixed maturities:				
U.S. government and agencies	\$ 1,894,477	\$ 6,482	\$ (81,218)	\$ 1,819,741
State and political subdivisions	709,594	13,591	(9,938)	713,247
Foreign sovereign	54,276	407	(2,728)	51,955
Corporate securities	7,703,132	63,599	(312,358)	7,454,373
Residential mortgage-backed securities	1,013,273	10,860	(17,933)	1,006,200
Commercial mortgage-backed securities	636,559	6,924	(15,117)	628,366
Asset-backed securities	808,507	6,652	(10,055)	805,104
Collateralized debt obligations	<u>202,619</u>	<u>2,206</u>	<u>(3,029)</u>	<u>201,796</u>
Total fixed maturities	13,022,437	110,721	(452,376)	12,680,782
Preferred stocks	71,529	8,599	(6,036)	74,092
Common stocks	<u>-</u>	<u>1</u>	<u>-</u>	<u>1</u>
Total fixed maturity and equity securities	<u>\$13,093,966</u>	<u>\$ 119,321</u>	<u>\$ (458,412)</u>	<u>\$12,754,875</u>
At December 31, 2017	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
Fixed maturities:				
U.S. government and agencies	\$ 1,502,848	\$ 27,434	\$ (5,787)	\$ 1,524,495
State and political subdivisions	544,277	24,397	(132)	568,542
Foreign sovereign	98,273	2,369	(229)	100,413
Corporate securities	9,430,170	472,892	(11,064)	9,891,998
Residential mortgage-backed securities	702,065	4,726	(5,045)	701,746
Commercial mortgage-backed securities	600,002	7,142	(3,206)	603,938
Asset-backed securities	376,421	4,097	(904)	379,614
Collateralized debt obligations	<u>63,447</u>	<u>2,096</u>	<u>(78)</u>	<u>65,465</u>
Total fixed maturities	13,317,503	545,153	(26,445)	13,836,211
Preferred stocks	82,155	3,477	(2,813)	82,819
Common stocks	<u>-</u>	<u>3</u>	<u>-</u>	<u>3</u>
Total fixed maturity and equity securities	<u>\$13,399,658</u>	<u>\$ 548,633</u>	<u>\$ (29,258)</u>	<u>\$13,919,033</u>

The unrealized loss and fair values by investment category and by duration of the investments 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, were as follows:

At December 31, 2018	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Fixed maturities:						
U.S. government and agencies	\$ 841,134	\$ (29,727)	\$ 582,465	\$ (51,490)	\$ 1,423,599	\$ (81,217)
State and political subdivisions	203,085	(9,389)	10,954	(549)	214,039	(9,938)
Foreign sovereign	32,450	(2,397)	2,958	(331)	35,408	(2,728)
Corporate securities	5,290,537	(269,249)	534,094	(43,110)	5,824,631	(312,359)
Residential mortgage-backed securities	340,653	(7,764)	313,344	(10,169)	653,997	(17,933)
Commercial mortgage-backed securities	240,461	(7,472)	147,749	(7,645)	388,210	(15,117)
Asset-backed securities	306,196	(9,318)	21,211	(737)	327,407	(10,055)
Collateralized debt obligations	<u>152,310</u>	<u>(2,892)</u>	<u>3,340</u>	<u>(137)</u>	<u>155,650</u>	<u>(3,029)</u>
Total fixed maturities	7,406,826	(338,208)	1,616,115	(114,168)	9,022,941	(452,376)
Preferred stocks	<u>24,541</u>	<u>(798)</u>	<u>34,270</u>	<u>(5,238)</u>	<u>58,811</u>	<u>(6,036)</u>
Total fixed maturity and equity securities	<u>\$ 7,431,367</u>	<u>\$ (339,006)</u>	<u>\$ 1,650,385</u>	<u>\$ (119,406)</u>	<u>\$ 9,081,752</u>	<u>\$ (458,412)</u>

