<u>Exhibit CE-4-1</u>

Audited Consolidated Financial Statements of SBL Holdings for the Year Ended December 31, 2016

Please see attached.

COMBINED FINANCIAL STATEMENTS

SBL Holdings, LLC Group of Companies
Years Ended December 31, 2016, 2015 and 2014
With Report of Independent Auditors

SBL Holdings, LLC Group of Companies

Combined Financial Statements

Years Ended December 31, 2016, 2015, and 2014

Contents

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Report of Independent Auditors

The Board of Directors
SBL Holdings, LLC Group of Companies

We have audited the accompanying combined financial statements of SBL Holdings, LLC Group of Companies, which comprise the combined balance sheets as of December 31, 2016 and 2015, and the related combined statements of operations, comprehensive income, changes in stockholders' and members' equity, and cash flows for each of the three years in the period ended December 31, 2016, and the related notes to the combined 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 U.S. generally accepted accounting principles; 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.

Auditor's 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.

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Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of SBL Holdings, LLC Group of Companies at December 31, 2016 and 2015, and the combined results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

April 28, 2017

SBL Holdings, LLC Group of Companies

Combined Balance Sheets

	December 31	
	2016	**2015**
	(In Thousands, except as noted)	
Assets		
Investments:		
Securities available for sale:		
Fixed maturities ($16,926.1 million and $17,280.9 million in amortized cost for 2016 and 2015, respectively; includes $4,213.6 million and $2,929.4 million related to consolidated variable interest entities for 2016 and 2015, respectively)	**$ 17,057,616**	$ 16,773,528
Equity securities ($43.5 million and $105.7 million in cost for 2016 and 2015, respectively)	**47,663**	105,045
Securities fair value option:		
Fixed maturities	**329,681**	310,346
Equity securities	**92**	2,915
Mortgage loans	**–**	8,680
Notes receivable from related parties	**3,669,321**	2,134,634
Mortgage loans (includes $549.0 million and $0 related to consolidated variable interest entities for 2016 and 2015, respectively)	**1,680,637**	1,329,395
Policy loans	**445,362**	427,665
Cash and cash equivalents (includes $69.4 million and $1.7 million related to consolidated variable interest entities for 2016 and 2015, respectively)	**1,061,296**	617,955
Short-term investments	**72,890**	390,120
Call options	**381,396**	340,410
Other invested assets	**260,535**	246,644
Total investments	**25,006,489**	22,687,337
Accrued investment income (includes $46.6 million and $30.8 million related to consolidated variable interest entities for 2016 and 2015, respectively)	**244,645**	224,553
Accounts receivable	**254,951**	337,877
Reinsurance recoverable	**2,640,804**	2,750,666
Deferred tax asset	**–**	28,222
Property and equipment, net	**46,826**	48,780
Deferred policy acquisition costs	**1,164,508**	1,030,288
Deferred sales inducement costs	**969,608**	906,899
Value of business acquired	**33,396**	33,273
Other intangible assets	**43,229**	46,497
Other assets	**133,440**	101,738
Separate account assets	**5,652,990**	5,310,310
Total assets	**$ 36,190,886**	$ 33,506,440

See accompanying notes.

SBL Holdings, LLC Group of Companies

Combined Balance Sheets (continued)

	December 31	
	2016	**2015**
	(In Thousands, except as noted)	
Liabilities and stockholders' and members' equity		
Liabilities:		
Policy reserves and annuity account values	**$ 26,564,354**	$ 24,024,056
Funds withheld	**352,771**	353,035
Accounts payable and accrued expenses (includes \$4.7 million and \$282.6 million related to consolidated variable interest entities for 2016 and 2015, respectively)	**197,780**	615,260
Deferred income tax liability	**172,877**	–
Surplus notes payable	**80,728**	129,535
Notes payable related to commission assignments	**68,998**	97,095
Notes payable with related parties	**51,841**	–
Mortgage debt	**21,001**	24,041
Debt from consolidated variable interest entities	**720,055**	425,732
Long-term debt - SAILES 2-0, LLC	**76,462**	83,431
Other liabilities	**306,265**	228,938
Repurchase agreements	**–**	727,712
Separate account liabilities	**5,652,990**	5,310,310
Total liabilities	**34,266,122**	32,019,145
Stockholders' and members' equity:		
Common stock[(1)]	**9,002**	9,002
Contributed capital	**1,317,851**	1,317,851
Accumulated other comprehensive income (loss)	**63,774**	(159,093)
Stockholders' and members' equity	**33,840**	10,476
Retained earnings	**500,297**	309,059
Total stockholders' and members' equity	**1,924,764**	1,487,295
Total liabilities and stockholders' and members' equity	**$ 36,190,886**	$ 33,506,440

(1) SBLIC - \$10 par value, 1,000,000 shares authorized, 700,000 issued and outstanding.
FSBL - \$10 par value, 200,000 non-convertible shares authorized, issued, and outstanding.
SFR - \$1 par value 2,000 shares authorized, issued, and outstanding.

See accompanying notes.

SBL Holdings, LLC Group of Companies

Combined Statements of Operations

	Year Ended December 31		
	2016	**2015**	**2014**
		(In Thousands)	
Revenues:			
Net investment income	**$ 1,126,391**	$ 945,597	$ 741,524
Asset-based fees	**101,033**	106,995	109,447
Other product charges	**177,600**	160,795	116,336
Net realized/unrealized gains (losses), excluding impairment losses on available-for-sale securities	**(4,087)**	(271,574)	193,587
Total other-than-temporary impairment losses on available-for-sale securities and other invested assets	**(3,564)**	(5,410)	(6,361)
Portion of impairment losses on available-for-sale bonds recognized in other comprehensive income	**(79)**	1,258	1,083
Other revenues	**51,369**	43,530	31,638
Total revenues	**1,448,663**	981,191	1,187,254
Benefits and expenses:			
Index credits and interest credited to account balances	**223,085**	255,085	348,787
Other benefits	**493,748**	56,704	230,110
Total benefits	**716,833**	311,789	578,897
Commissions and other operating expenses	**263,661**	204,259	190,529
Amortization of deferred policy acquisition costs, deferred sales inducement costs, and value of business acquired, net of imputed interest	**80,227**	167,265	195,662
Interest expense	**66,041**	57,017	31,035
Total benefits and expenses	**1,126,762**	740,330	996,123
Income before income tax expense	**321,902**	240,861	191,131
Income tax expense	**96,640**	42,592	49,204
Net income	**$ 225,262**	$ 198,269	$ 141,927

See accompanying notes.

SBL Holdings, LLC Group of Companies

Combined Statements of Comprehensive Income

	Year Ended December 31		
	2016	**2015**	**2014**
	(In Thousands)		
Net income	**$ 225,262**	$ 198,269	$ 141,927
Other comprehensive income (loss), net:			
Net unrealized gains (losses) on available-for-sale securities	**433,241**	(532,766)	211,767
Net effect of unrealized gains and losses on:			
Deferred policy acquisition costs, value of business acquired and deferred sales inducement costs	**(114,481)**	142,126	(63,230)
Policy reserves and annuity account values	**(95,893)**	115,542	(49,437)
Total other comprehensive income (loss), net	**222,867**	(275,098)	99,100
Comprehensive income (loss)	**$ 448,129**	$ (76,829)	$ 241,027

See accompanying notes.

SBL Holdings, LLC Group of Companies

Combined Statements of Changes in Stockholders' and Members' Equity

	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (loss)	Members' Equity	Retained Earnings	Total
			(In Thousands)			
Balance at January 1, 2014	$ 9,002	$ 589,909	$ 16,905	$ 12,743	$ 136,193	$ 764,752
Net income	–	–	–	12,507	129,420	141,927
Other comprehensive income, net	–	–	99,100	–	–	99,100
Contribution from parent	–	325,000	–	–	–	325,000
Distributions/dividends paid	–	(58)	–	(13,626)	(118,400)	(132,084)
Balance at December 31, 2014	9,002	914,851	116,005	11,624	147,213	1,198,695
Net income	–	–	–	36,423	161,846	198,269
Other comprehensive loss, net	–	–	(275,098)	–	–	(275,098)
Contribution from parent	–	403,000	–	–	–	403,000
Distributions/dividends paid	–	–	–	(37,571)	–	(37,571)
Balance at December 31, 2015	9,002	1,317,851	(159,093)	10,476	309,059	1,487,295
Net income	**–**	**–**	**–**	**25,914**	**199,348**	**225,262**
Other comprehensive income, net	**–**	**–**	**222,867**	**–**	**–**	**222,867**
Distributions/dividends paid	**–**	**–**	**–**	**(10,660)**	**–**	**(10,660)**
Change in legal structure	**–**	**–**	**–**	**8,110**	**(8,110)**	**–**
Balance at December 31, 2016	**$ 9,002**	**$ 1,317,851**	**$ 63,774**	**$ 33,840**	**$ 500,297**	**$ 1,924,764**

See accompanying notes.

SBL Holdings, LLC Group of Companies

Combined Statements of Cash Flows

	Year Ended December 31		
	2016	2015	2014
		(In Thousands)	
Operating activities			
Net income	$ **225,262**	$ 198,269	$ 141,927
Adjustments to reconcile net income to net cash and cash equivalents provided by (used in) operating activities:			
Annuity and interest-sensitive life products – interest credited to account balances	**223,085**	255,085	348,787
Policy acquisition costs deferred	**(359,938)**	(341,595)	(509,989)
Amortization of deferred policy acquisition costs, deferred sales inducement costs, and value of business acquired, net of imputed interest	**80,227**	167,265	195,662
Net realized/unrealized losses (gains)	**7,730**	277,095	(186,424)
Amortization of investment premiums and discounts	**(15,361)**	(26,726)	(49,940)
Depreciation and amortization	**11,229**	10,635	9,600
Net sales (purchases) of fixed maturities, fair value option	**(11,856)**	36,379	55,423
Net sales (purchases) of equities, fair value option	**(47)**	117	(156)
Net sales of mortgage loans, at fair value	**8,715**	7,108	24,124
Change in funds withheld liability	**(264)**	(48,257)	(100,487)
Deferred income taxes	**87,555**	34,559	38,917
Change in annuity guarantees	**374,054**	170,917	266,214
Other changes in operating assets and liabilities	**(180,699)**	44,215	35,892
Net cash and cash equivalents provided by (used in) operating activities	**449,692**	785,066	269,550
Investing activities			
Sales, maturities, or repayments of investments:			
Fixed maturities available for sale	**12,093,231**	7,334,968	3,581,866
Equity securities available for sale	**107,303**	55,223	99,650
Mortgage loans	**574,533**	44,620	16,623
Call options	**59,703**	114,754	218,463
Notes receivable from related parties	**4,527,615**	2,774,469	578,540
Other invested assets	**82,416**	107,914	168,966
	17,444,801	10,431,948	4,664,108
Acquisitions of investments:			
Fixed maturities available for sale	**(11,524,669)**	(10,463,392)	(8,934,916)
Equity securities available for sale	**(92,078)**	(45,988)	(59,748)
Mortgage loans	**(1,038,759)**	(845,067)	(69,383)
Call options	**(179,295)**	(140,521)	(290,930)
Notes receivable from related parties	**(6,063,525)**	(3,385,113)	(1,042,672)
Other invested assets	**(43,630)**	(43,950)	(101,942)
	(18,941,956)	(14,924,031)	(10,499,591)

See accompanying notes.

SBL Holdings, LLC Group of Companies

Combined Statements of Cash Flows (continued)

	Year Ended December 31		
	2016	**2015**	**2014**
		(In Thousands)	
Net purchases of property and equipment	**$ (812)**	$ (2,651)	$ (1,097)
Net sales (purchases) of short-term investments	**309,492**	(303,944)	257,075
Net decrease (increase) in policy loans	**(17,697)**	(14,352)	62,363
Net cash and cash equivalents used in investing activities	**(1,206,172)**	(4,813,030)	(5,517,142)
Financing activities			
Payments on mortgage debt and long-term debt	**(230,675)**	(152,918)	(187,151)
Issuance of notes payable to related parties, consolidated VIE's, and commission assignment	**488,453**	198,615	612,460
Dividends paid to parent	**(10,660)**	(37,571)	(132,084)
Capital contribution from parent	**–**	400,000	325,000
Net change in repurchase agreements	**(727,712)**	486,517	113,659
Deposits to annuity account balances	**4,563,620**	3,270,798	4,828,390
Withdrawals from annuity account balances	**(2,883,205)**	(1,244,410)	(1,316,056)
Net cash and cash equivalents provided by financing activities	**1,199,821**	2,921,031	4,244,218
Increase (decrease) in cash and cash equivalents	**443,341**	(1,106,933)	(1,003,374)
Cash and cash equivalents at beginning of year	**617,955**	1,724,888	2,728,262
Cash and cash equivalents at end of year	**$ 1,061,296**	$ 617,955	$ 1,724,888
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Interest	**$ 36,652**	$ 29,466	$ 26,280
Income taxes	**$ 10,098**	$ 11,900	$ 29,378

See accompanying notes.

1. Nature of Operations and Significant Accounting Policies

Nature of Operations

The operations of the entities presented in the combined financial statements of SBL Holdings, LLC Group of Companies which are outlined in the paragraph below, and consolidated variable interest entities (VIEs) (see Note 3) (referred to herein, collectively, as the Company) consist primarily of marketing and distributing annuities, retirement plans, and other related products throughout the United States. Security Distributors, LLC (SD), a subsidiary of Security Benefit Life Insurance Company (SBLIC), is a registered broker/dealer with the Securities and Exchange Commission (SEC) and is a member of the Financial Industry Regulatory Authority (FINRA).

On January 1, 2016, SD was converted to a single member limited liability company under Kansas law. Prior to that time its name was Security Distributors, Inc. As part of this change in legal structure, $8.1 million was reclassified from retained earnings to members' equity.

SBL Holdings, LLC commenced operations in 2014 and was set-up in connection with the 2014 restructuring of operating segments within Security Benefit Corporation (SBC), the Company's immediate parent. The entities included within these combined financial statements are the entities that were contributed to SBL Holdings, LLC as part of the January 31, 2017 restructuring; not all entities controlled by SBC are included within these combined financial statements.

The Company offers a diversified portfolio of products comprised primarily of individual and group annuities, including fixed indexed annuities, fixed annuities, variable annuities, and retirement plan products through multiple distribution channels, and acts as a third-party administrator in the servicing of retirement plans.

Basis of Presentation

The combined financial statements of the Company includes the combined accounts of SBLIC, its wholly owned subsidiaries and consolidated VIEs (see Note 3), for which SBLIC is considered to be the primary beneficiary, and the accounts of First Security Benefit Life Insurance and Annuity Company of New York (FSBL); Security Financial Resources, Inc. (SFR); SBBS; Note Funding 1892, LLC; NF - GPIM, LLC; Note Funding OHA, LLC; Note Funding OHA II, LLC; Note Funding, LLC; Note Funding II, LLC; and DLSV 2015-1, LLC. The financial statements are

1. Nature of Operations and Significant Accounting Policies (continued)

presented in combination as all of the entities are related by common management. All intercompany accounts and transactions have been eliminated in the combination.

For the period January 1, 2016 through March 18, 2016 the combined financial statements of the Company also included the operations of Note Funding 1892-2, LLC.

Use of Estimates

The preparation of the combined financial statements and accompanying notes in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect amounts reported and disclosed. Significant estimates and assumptions include the valuation of investments; valuation of derivative financial instruments; determination of other-than-temporary impairments of investments; amortization of deferred policy acquisition costs (DAC), deferred sales inducement costs (DSI), value of business acquired (VOBA), and value of customer relationship acquired (VOCRA); calculation of liabilities for future policy benefits; calculation of income taxes and the recognition of deferred income tax assets and liabilities; and estimating future cash flows on certain structured securities. Management believes that the estimates used in preparing its combined financial statements are reasonable.

Investments

Fixed maturity investments include bonds, asset-backed securities, and redeemable preferred stock. Fixed maturity investments are classified as available for sale and carried at fair value, with related unrealized gains and losses reflected as a component of accumulated other comprehensive income or loss (AOCI) in the combined statements of comprehensive income, net of adjustments related to DAC, DSI, VOBA, policy reserves and annuity account values and applicable income taxes. The adjustment related to DAC, DSI, VOBA and policy reserves and annuity account values represents the impact from treating the unrealized gains or losses as if they were realized.

Equity securities include common stock and non-redeemable preferred stock. Equity securities are classified as available for sale and are carried at fair value, with related unrealized gains and losses reflected as a component of AOCI, net of applicable income taxes.

1. Nature of Operations and Significant Accounting Policies (continued)

The Company elects the fair value option for certain fixed maturity securities, commercial mortgage loans, and equity investments that are segregated to support the funds withheld reinsurance liability (see Note 10) and certain fixed maturity securities that have embedded derivative features. The change in fair value of these financial instruments is recognized as a component of net realized/unrealized gains (losses) on the combined statements of operations.

Realized capital gains and losses on sales of investments are determined using the average cost method. Unrealized capital gains and losses related to fair value option securities are reported as a component of net realized/unrealized gains (losses) on the combined statements of operations. Other-than-temporary impairments (OTTIs) are reported separately on the combined statements of operations.

To the extent the Company determines that an equity security is deemed other-than-temporarily impaired, the difference between carrying value and fair value is charged to earnings. For debt securities if the Company intends to sell the security or it is more likely than not the Company will be required to sell the security before the recovery of the amortized cost basis, the Company recognizes an OTTI equal to the difference between the amortized cost and fair value in net income. For debt securities where the Company does not expect to recover the amortized cost basis, does not plan to sell, or it is not more likely than not that the Company would be required to sell before recovery of the amortized cost basis, the Company bifurcates the OTTI and reports the credit portion of the loss recognized in net income, and the noncredit portion is recognized in other comprehensive income (OCI).

The credit loss component of a debt security impairment is estimated as the difference between amortized cost and the present value of the expected cash flows of the security. The methodology and assumptions for establishing the best estimate cash flows vary depending on the type of security. For fixed rate securities, the present value is determined using the best estimate cash flows discounted at the effective interest rate implicit to the security just prior to impairment. For variable rate securities, the present value is determined using the best estimate cash flows discounted at the variable rate that exists as of the date the cash flow estimate is made. The asset-backed securities cash flow estimates are based on bond-specific facts and circumstances that may include collateral characteristics, expectations of delinquency and default rates, loss severity, prepayment speeds, and structural support, including subordination and guarantees.

1. Nature of Operations and Significant Accounting Policies (continued)

Commercial and residential mortgage loans are generally reported at cost adjusted for amortization of premiums or accrual of discounts, computed using the interest method, net of valuation allowances. Interest income is accrued on the principal amount of the loan based on the loan's contractual interest rate. Interest income, as well as prepayment of fees and the amortization of the related premium or discount, is reported in net investment income on the combined statements of operations.

Cash and cash equivalents includes operating cash, other investments with original maturities of 90 days or less, and money market funds principally supported with cash and cash equivalent funds. Short-term investments are carried at market value and represent fixed maturity securities with initial maturities of greater than 90 days but less than one year.

Restricted cash consists of cash pledged by the Company as collateral and cash held in accordance with SEC regulations for the exclusive benefit of customers. All restricted cash has been segregated from the Company's operating cash accounts. At December 31, 2016 and 2015, the Company held restricted cash of $0.1 million and $3.6 million, respectively.

The Company has agreed to provide a short-term loan facility through bridge or revolver loans to borrowers until permanent financing can be secured or an existing obligation or project is completed. The Company generally receives a commitment fee on unfunded amounts and interest on the amounts funded. Open commitments on bridge loans and revolvers are disclosed in Note 15.

Policy loans are reported at unpaid principal.