At December 31, 2017	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Fixed maturities:						
U.S. government and agencies	\$ 785,642	\$ (5,274)	\$ 9,845	\$ (513)	\$ 795,487	\$ (5,787)
State and political subdivisions	27,239	(66)	2,014	(66)	29,253	(132)
Foreign sovereign	3,975	(21)	3,010	(208)	6,985	(229)
Corporate securities	876,612	(7,207)	104,216	(3,857)	980,828	(11,064)
Residential mortgage-backed securities	393,936	(3,887)	14,977	(1,158)	408,913	(5,045)
Commercial mortgage-backed securities	133,855	(857)	34,187	(2,349)	168,042	(3,206)
Asset-backed securities	65,727	(286)	11,695	(618)	77,422	(904)
Collateralized debt obligations	<u>9,986</u>	<u>(28)</u>	<u>694</u>	<u>(50)</u>	<u>10,680</u>	<u>(78)</u>
Total fixed maturities	2,296,972	(17,626)	180,638	(8,819)	2,477,610	(26,445)
Preferred stocks	<u>25,216</u>	<u>(610)</u>	<u>22,759</u>	<u>(2,203)</u>	<u>47,975</u>	<u>(2,813)</u>
Total fixed maturity and equity securities	<u>\$ 2,322,188</u>	<u>\$ (18,236)</u>	<u>\$ 203,397</u>	<u>\$ (11,022)</u>	<u>\$ 2,525,585</u>	<u>\$ (29,258)</u>

At December 31, 2018, three hundred fifty-five fixed-maturity investments with a total unrealized loss of \$114,168 had been in an unrealized loss position for 12 months or more. Of those securities in an unrealized loss position for 12 months or more, two securities was below 70% of book value with an unrealized loss of \$771.

At December 31, 2017, one hundred eleven fixed-maturity investments with a total unrealized loss of \$11,022 had been in an unrealized loss position for 12 months or more. Of those securities in an unrealized loss position for 12 months or more, one security was below 70% of book value with an unrealized loss of \$103.

The contractual maturities of the fixed maturity securities in the segregated assets supporting 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 prepay penalties.

December 31, 2018	Amortized Cost	Estimated Fair Value
0 to 1 Year	\$ 99,592	\$ 99,155
1 to 5 years	460,407	456,333
5 to 10 years	962,144	945,154
10 to 20 years	3,225,247	3,179,344
> 20 years	5,614,089	5,359,331
Residential mortgage-backed securities	1,013,273	1,006,200
Commercial mortgage-backed securities	636,559	628,366
Asset-backed securities	808,507	805,103
Collateralized debt obligations	<u>202,619</u>	<u>201,796</u>
Total fixed maturities	<u>\$ 13,022,437</u>	<u>\$ 12,680,782</u>

Credit ratings of the fixed maturities of the segregated assets supporting funds withheld at interest, as provided by our ceding companies, are shown below as of December 31, 2018 and 2017. Ratings are assigned by Standard & Poor's Corporation, Moody's Investor Service or Fitch Ratings. The ratings assigned may not be accurate predictors of credit losses.

	2018		2017	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
AAA	\$ 3,876,490	\$ 3,776,337	\$ 2,979,161	\$ 3,014,216
AA	1,279,276	1,262,334	1,154,654	1,205,842
A	4,068,297	3,994,056	4,811,351	5,036,172
BBB	3,647,060	3,500,282	4,204,742	4,404,562
BB	108,758	105,205	94,575	99,368
B	28,159	27,161	37,510	38,730
CCC or lower	<u>14,397</u>	<u>15,407</u>	<u>35,510</u>	<u>37,321</u>
Total fixed maturities	<u>\$ 13,022,437</u>	<u>\$ 12,680,782</u>	<u>\$ 13,317,503</u>	<u>\$ 13,836,211</u>

6. CONCENTRATION OF CREDIT RISK

As of December 31, 2018 and 2017, substantially all of the Company's cash and cash equivalents were held in two financial institutions that the Company considers to be of high quality.

7. REINSURANCE CEDED

The Company has 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 inforce subsequent to January 1, 2005 through December 31, 2007, for lives greater than \$1,000 and from January 1, 2008, and subsequent for lives greater than \$2,000.

The closed blocks of business acquired via stock purchase may include risks that were ceded to other reinsurers under various yearly renewable term, coinsurance and modified

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

Retrocession treaties do not relieve the Company from its obligations to counterparties. Failure of 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.