Asset and Liability Derivatives

The Company hedges certain exposures to interest rate risk and equity market risk by entering into derivative financial instruments. All of the derivative financial instruments are recognized as an asset or liability on the combined balance sheets at estimated fair value. For derivative instruments not receiving hedge accounting treatment but that are economic hedges, the gain or loss is recognized in net income during the period of change.

1. Nature of Operations and Significant Accounting Policies (continued)

The Company issues certain products that contain a derivative that is embedded in the product, and must be accounted for under ASC 815, *Derivatives and Hedging*. Under ASC 815, the Company assesses whether the embedded derivative is clearly and closely related to the host contract. The Company bifurcates embedded derivatives from the host instrument for measurement purposes when the embedded derivative possesses economic characteristics that are not clearly or closely related to the economic characteristics of the host contract and a separate instrument with the same terms would qualify as a derivative instrument. Embedded derivatives, which are reported with the host instrument on the combined balance sheets in policy reserves and annuity account values, are reported at fair value with changes in fair value recognized on the combined statements of operations.

The Company has entered into agreements with insurance companies to identify and recommend producers for annuity contracts, deliver annuity contracts, collect the first premium, and service the business on the insurance companies' behalf. The Company pays heaped first commissions to field producers then receives monthly level commissions from the insurance companies for annuity contracts that continue to be in-force policies over a period of time. The assigned commission receivable is comprised of the base level commission payments (the Host Contract) and a commission assignment embedded derivative (the Lapse Risk). In accordance with FASB ASC 815, Derivatives and Hedging, the Lapse Risk is separated from the Host Contract and accounted for as a derivative instrument. The Lapse Risk is recorded at fair value with the change in unrealized gain (loss) related to lapse-risk recognized on the consolidated statements of operations.

The Company is party to agreements with certain derivative instrument counterparties which require the posting of collateral when the market value of the derivative instrument exceeds the cost of the instrument, subject to certain thresholds agreed upon with the counterparties. Collateral posted by counterparties is reported on the combined balance sheets in cash and cash equivalents with a corresponding liability reported in other liabilities.

Deferred Policy Acquisition Costs, Deferred Sales Inducement Costs and Value of Business Acquired

To the extent recoverable from future policy revenues and gross profits, incremental direct costs of contract acquisition (commissions) as well as certain costs directly related to acquisition activities (underwriting, other policy issuance and processing, and selling costs) for the successful

1. Nature of Operations and Significant Accounting Policies (continued)

acquisition or renewal of deferred annuity business have been deferred. DAC is amortized in proportion to the present value, discounted at the crediting rate, of actual and expected gross profits from investments (gross blended separate account return assumption of 7.7% for all years), withdrawal, mortality, and expense margins. Amortization is adjusted retrospectively when estimates of current or future gross profits to be realized from a group of products are revised. DAC is adjusted for the impact on estimated gross profits of net unrealized gains and losses on assets, with the adjustment reflected in stockholders' and members' equity as a component of AOCI, net of applicable income taxes.

For insurance and annuity contracts, policyholders can elect to modify product benefits, features, rights, or coverages by exchanging a contract for a new contract or by an amendment, an endorsement, or a rider to a contract or by the election of a feature or coverage within a contract. These transactions are known as internal replacements. The Company accounts for internal replacements as a termination of the original contract and an issuance of a new contract. Any DAC or DSI associated with the original contract is written off. Consistent with this, the Company anticipates these transactions in establishing amortization periods and other valuation assumptions.

DSI consists of bonus interest credits and premium credits added to certain annuity contract values. It is subject to vesting requirements and is capitalized to the extent it is incremental to amounts that would be credited on similar contracts without the applicable feature. DSI is amortized using the same methodology and assumptions used to amortize DAC.

VOBA is an asset that reflects the present value of estimated net cash flows embedded in the insurance contracts that existed in a life insurance company acquisition. The Company recorded VOBA that is being amortized in a similar manner to the deferred policy acquisition costs.

Other Intangible Assets

Intangible assets with indefinite lives are not amortized, but are reviewed at least annually for indications of value impairment, with consideration given to financial performance and other relevant factors. Intangibles that do not have indefinite lives are amortized over their estimated useful lives. The carrying values of intangible assets are reviewed at least annually for indicators of impairment in value that are other-than-temporary, including unexpected or adverse changes in the following: the economic or competitive environments in which the company operates;

1. Nature of Operations and Significant Accounting Policies (continued)

profitability analyses; cash flow analyses; and the fair value of the relevant business operation. If there was an indication of impairment, then the discounted cash flow method would be used to measure the impairment, and the carrying value would be adjusted as necessary.

VOCRA is an intangible asset that reflects the present value of estimated future profits associated with customer relationships acquired as part of the 2010 life insurance company acquisition. VOCRA is amortized over the expected future profits determined at the time of the acquisition. The Company performed qualitative analysis on an annual basis to assess the recoverability of this intangible asset.

Property and Equipment

Property and equipment, including home office real estate, furniture and fixtures, and data processing equipment and certain related systems, are recorded at cost less accumulated depreciation. Computer software includes internally developed software costs that are capitalized when they reach technological feasibility. The provision for depreciation of property and equipment is computed using the straight-line method over the estimated lives of the related assets, which generally range from 3 to 39 years.

1. Nature of Operations and Significant Accounting Policies (continued)

The following is a summary of property and equipment at cost less accumulated depreciation as of December 31:

	2016	2015
	(In Thousands)	
Land	$ **5,630**	$ 5,630
Land improvements	**493**	367
Building	**46,716**	46,321
Furniture	**2,691**	2,340
Data processing equipment	**595**	605
Computer software	**6,679**	7,033
Other	**965**	661
	63,769	62,957
Less accumulated depreciation	**(16,943)**	(14,177)
Net property and equipment	$ **46,826**	$ 48,780

Accumulated depreciation deducted from investment in real estate amounted to $10.9 million and $9.2 million at December 31, 2016 and 2015, respectively.

The Company leases a portion of its office facility to the Federal Home Loan Bank of Topeka (FHLB) under an operating lease that expires during 2018. Under this lease, certain operating expenses of the premises are the responsibility of the FHLB, while others are reimbursed to the Company (see Note 16).

In February 2013, SAILES 2-0, LLC (SAILES) acquired an airplane for other investment purposes. SAILES leases the airplane under an operating lease that expires on February 28, 2025. The asset is depreciated on a straight-line method over 25 years which approximates its estimated productive life. Depreciation on the asset in the amount of $5.2 million for each of the years ended December 31, 2016, 2015, and 2014 is included in commissions and other operating expenses on the combined statements of operations.

1. Nature of Operations and Significant Accounting Policies (continued)

The following is a summary of the asset held at cost less accumulated depreciation as of December 31:

	2016	2015
	(In Thousands)	
Airplane	**$ 145,000**	$ 145,000
Less accumulated depreciation	**(19,916)**	(14,720)
	$ 125,084	$ 130,280

The asset is included in other invested assets on the combined balance sheets.

Business-Owned Life Insurance

The Company has invested in business-owned life insurance. The investment is carried in other assets on the combined balance sheets at net policy value of $20.2 million and $19.9 million at December 31, 2016 and 2015, respectively, with the change in net policy value recorded in other revenue of $0.6 million, $0.3 million, and $0.1 million for the years ended December 31, 2016, 2015, and 2014, respectively.

Company-Owned Life Insurance

The Company has invested in company-owned life insurance. The investment is carried in other assets at net policy value of $26.0 million and $23.8 million at December 31, 2016 and 2015, respectively, with the change in net policy value recorded as an increase in/(reduction) of other benefits of $1.9 million, $0.1 million, and ($1.3) million for the years ended December 31, 2016, 2015, and 2014, respectively.

Separate Accounts

The separate account assets and liabilities reported in the accompanying combined balance sheets represent funds that are separately administered for the benefit of contract holders who bear the investment risk. The separate account assets are carried at fair value, and separate account liabilities are carried at an equivalent value. Revenues and expenses related to separate account assets and liabilities, to the extent of benefits paid or provided to the separate account

1. Nature of Operations and Significant Accounting Policies (continued)

contract holders by the Company, are excluded from the amounts reported on the combined statements of operations. Investment income and gains or losses arising from separate accounts accrue directly to the contract holders and, therefore, are not included in investment income in the accompanying combined statements of operations. Product charge revenues to the Company from the separate accounts consist principally of contract maintenance charges, administrative fees, and mortality and expense risk charges.

The Company has variable annuity contracts through separate accounts that include various types of guaranteed minimum death benefit (GMDB), guaranteed minimum accumulation benefit (GMAB), guaranteed minimum withdrawal benefit (GMWB), and guaranteed minimum income benefit (GMIB) features. As discussed in Note 4, certain features of these guarantees are accounted for as embedded derivative reserves, whereas other guarantees are accounted for as benefit reserves. Other guarantees contain characteristics of both and are accounted for under an approach that calculates the value of the embedded derivative and the benefit reserve based on the specific characteristics of each guaranteed living benefit (GLB) feature.

The Company issued to certain related parties funding agreements through separate accounts whereby the contract holders elect to invest in various investment options offered under the policy. Contract holders have the ability to take policy loans, which are secured by the policy, up to an amount specified in the policy. As of December 31, 2016 and 2015, separate account investments funded through these agreements were $1,870.3 million and $1,494.0 million, respectively, and are reported in separate account assets and liabilities on the combined balance sheets. Policy loans related to these separate accounts totaled $352.0 million and $327.9 million as of December 31, 2016 and 2015, respectively, and are reported in policy loans on the combined balance sheets. Investment income and gains or losses arising from the investments in the separate account funding agreements accrue directly to the contract holders and, therefore, are not included in investment income in the accompanying combined statements of operations. Revenues to the Company from the separate account funding agreements consist primarily of administrative fees and interest on the policy loans issued to the contract holders.

Policy Reserves and Annuity Account Values

Liabilities for future policy benefits for traditional life products are computed using a net level-premium method, including assumptions as to investment yields, mortality, and withdrawals and other assumptions that approximate expected experience.

1. Nature of Operations and Significant Accounting Policies (continued)

Liabilities for future policy benefits for interest-sensitive life and deferred annuity products represent contract values accumulated at interest without reduction for potential surrender charges. Interest on accumulated contract values is credited to contracts as earned. Crediting rates ranged from 1.0% to 4.5% during each of the years 2016, 2015, and 2014. Policy reserves are adjusted for the impact on estimated gross profits of net unrealized gains and losses on bonds, with the adjustment reflected in stockholders' and members' equity as a component of AOCI, net of applicable income taxes.

Policy reserves and annuity account values also include funding agreements of $652.5 million and $1,520.7 million at December 31, 2016 and 2015, respectively, which are classified as investment-type contracts. These liabilities consist of floating interest rate and fixed interest rate contracts. These agreements have call provisions that give the holder of the funding agreements the right to require the funding agreement be redeemed by the Company if certain adverse conditions occur.

The Company offers fixed indexed annuity products with returns linked to the performance of certain indices. The fixed indexed annuity products also offer a guaranteed lifetime withdrawal benefit (GLWB) and a GMDB. The GLWB and GMDB guarantees are accounted for as benefit reserves. Policy reserves for index annuities are equal to the sum of the fair value of the embedded index options, the host (or guaranteed) components of the index account, and the fixed account accumulated with interest and without reduction for potential surrender charges, plus the benefit reserves for the GLWB and GMDB benefits. The host value is established at inception of the contract and is accreted over the policy's life at a constant rate of interest. Fair value of the embedded index options is calculated using discounted cash flow valuation techniques based on current interest rates adjusted to reflect the Company's credit risk and an additional provision for adverse deviation.

Reinsurance Agreements

The Company utilizes reinsurance agreements to manage certain risks associated with its annuity operations and to reduce exposure to large losses. In the accompanying combined financial statements, premiums, benefits, and settlement expenses are reported net of reinsurance ceded, whereas policy liabilities and accruals are reported gross of reinsurance ceded. Reinsurance premiums and benefits are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. The Company remains liable to policyholders if the reinsurers are unable to meet their contractual obligations under the applicable

1. Nature of Operations and Significant Accounting Policies (continued)

reinsurance agreements. To minimize its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers, monitors concentrations of credit risk arising from similar activities or economic characteristics of reinsurers, and requires collateralization of liabilities ceded where allowable by contract.

Deferred Income Taxes

Deferred income tax assets and liabilities are determined based on differences between the financial reporting and income tax bases of assets and liabilities and are measured using the enacted tax rates and laws. Deferred income tax expense or benefit, reflected in the Company's combined statements of operations as a component of income tax expense or benefit, is based on the changes in deferred income tax assets or liabilities from period to period (excluding unrealized capital gains and losses on securities available for sale). Deferred income tax assets are subject to ongoing evaluation of whether such assets will be realized. The ultimate realization of deferred income tax assets depends on generating future taxable income during the periods in which temporary differences become deductible. The Company records a valuation allowance to reduce its deferred income tax assets to an amount that represents management's best estimate of the amount of such deferred income tax assets that will more likely than not be realized using the enacted tax rates and laws.

Recognition of Revenues

Dividends and interest income, recorded in net investment income, are recognized when earned. Amortization of premiums and accretion of discounts on investments in fixed maturity securities are reflected in net investment income over the contractual terms of the investments in a manner that produces a constant effective yield. For mortgage-backed securities, included in the fixed maturity available-for-sale securities portfolios, the Company recognizes income using a constant yield based on anticipated prepayments and the estimated economic life of the securities. When actual prepayments differ significantly from originally anticipated prepayments, the effective yield is recalculated to reflect actual payments to date plus anticipated future payments. For securities, purchased or retained, that represent beneficial interests in structured notes other than high credit quality securities, the accretable yield is adjusted using the prospective method when there is a change in estimated future cash flows. For high credit quality securities, the accretable yield is adjusted using the retrospective method. Any adjustments resulting from changes in effective yield are reflected in net investment income.

1. Nature of Operations and Significant Accounting Policies (continued)

Traditional life insurance products include whole life insurance, term life insurance, and certain annuities. Premiums for these traditional products are recognized as revenues when due. Revenues from deferred annuities consist of policy charges for the mortality and expense risk charges, policy administration charges, and surrender charges assessed against contract holder account balances during the period and are recognized as earned.

Commissions include point-of-sale fees for retirement plan and variable annuity transactions and are recognized when earned. Service fees represent amounts earned under agreements with the investment advisors and/or underwriters of both affiliated and unaffiliated mutual funds. These fees are accrued and paid on a monthly basis based on contractual agreements.

The Company evaluates the need for an allowance for accounts receivable that it believes will not be collected in full. There was no allowance for doubtful accounts at December 31, 2016 or 2015.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. This authoritative guidance outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers, and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue standard is that an entity recognize revenue to reflect the transfer of a promised good or service to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the good or service. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. Entities have the option of using either a full retrospective or a modified retrospective approach for the adoption of the new standard, which becomes effective for fiscal years beginning after December 15, 2016.

In August 2015, the FASB issued ASU 2015-14 *Revenue from Contracts with Customers* (Topic 606). The amendments in this Update defer the effective date of Update 2014-09 for all entities by one year. Therefore, ASU 2014-09 will be effective for the Company’s fiscal year beginning January 1, 2018. During 2016, the FASB issued ASU 2016-08, 2016-10, and 2016-12 that are all further clarifications to ASU 2014-09. The Company is currently evaluating the impact of this revenue recognition guidance on the financial statements.

1. Nature of Operations and Significant Accounting Policies (continued)

In February 2015, the FASB issued ASU 2015-2, which updated consolidation standards under ASC Topic 810, *Consolidation*. Under this update, a new consolidation analysis is required for VIEs, which limits the circumstances in which investment managers and similar entities are required to consolidate the entities that they manage. ASU 2015-02 eliminates some of the criteria under which the fees of investment managers and similar entities are considered a variable interest and limit the circumstances in which variable interests in a VIE held by related parties of a reporting enterprise require the reporting enterprise to consolidate the VIE. During 2016, SBLIC adopted ASU 2015-02 on a modified retrospective approach for all periods presented. The adoption did not result in a cumulative effect adjustment to the Company's retained earnings. There is no impact to the consolidated financial statements upon adoption.

In January 2016, the FASB issued ASU 2016-01 *Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. The new guidance changes the current accounting guidance related to (i) the classification and measurement of certain equity investments, (ii) the presentation of changes in the fair value of financial liabilities measured under the Fair Value Option (FVO) that are due to instrument-specific credit risk, and (iii) certain disclosures associated with the fair value of financial instruments. The amendments in this Update are effective for fiscal years beginning after December 15, 2017. Earlier application is permitted. The Company is currently evaluating the impact of this ASU.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The guidance in ASU 2016-02 supersedes the lease recognition requirements in ASC Topic 840, *Leases*. ASU 2016-02 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). This update requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. This update requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The standard is effective January 1, 2019 for the Company, with early adoption permitted. The Company is in the process of evaluating the impact of this new guidance.

1. Nature of Operations and Significant Accounting Policies (continued)

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses, Measurement of Credit Losses on Financial Instruments*. The amendments in this ASU replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The new standard will become effective for the Company on January 1, 2021, with early adoption permitted in 2019. The Company is currently evaluating the impact of this new guidance on the financial statements, but does not expect it to have a material impact.

2. Investments

Fixed Maturity Investments and Equity Securities

Information as to the amortized cost, gross unrealized gains and losses, fair values, and OTTIs in AOCI, of the Company's portfolio of fixed maturity investments and equity securities classified as available for sale, is as follows:

	December 31, 2016				
	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTIs in AOCI
	(In Thousands)				
Fixed maturity investments:					
U.S. Treasury securities and other U.S. government corporations and agencies	$ 410,588	$ 1,804	$ 6,677	$ 405,715	$ –
Obligations of government-sponsored enterprises	481,384	4,550	6,162	479,772	–
Corporate	6,803,557	131,823	53,907	6,881,473	(79)
Obligations of foreign governments	10,154	184	60	10,278	–
Municipal obligations	256,654	10,724	4,750	262,628	–
Commercial mortgage-backed	509,850	3,629	7,598	505,881	–
Residential mortgage-backed	124,801	2,091	1,354	125,538	–
Collateralized debt obligations	2,014	2,288	–	4,302	–
Other debt obligations[1]	8,327,085	134,339	79,395	8,382,029	–
Total fixed maturity investments	$ 16,926,087	$ 291,432	$ 159,903	$ 17,057,616	$ (79)
Equity securities:					
Communications	$ 25,066	$ 5,046	$ –	$ 30,112	$ –
Financial	802	137	–	939	–
Industrial	4	36	–	40	–
Mutual fund	8,438	88	1,154	7,372	–
Government	9,200	–	–	9,200	–
Total equity securities	$ 43,510	$ 5,307	$ 1,154	$ 47,663	$ –

[1] Other debt obligations consist of other asset-backed securities, including collateralized loan obligations, and redeemable preferred stock.

2. Investments (continued)

	December 31, 2015									
		Cost/ Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value		OTTIs in AOCI
					(In Thousands)					
Fixed maturity investments:										
U.S. Treasury securities and other U.S. government corporations and agencies	$	724,445	$	19,481	$	9,786	$	734,140	$	–
Obligations of government-sponsored enterprises		615,196		13,001		6,428		621,769		–
Corporate		6,392,972		102,982		265,226		6,230,728		1,235
Obligations of foreign governments		19,035		293		70		19,258		–
Municipal obligations		478,925		30,208		9,064		500,069		–
Commercial mortgage-backed		551,598		5,743		4,462		552,879		–
Residential mortgage-backed		181,891		1,579		6,250		177,220		–
Collateralized debt obligations		13,668		2,259		13		15,914		–
Other debt obligations[(1)]		8,303,136		43,755		425,340		7,921,551		(54)
Total fixed maturity investments	$	17,280,866	$	219,301	$	726,639	$	16,773,528	$	1,181
Equity securities:										
Financial	$	46,077	$	3,378	$	1,128	$	48,327	$	–
Mutual fund		8,324		–		1,691		6,633		–
Government		49,604		–		–		49,604		–
Consumer		1,648		–		1,167		481		–
Total equity securities	$	105,653	$	3,378	$	3,986	$	105,045	$	–

(1) Other debt obligations consist of other asset-backed securities, including collateralized loan obligations, and redeemable preferred stock.