The following table presents information for the Company's reinsurance recoverable, including the respective amount and A.M. Best rating as of December 31, 2018 and 2017:

Reinsurer	A. M. Best Rating	2018	2017
Affiliate	A+	\$ -	\$ 4,772
Non-affiliate - other reinsurers	A to A+	<u>293</u>	<u>212</u>
Total		<u>\$ 293</u>	<u>\$ 4,984</u>

The effect of retrocessions on net premiums earned is as follows:

	2018	2017
Direct	\$ -	\$ -
Reinsurance assumed—affiliate	76,066	80,618
Reinsurance assumed—non-affiliate	3,235	3,487
Reinsurance ceded—affiliate	(1,169)	(2,367)
Reinsurance ceded—non-affiliate	<u>(287)</u>	<u>(446)</u>
Net premiums	<u>\$ 77,845</u>	<u>\$ 81,292</u>

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

	2018	2017
Direct	\$ -	\$ -
Reinsurance assumed—affiliate	393,095	339,510
Reinsurance assumed—non-affiliate	11,911	6,778
Reinsurance ceded—affiliate	(1,740)	(4,591)
Reinsurance ceded—non-affiliate	<u>(368)</u>	<u>(15)</u>
Net claims and policy benefits	<u>\$ 402,898</u>	<u>\$ 341,682</u>

At December 31, 2018 and 2017, there were no retrocessional receivables associated with a single reinsurer in excess of 5% of total assets.

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

	Direct	Assumed	Ceded	Net
December 31, 2018	<u>\$ 12,501</u>	<u>\$ 21,372,981</u>	<u>\$ (8,920)</u>	<u>\$ 21,376,562</u>
December 31, 2017	<u>\$ 18,123</u>	<u>\$ 21,769,505</u>	<u>\$ (343,327)</u>	<u>\$ 21,444,301</u>

8. 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	\$ 61,847	\$ 70,965
Capitalized	22	37
Amortized	(6,559)	(8,856)
Attributable to realized/unrealized gains and losses	2,175	(1,029)
Impact of unlocking	<u>(1,765)</u>	<u>730</u>
End of year	<u>\$ 55,720</u>	<u>\$ 61,847</u>

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

	2018	2017
Beginning of year	\$602,135	\$ 34,596
New reinsurance treaties	-	745,598
Amortized	(13,560)	(7,529)
Attributable to realized/unrealized gains and losses	250,238	(167,797)
Impact of unlocking	<u>8,700</u>	<u>(2,733)</u>
End of year	<u>\$847,513</u>	<u>\$602,135</u>

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

2019	\$ 9,923
2020	14,418
2021	16,609
2022	19,330
2023	19,673

9. INCOME TAXES

On January 2, 2019, WREB filed an election under Sec. 953(d) of the Internal Revenue code electing to be treated as a domestic corporation for US tax purposes effective January 1, 2018.

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.

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 WREB to foreign non-953(d) affiliates including Wilton Re Overseas Ltd and Wilton Re (Canada) Limited. The BEAT does not apply to amounts paid or accrued to these affiliates directly by unaffiliated ceding companies or third parties.

Income Taxes

Under current Bermuda law, the Company is not required to pay taxes in Bermuda on income or realized capital gains. The Company has received an undertaking from the Minister of Finance in Bermuda that, in the event of any taxes being imposed, the Company will be exempt from taxation in Bermuda until March 2035.

Prior to January 1, 2018, the Company had operated in a manner so that it would be treated as not being engaged in a U.S. trade or business or otherwise subject to U.S. tax (other than U.S. excise tax on insurance and reinsurance premium income attributable to insuring or reinsuring U.S. risks and U.S. withholding tax on some types of U.S. source investment income). However, because definitive identification of activities which constitute being engaged in a trade or business in the U.S. is not provided by the Internal Revenue Code of 1986, regulations or court decisions, there can be no assurance that the Internal Revenue Service will not contend that the Company was engaged in a U.S. trade or business or otherwise subject to taxation prior to January 1, 2018. If the Company was considered to be engaged in a trade or business in the U.S., the Company could be subject to the U.S. tax at regular corporate tax rates on its taxable income, if any, that was effectively connected with the U.S. trade or business plus an additional 30% branch profits tax on such income remaining, if any, after regular corporate taxes, in which case, there could be a significant adverse effect on the Company's results of operations and its financial condition.

At December 31, 2018, the Company had no net operating losses or tax credits. The Company has \$14,586 of capital loss carryforwards will begin to expire in 2023.

As a result of WREB's 953(d) election, the Company recognized a deferred tax benefit of \$297,425, representing the tax effects of temporary differences as of January 1, 2018.

Income tax expense at 21% attributable to income from continuing operations and the opening balance sheet for the year ended December 31, 2018 is as follows:

	2018
Current tax expense (benefit) at 21%	\$ 17,535
Deferred tax expense (benefit)	<u>(460,396)</u>
Income tax expense (benefit)	<u>\$ (442,861)</u>

The income tax expense differs from applying the U.S. federal income tax rate of 21%:

	2018
Computed expected tax expense (benefit) at 21%	\$ (145,295)
Sec 953(d) election	(297,425)
Other	<u>(141)</u>
Income tax expense (benefit)	<u>\$ (442,861)</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 are presented in the following table:

	2018
Deferred income tax assets:	
Reserves for future policy benefits	\$ 1,709,972
Capital losses	3,063
Nondeductible accruals	992
Investments	<u>190,325</u>
Total deferred tax assets	<u>1,904,352</u>
Deferred income tax liabilities:	
Differences between tax and financial reporting amounts concerning certain reinsurance transactions	(1,263,042)
Deferred acquisition costs/value of business acquired	<u>(180,914)</u>
Total deferred tax liabilities	<u>(1,443,956)</u>
Valuation allowance	<u>-</u>
Net deferred tax asset	<u>\$ 460,396</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. federal income tax return for tax year 2018 is open and subject to examination by the Internal Revenue Service.

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

10. STATUTORY REQUIREMENTS AND DIVIDEND RESTRICTIONS

The Company is subject to insurance laws and regulations of Bermuda. These regulations include restrictions that limit the amount of dividends or other distributions available to shareholders without prior approval of the insurance regulatory authorities.

Under Bermuda law, the following statutory conditions must all be met prior to a distribution to shareholders:

1. The value of the assets backing the Company's insurance liabilities, as certified by the Company's approved actuary, must be greater than the Company's reserves (also certified) after the distribution (Insurance Act, Section 24);
2. Company must be solvent after payment of the dividend, i.e. the realizable value of its assets must be greater than its liabilities (Companies Act, Section 54);
3. Bermuda Monetary Authority (BMA) approval is required for dividends exceeding 25% of the Company's statutory capital and surplus, per its previous year's statutory balance sheet (Insurance Act, Section 31B);
4. BMA approval is required for any distribution exceeding 15% of the Company's statutory capital, per its previous year's statutory financial statements (Insurance Act, Section 31C); and,
5. After the distribution, the Company's capital must be above regulatory margins (Insurance Act, Sections 31B and 31C).

The Company can pay dividends of \$283,789 in 2019 without prior regulatory approval.

11. SHAREHOLDER'S EQUITY

Authorized Shares

Upon incorporation, the Company issued 250,000 Class A common shares at \$1.00 per share for a total of \$250,000.

On April 2, 2018, the Company was recapitalized. In exchange for its 250,000 Class A common shares, WRL received 31,780 shares of Class A-1 Voting Common Shares, \$1.00 par value per share, and 218,220 shares of Class B Non-Voting Shares, \$1.00 par value per share. The Company also increased its authorized share capital from \$250,000 to \$300,000 by the creation of 50,000 undesignated Class A-2 Voting Common Shares.

On April 2, 2018, 10,594 shares of Class A-2 Voting Common Shares, \$1.00 par value per share, were issued to Wilton Re US Holdings, Inc. for \$33,900 including a capital contribution of \$33,889.

In 2017, the Company received a capital contribution of \$562,087.

12. COMMITMENTS AND CONTINGENCIES

Funding of investments

The Company has commitments to fund limited partnership investments of \$25,000 and as of December 31, 2018, \$18,203 is unfunded. The Company anticipates that the majority will be invested over the next five years; however, these commitments could become due any time at the request of the counterparties.