2. Investments (continued)

The amortized cost and fair value of fixed maturity investments at December 31, 2016, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because lenders may have the right to call and borrowers may have the right to prepay obligations with or without penalties.

	Available for Sale	
	Amortized Cost	Fair Value
	(In Thousands)	
Due one year or less	$ 47,453	$ 47,403
Due after one year through five years	3,650,288	3,655,396
Due after five years through ten years	1,562,033	1,587,039
Due after ten years	2,221,177	2,270,256
Mortgage-backed securities and other asset-backed securities	9,445,136	9,497,522
	$16,926,087	$17,057,616

2. Investments (continued)

For fixed maturity investments and equity securities classified as available for sale with unrealized losses as of December 31, 2016 and 2015, the gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are summarized as follows:

	December 31, 2016					
	Less Than 12 Months		Greater Than or Equal to 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In Thousands)					
Fixed maturity investments, available for sale:						
U.S. Treasury securities and other U.S. government corporations and agencies	$ 351,915	$ 6,167	$ 2,671	$ 510	$ 354,586	$ 6,677
Obligations of government-sponsored enterprises	349,662	6,130	1,096	32	350,758	6,162
Corporate	920,584	25,002	465,536	28,905	1,386,120	53,907
Obligations of foreign governments	3,446	60	–	–	3,446	60
Municipal obligations	103,594	2,948	5,777	1,802	109,371	4,750
Commercial mortgage-backed	301,360	7,258	13,137	340	314,497	7,598
Residential mortgage-backed	24,420	469	36,200	885	60,620	1,354
Collateralized debt obligations	–	–	–	–	–	–
Other debt obligations	1,917,545	42,093	1,638,056	37,302	3,555,601	79,395
Total fixed maturity investments, available for sale	$ 3,972,526	$ 90,127	$ 2,162,473	$ 69,776	$ 6,134,999	$ 159,903
Number of securities with unrealized losses		675		250		925
Percent investment grade (AAA through BBB-)		87%		68%		82%
Total equity securities available for sale	$ –	$ –	$ 6,983	$ 1,154	$ 6,983	$ 1,154

2. Investments (continued)

	December 31, 2015					
	Less Than 12 Months		Greater Than or Equal to 12 Months		Total	
	Carrying Amount	Gross Unrealized Losses	Carrying Amount	Gross Unrealized Losses	Carrying Amount	Gross Unrealized Losses
			(In Thousands)			
Fixed maturity investments, available for sale:						
U.S. Treasury securities and other U.S. government corporations and agencies	$ 416,522	$ 9,786	$ –	$ –	$ 416,522	$ 9,786
Obligations of government-sponsored enterprises	353,537	6,410	3,905	18	357,442	6,428
Corporate	2,187,511	244,601	478,554	20,625	2,666,065	265,226
Obligations of foreign governments	8,672	70	–	–	8,672	70
Municipal obligations	75,193	3,707	61,728	5,357	136,921	9,064
Commercial mortgage-backed	72,894	1,431	178,143	3,031	251,037	4,462
Residential mortgage-backed	119,793	5,491	16,462	759	136,255	6,250
Collateralized debt obligations	11,410	13	–	–	11,410	13
Other debt obligations	5,062,041	334,250	1,089,919	91,090	6,151,960	425,340
Total fixed maturity investments, available for sale	$ 8,307,573	$ 605,759	$ 1,828,711	$ 120,880	$ 10,136,284	$ 726,639
Number of securities with unrealized losses		933		273		1,206
Percent investment grade (AAA through BBB-)		88%		85%		87%
Total equity securities available for sale	$ 30,222	$ 3,986	$ –	$ –	$ 30,222	$ 3,986

The unrealized losses on these securities can primarily be attributed to changes in market interest rates and changes in credit spreads since the securities were acquired. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of its amortized cost bases, which may be maturity, the Company does not consider those investments to be other than temporarily impaired at December 31, 2016 and 2015. For equity securities, the Company evaluated the near-term prospects of the issuer in relation to the severity and duration of the impairment. Based on that evaluation and the Company's ability and intent to hold those investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2016 and 2015.

2. Investments (continued)

The Company closely monitors those securities where impairment concerns may exist by considering relevant facts and circumstances to evaluate whether the impairment of a security is other than temporary. Relevant facts and circumstances considered include (1) the length of time the fair value has been below cost; (2) the financial position and access to capital of the issuer, including the current and future impact of any specific events; (3) for fixed maturity securities, the Company's intent to sell a security or whether it is more likely than not the Company will be required to sell the security before the recovery of its amortized cost basis, and (4) for equity securities, the Company's ability and intent to hold the security until it recovers in value. For asset-backed securities, several additional factors are taken into account, including cash flows, collateral sufficiency, liquidity, and economic conditions.

The following table provides a rollforward of accumulated credit losses for fixed maturity securities with bifurcated credit losses. The purpose of the table is to provide detail of (1) additions to bifurcated credit loss amounts recognized in net realized gains (losses) during the period and (2) decrements for previously recognized bifurcated credit losses where the loss is no longer bifurcated and/or there has been a positive change in expected cash flows or accretion of the bifurcated credit loss amount for the years ended December 31:

	2016	2015	2014
		(In Thousands)	
Balance at beginning of year	**$ (8,739)**	$ (6,175)	$ (3,574)
Credit losses for which an other-than-temporary impairment was not previously recognized	**(3,299)**	(3,032)	(5,278)
Reduction for securities sold during the year or intended to be sold	**5,061**	1,589	2,677
Additional credit loss impairments on securities previously impaired	**(344)**	(1,121)	–
Balance at end of year	**$ (7,321)**	$ (8,739)	$ (6,175)

2. Investments (continued)

Major categories of net investment income are summarized as follows for the years ended December 31:

	2016	2015	2014
		(In Thousands)	
Interest on fixed maturity investments, available for sale	**$ 910,344**	$ 826,105	$ 574,231
Interest on fixed maturity investments, fair value option	**14,053**	13,730	15,126
Interest on notes receivable from related parties	**127,457**	22,658	–
Dividends on equity securities	**2,195**	6,165	2,527
Dividends on equity securities, fair value option	**–**	211	–
Interest on mortgage loans	**100,032**	37,956	23,915
Interest on mortgage loans, fair value option	**86**	383	1,315
Interest on policy loans	**29,158**	26,882	27,613
Interest on short-term investments	**28,203**	77,519	87,302
Other	**4,272**	1,410	59,428
Total investment income	**1,215,800**	1,013,019	791,457
Less:			
Investment expenses	**75,270**	52,897	31,146
Ceded to reinsurer	**14,139**	14,525	18,787
Net investment income	**$ 1,126,391**	$ 945,597	$ 741,524

Proceeds from sales of fixed maturity investments and equity securities available for sale and realized gains and losses are as follows for the years ended December 31:

	2016	2015	2014
		(In Thousands)	
Proceeds from sales	**$ 17,691,023**	$ 9,374,886	$ 3,268,108
Gross realized gains	**132,193**	111,005	28,474
Gross realized losses	**46,271**	31,677	17,117

2. Investments (continued)

Net realized/unrealized gains (losses), net of ceded reinsurance gains and associated amortization of DAC, DSI, and VOBA, consist of the following for the years ended December 31:

	2016	2015	2014
		(In Thousands)	
Realized gains (losses), available for sale:			
Fixed maturity investments	**$ 87,566**	$ 79,101	$ 10,144
Equity securities	**(1,644)**	227	1,213
Other invested assets	**43,507**	20,515	12,047
Total net realized gains, available for sale	**129,429**	99,843	23,404
Realized gains (losses), fair value option:			
Fixed maturity investments	**1,189**	(1,111)	(645)
Equity securities	**–**	8	–
Mortgage loans	**727**	(725)	–
Total net realized gains (losses), fair value option	**1,916**	(1,828)	(645)
Impairments:			
OTTI of available-for-sale fixed maturity investments	**(3,564)**	(5,410)	(6,361)
Portion of OTTIs recognized in OCI	**(79)**	1,258	1,083
Total impairments	**(3,643)**	(4,152)	(5,278)
Other (losses) gains:			
Derivatives	**(78,606)**	(345,781)	184,336
Fixed maturity investments, fair value option	**3,721**	1,861	(20,872)
Mortgage loans, fair value option	**(683)**	777	(64)
Equity securities, fair value option	**45**	69	(257)
Embedded derivatives	**11,652**	(2,707)	21,193
Foreign exchange losses on monetary asset	**(51,862)**	–	–
Other	**–**	(75)	–
Total other (losses) gains	**(115,733)**	(345,856)	184,336
	11,969	(251,993)	201,817
Net ceded reinsurance (losses) gains	**(1,917)**	1,369	1,885
Related impact on DAC, DSI, and VOBA	**(17,782)**	(25,102)	(15,393)
Net realized/unrealized gains (losses)	**$ (7,730)**	$ (275,726)	$ 188,309

2. Investments (continued)

There were no outstanding agreements to sell securities at December 31, 2016.

At December 31, 2016 and 2015, the Company pledged securities and cash with a market value of approximately $207.8 million and $1,093.6 million, respectively, as collateral in relation to its structured institutional products and for the line of credit with FHLB (see Note 16).

At December 31, 2016 and 2015, the Company pledged securities with a market value of approximately $278.4 million and $259.6 million, respectively, as collateral in relation to its reinsurance agreements (see Note 10).

At December 31, 2016 and 2015, available-for-sale bonds with a fair value of $4.9 million and $4.9 million, respectively, were held in joint custody at various state insurance departments to comply with statutory regulations.

Mortgage Loans

Mortgage loans consist of commercial and residential mortgage loans. The Company evaluates risks inherent in the brick and mortar commercial mortgage loans based on the property's operational results supporting the loan. The Company also evaluates the risks inherent in its residential mortgage loan portfolio. The carrying amount of the Company's mortgage loan portfolio was as follows at December 31:

	2016	2015
	(In Thousands)	
Commercial mortgage loans	**$ 1,674,060**	$ 1,322,114
Commercial mortgage loans, at fair value (amortized cost of $0 and $7,997 as of December 31, 2016 and 2015, respectively)	–	8,680
Residential mortgage loans	**6,577**	7,281
Total carrying cost	**$ 1,680,637**	$ 1,338,075

2. Investments (continued)

The Company periodically purchases and sells mortgage loans it has originated. The Company purchased $849.9 million and sold $8.6 million commercial mortgage loans during the year ended December 31, 2016. The Company purchased $851.3 million and sold $21.2 million commercial mortgage loans during the year ended December 31, 2015. The Company issued $1.8 million and sold no residential mortgage loans during the year ended December 31, 2016. The Company issued $240,000 and sold no residential mortgage loans during the year ended December 31, 2015.

The commercial mortgage loan portfolio consists primarily of non-recourse, fixed rate mortgages.

The commercial mortgage loan portfolio is diversified by geographic region and specific collateral property type as follows at December 31:

	2016		**2015**	
	Carrying Amount	**Percent of Total**	**Carrying Amount**	**Percent of Total**
	(Dollars In Thousands)			
Geographic distribution				
West North Central	**$ 599,473**	**36%**	$ 331,737	25%
Foreign	**396,044**	**23**	319,223	24
South Atlantic	**230,982**	**14**	153,399	11
Pacific	**235,292**	**14**	234,725	18
West South Central	**89,282**	**5**	92,004	7
East North Central	**76,520**	**5**	82,793	6
Mountain	**17,001**	**1**	24,357	2
New England	**12,248**	**1**	12,734	1
East South Central	**9,816**	**1**	10,074	1
Middle Atlantic	**7,402**	**–**	69,748	5
Total	**$ 1,674,060**	**100%**	$ 1,330,794	100%

2. Investments (continued)

	2016		2015	
	Carrying Amount	**Percent of Total**	**Carrying Amount**	**Percent of Total**
	(Dollars In Thousands)			
Property type distribution				
Childcare Center	**$ 548,970**	**33%**	$ 269,929	20%
Office	**309,741**	**19**	192,954	15
Retail	**168,346**	**10**	289,572	22
Multi-Family	**129,307**	**8**	149,895	11
Apartments	**127,208**	**8**	51,736	4
Stadium-Clubhouse	**111,383**	**7**	125,282	10
Industrial	**106,766**	**6**	111,484	8
Condominium	**68,686**	**4**	–	–
Hotel	**49,198**	**3**	110,070	8
Country Club	**25,017**	**1**	–	–
Hospitality	**22,067**	**1**	–	–
Self Storage	**7,371**	**–**	–	–
Mixed Use/Other	**–**	**–**	29,872	2
Total	**$ 1,674,060**	**100%**	$ 1,330,794	100%

The residential mortgages are concentrated in the United States. The debtors of these residential mortgages are all officers of the Company or the Company's parent, SBC.

The Company actively monitors and manages its commercial mortgage loan portfolio. All commercial mortgage loans are analyzed regularly and substantially all are internally rated, based on a proprietary risk rating model. The Company's internal rating analysis presents expected losses in terms of a Standard & Poor's (S&P) bond equivalent rating. As the credit risk for commercial mortgage loans increases, the Company adjusts the internal ratings downwards with loans in the category "B+ and below" having the highest risk for credit loss. Internal ratings on commercial mortgage loans are updated at least annually and potentially more often for certain loans with material changes in collateral value or occupancy and for loans on an internal "watch list".

2. Investments (continued)

Commercial mortgage loans that require more frequent and detailed attention than other loans in the portfolio are identified and placed on an internal "watch list." Among the criteria that would indicate a potential problem are imbalances in ratios of loan to value or contract rents to debt service, major tenant vacancies or bankruptcies, borrower sponsorship problems, late payments, delinquent taxes and loan relief/restructuring requests.

The Company's commercial mortgage loan portfolio, consisting of brick and mortar loans, by internal credit risk model was as follows at December 31:

	2016	2015
	(In Thousands)	
A- and above	**$ 925,764**	$ 415,459
BBB+ thru BBB-	**513,980**	689,031
BB+ thru BB-	**205,716**	128,360
B+ and below	**28,600**	97,944
Total carrying value	**$ 1,674,060**	$ 1,330,794

The residential mortgage loan portfolio is monitored based on performance of the loans. The Company defines nonperforming residential mortgage loans as loans which are 90 days or greater delinquent or on non-accrual status. All of the residential mortgage loans were performing as of December 31, 2016 and 2015.

Commercial and residential mortgage loans are placed on non-accrual status if the Company has concerns regarding the collectability of future payments or if a loan has matured without being paid off or extended. Factors considered may include conversations with the borrower, loss of major tenant, bankruptcy of the borrower or a major tenant, decreased property cash flows for commercial mortgage loans, or number of days past due for residential mortgage loans. Based on an assessment as to the collectability of the principal, a determination is made to apply any payments received either against the principal or according to the contractual terms of the loan. When a loan is placed on nonaccrual status, the accrued unpaid interest receivable is reversed against interest income. Accrual of interest resumes after factors resulting in doubts about collectability have improved. At December 31, 2016, there were no mortgage loans on non-accrual status. At December 31, 2015, there was one mortgage loan on non-accrual status.

2. Investments (continued)

The Company reviews the mortgage loan portfolio and analyzes the need for a valuation allowance. The Company did not have a valuation allowance as of December 31, 2016 and 2015 on the mortgage portfolio.

Repurchase Agreements

The Company enters into repurchase agreements, whereby the Company borrows cash from a counterparty at an agreed-upon interest rate for an agreed-upon time frame and pledges collateral in the form of securities. At the end of the agreement, the Company repays the loan amount along with the additional agreed-upon interest, and the securities pledged are released from collateral. The Company's policy requires that, at all times during the term of the repurchase agreement, cash or other forms of collateral provided is sufficient to fund substantially all of the cost of purchasing replacement assets. The carrying value of the securities pledged for the repurchase agreements was $0 and $742.1 million as of December 31, 2016 and 2015, respectively. The repurchase obligation was $0 and $727.7 million as of December 31, 2016 and 2015, respectively, and is included in repurchase agreements on the combined balance sheets.

3. Variable Interest Entities

The Company has a variable interest in various types of special purpose vehicles (SPV). When the Company is determined to be the primary beneficiary of a VIE, the Company consolidates the entity into the financial statements. The primary beneficiary of a VIE is defined as the enterprise with (1) the power to direct the activities of a VIE that most significantly impact the entity's economic performance and (2) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. On an ongoing basis, the Company assesses whether it is the primary beneficiary of VIEs in which it has a relationship. Following is a discussion of the Company's interest in entities that meet the definition of a VIE.

Consolidated Variable Interest Entities

Collateralized Private Investment Vehicle – Secured Notes

During 2015 and 2016, the Company invested in secured notes for which it was determined to be the primary beneficiary in accordance with ASC 810, *Consolidation*. A secured note is an asset-

3. Variable Interest Entities (continued)

backed note created when certain fixed maturity investments are packaged in a SPV. The SPV issues the secured notes which are backed by the SPV's assets and their associated cash flows. As each secured note purchase represents a proportional interest in the SPV's underlying assets, each noteholder is entitled to receive payments to the extent that payments are made on the underlying assets.

In consolidating the SPVs, the secured notes were eliminated as an investment while the underlying assets and liabilities of the SPVs were recorded on the combined balance sheets. In addition, all transactions between the Company and the SPVs were eliminated. The underlying fixed maturity investments are classified as available for sale and are marked to fair value. For certain secured notes, the Company recognizes a liability that represents the other noteholders' interests in the secured notes. This debt is carried at amortized cost. The assets of each of the consolidated SPVs are held solely as collateral to satisfy the obligations of the SPV. If the Company were to liquidate, the assets of the SPV would not be available to its general creditors, and as a result, the Company does not consider those assets available for the benefit of its investors. Additionally, the other investors in the secured notes have no recourse to the Company's general assets for the debt issued by the secured notes. Therefore such debt is not the Company's obligation.

Collateralized Private Investment Vehicle – PPNs

During 2014, the Company invested in Principal Protected Notes (PPNs). A PPN is a loan-backed note created when fixed maturity securities are paired with other investments in a SPV. The SPV then issues the PPNs, which are backed by the SPV's assets and entitle the investor to 100% of the cash flows (less fees) of those underlying assets. The Company is deemed to be the primary beneficiary and accordingly, has consolidated the SPVs that issued the PPNs.

In consolidating the SPVs, the PPNs are eliminated and the Company records the underlying assets of the SPVs on the Company's combined balance sheets. In addition, all transactions between the Company and the SPVs have been eliminated. The underlying fixed maturity securities are classified as available for sale and have been marked to fair value.

3. Variable Interest Entities (continued)

Other Consolidated Assets

During 2016, the Company invested in a Real Estate Mortgage Investment Conduit (REMIC). This REMIC held a commercial mortgage loan and issued various tranches of pass through certificates to investors. The Company, together with its related parties, purchased more than 50% vertical strip of all the outstanding tranches. The Company holds the greatest share of the REMIC's outstanding certificates, is therefore considered to be the primary beneficiary and, accordingly, has consolidated the REMIC's financial statements.

In consolidating the REMIC, the purchased certificates are eliminated and the Company records the underlying commercial mortgage loan of the REMIC on the Company's combined balance sheets. The certificates owned by other investors are recorded as a liability on the Company's combined balance sheets. In addition, all transactions between the Company and the REMIC have been eliminated.