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 Wilton Re US Holdings, 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, the Company, 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 collateral held by the Company at December 31, 2018 and 2017, was \$11,163 and \$10,972, respectively. At December 31, 2018 and 2017, there were approximately \$9,810 and \$8,925, respectively of outstanding bank letters of credit issued by the Company under the facility in favor of non-affiliated companies, and \$0 borrowed under the line of credit.

In October 2018, WRL, along with Wilton Re US Holdings, renewed its 364-day \$500,000 senior revolving credit facility (Wells Fargo Facility II), which was 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 lower of the financial strength rating of WRAC, the Company, 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, there was \$0 borrowed under the facility.

Reinsurance Trust Agreement

In November 2008, the Company entered into a reinsurance trust agreement with WRAC as beneficiary, for the purpose of collateralizing the Company's obligations under the terms of the reinsurance agreements between the Company and WRAC. At December 31, 2018 and 2017, the balance in the trust was \$83,065 and \$3,251, 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 ultimate disposition of such litigation is not expected to have a material adverse effect on the Company's financial condition, liquidity or results of operations.

13. 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 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:

At December 31, 2018	Fair Value	Level 1	Level 2	Level 3
Invested assets				
U.S. government and agencies	\$ 71,483	\$ 11,977	\$ 59,506	\$ -
State and political subdivisions	40,056	-	39,655	401
Foreign sovereign	6,382	-	6,382	-
Corporate securities	193,908	-	188,930	4,978
Residential mortgage-backed securities	73,269	-	73,269	-
Commercial mortgage-backed securities	63,980	-	63,980	-
Asset backed securities	54,978	-	44,027	10,951
Collateralized debt obligations	<u>19,673</u>	<u>-</u>	<u>19,673</u>	<u>-</u>
Total fixed maturity	523,729	11,977	495,422	16,330
Preferred stocks	<u>1,513</u>	<u>-</u>	<u>1,513</u>	<u>-</u>
Total fixed maturity and equity securities	525,242	11,977	496,935	16,330
Other invested assets	<u>245,266</u> ¹	<u>-</u>	<u>6,446</u>	<u>238,820</u>
Total invested assets	<u>770,508</u>	<u>11,977</u>	<u>503,381</u>	<u>255,150</u>
Funds Withheld at Interest				
U.S. government and agencies	1,819,742	1,348,104	471,638	-
State and political subdivisions	713,247	-	705,163	8,084
Foreign sovereign	51,955	-	51,955	-
Corporate securities	7,454,373	-	7,288,988	165,385
Residential mortgage-backed securities	1,006,200	-	1,006,177	23
Commercial mortgage-backed securities	628,366	-	628,366	-
Asset backed securities	805,103	-	561,255	243,849
Collateralized debt obligations	<u>201,796</u>	<u>-</u>	<u>169,579</u>	<u>32,217</u>
Total fixed maturity	12,680,782	1,348,104	10,883,121	449,558
Preferred stocks	74,092	-	74,092	-
Common stocks	<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>
Total fixed maturity and equity securities	12,754,875	1,348,104	10,957,213	449,559
Commercial mortgage loans	992,248	-	-	992,248
Other invested assets	<u>179,365</u>	<u>-</u>	<u>118,658</u>	<u>60,707</u>
Funds withheld at interest : Segregated portfolio of assets - General account	13,926,488	1,348,104	11,075,871	1,502,514
Funds withheld at interest : Segregated portfolio of assets - Separate account	3,392,352	-	3,392,352	-
Funds withheld at interest : Non- Segregated	<u>475,428</u>	<u>-</u>	<u>475,428</u>	<u>-</u>
Total funds withheld at interest	<u>17,794,268</u> ²	<u>1,348,104</u>	<u>14,943,651</u>	<u>1,502,514</u>
Total	<u>\$ 18,564,776</u>	<u>\$ 1,360,081</u>	<u>\$ 15,447,032</u>	<u>\$ 1,757,664</u>

¹ Limited partnerships of \$15,373 is a component of other invested assets not measured at fair value on a recurring basis.