The carrying amounts of the consolidated VIE assets, which can only be used to settle obligations of consolidated VIEs, and liabilities of consolidated VIEs for which creditors of the Company do not have recourse are as follows as of December 31:

	2016			
	Secured Notes	**PPNs**	**Other Consolidated Assets**	**Total**
	(In Thousands)			
Cash	$ 68,907	$ 532	$ –	$ 69,439
Fixed maturities, available for sale	3,801,831	380,832	30,949	4,213,612
Accrued investment income	32,182	11,833	2,624	46,639
Commercial mortgage loans	–	–	548,969	548,969
Total assets	3,902,920	393,197	582,542	4,878,659
Debt from consolidated VIE	423,843	–	296,212	720,055
Accrued interest from consolidated VIE	3,248	–	1,495	4,743
Total liabilities	$ 427,091	$ –	$ 297,707	$ 724,798

3. Variable Interest Entities (continued)

	2015			
	Secured Notes	PPNs	Other Consolidated Assets	Total
	(In Thousands)			
Cash	$ 1,164	$ 532	$ –	$ 1,696
Fixed maturities, available for sale	2,571,286	358,142	–	2,929,428
Accrued investment income	18,877	11,933	–	30,810
Accounts receivable	–	143	–	143
Total assets	2,591,327	370,750	–	2,962,077
Debt from consolidated VIE	425,732	–	–	425,732
Accrued interest from consolidated VIE	3,017	–	–	3,017
Accounts payable	279,561	–	–	279,561
Total liabilities	$ 708,310	$ –	$ –	$ 708,310

Unconsolidated Variable Interest Entities

The Company has a variable interest in a number of limited liability partnerships and companies, which were primarily formed for the purpose of purchasing private equity and fixed income securities, for which the Company is not the primary beneficiary. The determination that the Company was not the primary beneficiary was based on the conclusion that the Company does not have the power to direct the activities that most significantly affect the VIE's economic performance. Furthermore, the Company neither absorbs any significant losses nor has rights to a significant portion of any expected benefits of the VIEs. Except for amounts contractually required, the Company did not provide any further financial or other support to the VIEs.

The Company's maximum exposure to loss of these VIEs is based on existing investments in and additional commitments made to these entities. The Company's carrying amount of its investment in VIEs reported in other invested assets on the combined balance sheets was $85.5 million and $40.8 million at December 31, 2016 and 2015, respectively, compared to its maximum exposure to loss of $86.3 million and $41.9 million at December 31, 2016 and 2015, respectively.

3. Variable Interest Entities (continued)

Investments in joint ventures and partnerships are reported in other invested assets and are generally accounted for using the equity method. In applying the equity method, the Company records its share of income or loss reported by equity investees. Total assets of these unconsolidated entities amounted to $85.5 million and $105.5 million at December 31, 2016 and 2015, respectively. The Company's share of current period net income of the unconsolidated entities included in net investment income (loss) was $4.1 million, ($3.8) million, and $26.7 million for the years ended December 31, 2016, 2015, and 2014, respectively.

4. Derivative Instruments

The Company's overall risk management strategy includes the use of derivative financial instruments to minimize certain significant unplanned fluctuations in earnings associated with assets held and liabilities incurred or expected to be incurred. The Company's risk of loss exposure is typically limited to the fair value of the derivative financial instruments and not the notional or contractual amounts of the derivatives.

The Company recognizes all derivative financial instruments, such as interest rate swaps, currency forwards, call options and other embedded derivatives, on the combined balance sheets at fair value, with appropriate adjustments to fair value reflected in earnings, regardless of the purpose or intent for holding the instrument.

The Company sells fixed indexed deferred annuity contracts, which guarantee the return of principal to the policyholder and credit interest based on a percentage of the gain in a specified market index. This index crediting feature is an embedded derivative. Most of the premium received is invested in investment grade fixed income securities, and a portion is used to purchase derivatives consisting of call options on the applicable indices to fund the index credits due to the index annuity policyholders. On the respective anniversary dates of the indexed annuity contracts, the market index used to compute the index credits is reset and new call options are purchased to fund the next index credit. Although the call options are designed to be effective hedges from an economic standpoint, they do not meet the requirements for hedge accounting under ASC 815.

4. Derivative Instruments (continued)

The call options are measured at fair value with the mark-to-market generally offsetting the change in the value of the embedded derivative within the product. These call options are highly correlated to the portfolio allocations of the policyholders, such that the Company is economically hedged with respect to index returns for the current reset period.

The Company has certain variable annuity GLB products with GMWB and GMAB features that are embedded derivatives. Certain features of these guarantees have elements of both insurance benefits accounted for under ASC 944-40, *Financial Services – Insurance – Claim Costs and Liabilities for Future Policy Benefits*, and embedded derivatives accounted for under ASC 815, *Derivatives and Hedging* and ASC 820, *Fair Value Measurements*. The value of the embedded derivative reserve and the benefit reserve are calculated based on the specific characteristics of each GLB feature. The determination of GLWB and GMDB guarantees on fixed indexed annuities is based on models that involve a range of scenarios and assumptions, including those regarding expected market rates of return and volatility, contract surrender rates and mortality experience.

In addition, the Company is party to a coinsurance with funds withheld reinsurance arrangement with Guggenheim Life and Annuity Company (GLAC), a related party, (see Note 10) and a coinsurance agreement with an unrelated party. Under ASC 815, the Company's reinsurance agreements contain an embedded derivative that requires bifurcation due to credit risks the reinsurer is assuming that are not clearly and closely related to the creditworthiness of the Company. The embedded derivative in the funds withheld reinsurance arrangement has characteristics similar to a total return swap, as the Company cedes the total return on a designated investment portfolio to the reinsurer. The reinsurer then assumes the interest credited to the policyholders on the policies covered by the agreements, which is relatively fixed. The value of the embedded derivative in the funds withheld reinsurance arrangement is equal to the value of the unrealized gain or loss on the segregated assets. The value of the embedded derivative in the coinsurance agreement is equal to the value of the embedded derivative in the fixed annuity product.

The Company has entered into currency forwards that are contracts in which the Company agrees with other parties to deliver or receive a specified amount of an identified currency at a specified future date. Typically, the price is agreed upon at the time of the contract and payment for such a contract is made at the specified future date. The Company uses currency forwards to reduce market risks related to fluctuations in currency exchange rates with respect to investments or liabilities held and denominated in foreign currencies.

4. Derivative Instruments (continued)

The fair value of the call options is included in call options on the combined balance sheets. The fair value of the embedded derivative financial instruments is included in policy reserves and annuity account values on the combined balance sheets. The fair value of the embedded derivative within the coinsurance funds withheld arrangement and coinsurance agreement is included in other assets on the combined balance sheets. The fair value of the interest rate swaps and forwards are included in other invested assets on the combined balance sheets.

The fair value of the commission assignment embedded derivative is determined in accordance with ASC 820. The Company uses the income approach method defined in this standard, as market participants would likely use this approach in arriving at a transaction value. Changes in fair value of the commission assignment embedded derivative are included in Net realized/unrealized gains (losses), excluding impairment losses on available-for-sale securities in the consolidated income statement.

Notional amounts are used to express the extent of the Company's involvement in derivative financial instruments and represent a standard measurement of the volume of the derivative activity. Notional amounts represent those amounts used to calculate contractual cash flows to be exchanged and are not paid or received. Credit exposure represents the gross amount owed to the Company under the derivative contracts as of the valuation date.

4. Derivative Instruments (continued)

The notional amounts and maximum amount of loss due to credit risk (fair value) that the Company would incur if parties to the call options, swaps and forwards failed completely to perform according to the terms of the contracts as of December 31 are as follows:

			2016	
Counterparty	**Credit Rating (S&P)**	**Credit Rating (Moody's)**	**Notional Amount**	**Fair Value**
			(In Thousands)	
Barclays Bank PLC	A-	A1	**$ 172,266**	**$ 4,310**
BNP Paribas	A	A1	**951,508**	**17,104**
Bank of America, N.A.	A+	A1	**1,082,135**	**51,418**
Citibank, N.A.	A+	A1	**1,658,807**	**38,713**
Goldman Sachs International	A+	A1	**673,300**	**11,343**
JPMorgan Chase Bank, NA	A+	Aa3	**371,000**	**15,850**
Merrill Lynch International	A+	N/A	**77,170**	**3,241**
Morgan Stanley & Co International PLC	A+	A1	**2,887,204**	**53,807**
Morgan Stanley Capital Services LLC	A+	A1	**1,938,415**	**60,911**
The Options Clearing Corporation	AA+	N/A	**308,301**	**5,168**
The Royal Bank of Scotland PLC	BBB+	A3	**2,977,650**	**101,869**
Societe Generale	A	A2	**817,472**	**39,796**
UBS AG	A+	A1	**715,976**	**17,711**
			$ 14,631,204	**$ 421,241**

			2015	
Counterparty	**Credit Rating (S&P)**	**Credit Rating (Moody's)**	**Notional Amount**	**Fair Value**
			(In Thousands)	
Barclays Bank PLC	A-	A2	$ 383,966	$ 5,676
BNP Paribas	A+	A1	590,400	4,396
Bank of America, N.A.	A	A1	1,492,700	15,153
Citibank, N.A.	A	A1	824,998	16,635
Goldman Sachs	A	A1	362,200	1,896
JP Morgan Chase Bank, N.A.	A+	Aa3	608,400	20,803
Morgan Stanley & Co. International PLC	A	A1	3,719,150	55,239
The Royal Bank of Scotland PLC	BBB+	A3	3,073,850	170,952
Societe Generale	A	A2	1,711,000	56,507
UBS AG	A	Aa3	633,400	2,785
			$ 13,400,064	$ 350,042

4. Derivative Instruments (continued)

Collateral posted by counterparties at December 31, 2016 and 2015, applicable to derivative instruments, was $252.8 million and $170.1 million, respectively, and is reflected on the combined balance sheets in cash and cash equivalents. This collateral is restricted as to its use. The obligation to repay the collateral is reflected on the combined balance sheets in other liabilities. In addition, the Company has entered into tri-party arrangements with counterparties, whereby collateral is posted to and held by a third party. At December 31, 2016 and 2015, collateral posted by the counterparties under the tri-party arrangements was $186.2 million and $189.8 million, respectively, which is not reflected on the combined balance sheets.