² Cash and short-term investments of \$333,671 is 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	\$ 71,755	\$ 11,902	\$ 59,853	\$ 418
State and political subdivisions	34,940	-	34,522	-
Foreign sovereign	6,947	-	6,947	-
Corporate securities	343,638	-	341,376	2,262
Residential mortgage-backed securities	98,532	-	87,552	10,980
Commercial mortgage-backed securities	81,305	-	81,305	-
Asset backed securities	42,398	-	34,260	8,138
Collateralized debt obligations	<u>21,774</u>	<u>-</u>	<u>21,774</u>	<u>-</u>
Total fixed maturity	701,289	11,902	667,589	21,798
Preferred stocks	<u>2,035</u>	<u>-</u>	<u>2,035</u>	<u>-</u>
Total fixed maturity and equity securities	703,324	11,902	669,624	21,798
Other invested assets	<u>4,761</u>	<u>-</u>	<u>4,761</u>	<u>-</u>
Total invested assets	708,085	11,902	674,385	21,798
Funds Withheld at Interest				
U.S. government and agencies	1,524,495	1,396,215	128,280	-
State and political subdivisions	568,542	-	560,078	8,464
Foreign sovereign	100,413	-	100,413	-
Corporate securities	9,891,998	-	9,778,777	113,221
Residential mortgage-backed securities	701,746	-	659,938	41,808
Commercial mortgage-backed securities	603,938	-	603,938	-
Asset backed securities	379,614	-	277,417	102,197
Collateralized debt obligations	<u>65,465</u>	<u>-</u>	<u>39,758</u>	<u>25,707</u>
Total fixed maturity	13,836,211	1,396,215	12,148,599	291,397
Preferred stocks	82,820	-	82,820	-
Common stocks	<u>3</u>	<u>-</u>	<u>-</u>	<u>3</u>
Total fixed maturity and equity securities	13,919,034	1,396,215	12,231,419	291,400
Commercial mortgage loans	1,140,657	-	-	1,140,657
Other invested assets	<u>112,724</u>	<u>-</u>	<u>97,833</u>	<u>14,891</u>
Funds withheld at interest : Segregated portfolio of assets - General account	15,172,415	1,396,215	12,329,252	1,446,948
Funds withheld at interest : Segregated portfolio of assets - Separate account	3,634,816	-	3,634,816	-
Funds withheld at interest : Non- Segregated	<u>677,590</u>	<u>-</u>	<u>677,590</u>	<u>-</u>
Total funds withheld at interest	<u>19,484,821</u>	<u>1,396,215</u>	<u>16,641,658</u>	<u>1,446,948</u>
Total	<u>\$ 20,192,906</u>	<u>\$ 1,408,117</u>	<u>\$ 17,316,043</u>	<u>\$ 1,468,746</u>

¹ Limited partnerships of \$9,976 is a components of other invested assets not measured at fair value on a recurring basis.

² Cash and short-term investments of \$249,467 is 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.

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

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

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

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

collateral, credit quality of the issuer, maturity, embedded options, recent new issuance, comparative bond analysis, and seniority of debt.

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

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

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

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

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

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

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.

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.

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	\$ 4,523	\$ -	\$ -	\$ 300	\$ -	\$ -
Residential mortgage-backed securities	54	-	10,573	10,980	-	-
Asset-backed securities	<u>10,532</u>	<u>-</u>	<u>7,274</u>	<u>7,935</u>	<u>-</u>	<u>-</u>
Total invested assets	<u>\$ 15,109</u>	<u>\$ -</u>	<u>\$ 17,847</u>	<u>\$ 19,215</u>	<u>\$ -</u>	<u>\$ -</u>

14. SUBSEQUENT EVENTS

The Company has evaluated the impact of subsequent events through April 19, 2019, representing the date at which the financial statements were available to be issued. The following events occurred subsequent to December 31, 2018:

Mills Creek LLC

On January 7, 2019, Mills Creek LLC (Mills Creek), a wholly owned subsidiary of WREB, was formed as a Delaware limited liability company authorized to issue 100 Common Units.

On January 25, 2019, WREB contributed all of its right, title and interest in its direct investment life settlement contracts to Mills Creek in return for their 100 Common Units. The transfer, valued at \$240,376, was completed on January 29, 2019.

On January 29, 2019, WREB sold 25 Common Units of Mills Creek to SPC Opps Fund Holdings II, L.P., a Delaware limited partnership for an amount equal to 25% of the WREB's capital account as of the sale date.

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