The fair value of the Company's derivative financial instruments classified as assets and liabilities on the combined balance sheets as of December 31 is as follows:

	Derivative Asset		Derivative Liability	
	2016	**2015**	**2016**	**2015**
	(In Thousands)			
Interest rate swaps	**$ 23,956**	$ 4,968	**$ –**	$ –
Call options	**381,396**	340,410	**–**	–
Forwards	**15,888**	4,664	**–**	–
Embedded derivatives:				
GMWB and GMAB reserves	**–**	–	**16,287**	10,442
Fixed indexed annuity contracts	**–**	–	**986,544**	946,809
Reinsurance contracts	**550**	3,062	**–**	–
Commission assignment	**14,735**	–	**–**	–
Total derivative financial instruments	**$ 436,525**	$ 353,104	**$ 1,002,831**	$ 957,251

The following table shows the change in the fair value of the derivative financial instruments on the combined statements of operations as of December 31:

	2016	2015	2014	Change of fair value reported in
	(In Thousands)			
Interest rate swaps	**$ 806**	$ (956)	$ (41)	Net investment income
Call options	**(78,606)**	(345,781)	184,336	Net realized/unrealized gains (losses)
Forwards	**11,224**	2,918	1,746	Net realized/unrealized gains (losses)
Embedded derivatives:				
GMWB and GMAB reserves	**(5,845)**	1,593	(2,958)	Other benefits
Fixed indexed annuity contracts	**85,604**	214,723	(41,981)	Other benefits
Reinsurance contracts	**(2,512)**	3,062	(21,071)	Net realized/unrealized gains (losses)
Commission assignment	**14,735**	–	–	Net realized/unrealized gains (losses)
Total change in derivative financial instruments	**$ 25,406**	$ (124,441)	$ 120,031	

5. Deferred Policy Acquisition Costs

An analysis of the deferred policy acquisition cost asset balance is presented below for the years ended December 31:

	2016	2015	2014
	(In Thousands)		
Balance at beginning of year	**$ 1,030,288**	$ 642,077	$ 333,913
Cost deferred	**359,938**	341,595	509,989
Imputed interest	**22,685**	24,291	15,702
Amortized to expense	**(150,980)**	(76,957)	(164,510)
Effect of realized gains	**(8,403)**	(12,416)	(6,840)
Effect of unrealized (gains) losses	**(89,020)**	111,698	(46,177)
Balance at end of year	**$ 1,164,508**	$ 1,030,288	$ 642,077

6. Deferred Sales Inducement Costs

An analysis of the deferred sales inducement costs asset balance is presented below for the years ended December 31:

	2016	2015	2014
	(In Thousands)		
Balance at beginning of year	**$ 906,899**	$ 823,007	$ 626,719
Costs deferred	**107,786**	101,682	299,361
Imputed interest	**20,031**	23,178	17,093
Amortized to expense	**27,042**	(134,543)	(62,142)
Effect of realized gains	**(9,524)**	(12,394)	(7,469)
Effect of unrealized (gains) losses	**(82,626)**	105,969	(50,555)
Balance at end of year	**$ 969,608**	$ 906,899	$ 823,007

7. Value of Business Acquired

The Company recorded VOBA that is being amortized in a similar manner to the deferred policy acquisition costs. An analysis of VOBA and associated amortization is presented below for the years ended December 31:

	2016	2015	2014
	(In Thousands)		
Balance at beginning of year	**$ 33,273**	$ 35,746	$ 39,243
Imputed interest	**1,719**	1,852	1,982
Amortized to expense	**(724)**	(5,088)	(3,787)
Effect of realized gains	**145**	(291)	(1,084)
Effect of unrealized (gains) losses	**(1,017)**	1,054	(608)
Balance at end of year	**$ 33,396**	$ 33,273	$ 35,746

The weighted average amortization period is 18 years for VOBA. The interest accrual rate utilized to calculate the accretion of interest was 5.34% for 2016, 2015, and 2014.

The estimated future amortization schedule for the next five years based on current assumptions is expected to be as follows (in thousands) for the year ending December 31:

2017	$ 2,525
2018	2,860
2019	2,551
2020	2,313
2021	2,198

8. Other Comprehensive Income (Loss)

The components of other comprehensive income (loss) are as follows (in thousands):

	Pre-Tax	Tax	After-Tax
Other comprehensive income for the year ended December 31, 2014:			
Unrealized gains on available-for-sale securities	$ 334,468	$ (110,649)	$ 223,819
Reclassification adjustment for gains included in net income	(23,413)	7,930	(15,483)
OTTI losses recognized in earnings	6,361	(2,226)	4,135
OTTI losses recognized in other comprehensive income	(1,083)	379	(704)
Net effect of unrealized gains and losses on:			
DAC, DSI, and VOBA	(97,340)	34,110	(63,230)
Policy reserves and annuity account values	(76,060)	26,623	(49,437)
Total other comprehensive income for the year ended December 31, 2014	$ 142,933	$ (43,833)	$ 99,100
Other comprehensive loss for the year ended December 31, 2015:			
Unrealized losses on available-for-sale securities	$ (704,918)	$ 245,455	$ (459,463)
Foreign exchange adjustments on securities recorded at fair value	(13,593)	4,758	(8,835)
Reclassification adjustment for gains included in net income	(99,843)	32,677	(67,166)
OTTI losses recognized in earnings	5,410	(1,894)	3,516
OTTI losses recognized in other comprehensive income	(1,258)	440	(818)
Net effect of unrealized gains and losses on:			
DAC, DSI, and VOBA	218,721	(76,595)	142,126
Policy reserves and annuity account values	177,755	(62,213)	115,542
Total other comprehensive loss for the year ended December 31, 2015	$ (417,726)	$ 142,628	$ (275,098)
Other comprehensive income for the year ended December 31, 2016:			
Unrealized gains on available-for-sale securities	**$ 766,629**	**$ (258,823)**	**$ 507,806**
Foreign exchange adjustments on securities recorded at fair value	**12,949**	**(4,114)**	**8,835**
Reclassification adjustment for gains included in net income	**(129,429)**	**43,614**	**(85,815)**
OTTI losses recognized in earnings	**3,564**	**(1,201)**	**2,363**
OTTI losses recognized in other comprehensive income	**79**	**(27)**	**52**
Net effect of unrealized gains and losses on:			
DAC, DSI, and VOBA	**(172,663)**	**58,182**	**(114,481)**
Policy reserves and annuity account values	**(144,629)**	**48,736**	**(95,893)**
Total other comprehensive income for the year ended December 31, 2016	**$ 336,500**	**$ (113,633)**	**$ 222,867**

8. Other Comprehensive Income (Loss) (continued)

Accumulated Other Comprehensive Income

	Foreign Currency Translation Adjustment	Unrealized Gains (Losses) on Available-for-Sale Securities	Total Other Comprehensive Income (Loss)
		(In Thousands)	
Accumulated other comprehensive income at January 1, 2014	$ –	$ 16,905	$ 16,905
Other comprehensive income before reclassifications	–	110,439	110,439
Amounts reclassified from accumulated other comprehensive income[1]	–	(11,339)	(11,339)
Accumulated other comprehensive income at December 31, 2014	–	116,005	116,005
Other comprehensive loss before reclassifications	(8,835)	(202,613)	(211,448)
Amounts reclassified from accumulated other comprehensive income[1]	–	(63,650)	(63,650)
Accumulated other comprehensive loss at December 31, 2015	(8,835)	(150,258)	(159,093)
Other comprehensive income before reclassifications	**8,835**	**297,484**	**306,319**
Amounts reclassified from accumulated other comprehensive income[1]	**–**	**(83,452)**	**(83,452)**
Accumulated other comprehensive income at December 31, 2016	**$ –**	**$ 63,774**	**$ 63,774**

[1] The amounts reclassified from accumulated other comprehensive income (loss) for unrealized gains (losses) on available-for-sale securities are included in net realized/unrealized gains (losses) and income tax expense on the combined statements of operations.

9. Employee Benefit Plans

Historically, the Company participated in a profit-sharing and savings plan (the Plan) sponsored by its parent company, SBC. Substantially all employees were eligible under this Plan. Company contributions to the Plan charged to operations were $1.4 million, $1.2 million, and $894,000 for the years ended December 31, 2016, 2015, and 2014, respectively, and are included on the combined statements of operations in commissions and other operating expenses.

Sales incentive compensation expense amounted to $10.9 million, $5.3 million, and $5.9 million for the years ended December 31, 2016, 2015, and 2014, respectively, and is included in the combined statements of operations in commissions and other operating expenses.

10. Reinsurance

Principal reinsurance assumed transactions are summarized as follows for the years ended December 31:

	2016	2015	2014
		(In Thousands)	
Reinsurance assumed:			
Premiums received	**$ 17,703**	$ 19,731	$ 24,039
Commissions paid	**$ 2,241**	$ 1,995	$ 2,521
Claims paid	**$ 5,490**	$ 9,769	$ 8,221
Surrenders paid	**$ 72,214**	$ 89,578	$ 97,042

10. Reinsurance (continued)

Principal reinsurance ceded transactions are summarized as follows for the years ended December 31:

	2016	2015	2014
	(In Thousands)		
Reinsurance ceded:			
Premiums paid	**$ 100,077**	$ 107,090	$ 115,580
Commissions received	**$ 4,952**	$ 5,150	$ 6,232
Claim recoveries	**$ 73,311**	$ 75,471	$ 71,057
Surrenders recovered	**$ 224,273**	$ 248,576	$ 296,753

The Company is party to a coinsurance agreement with an unrelated party for certain individual fixed annuity and fixed indexed annuity contracts. At the same time the Company entered into this agreement, the Company also entered into an indemnity retrocession agreement through a coinsurance funds withheld reinsurance agreement with GLAC, whereby the Company ceded and GLAC assumed the same individual annuity contracts that the Company had coinsured.

The Company has ceded to GLAC reserves of $658.3 million and $663.2 million as of December 31, 2016 and 2015, respectively. These are recorded in policy reserve liability on the combined balance sheets.

The Company subsequently entered into an assumption reinsurance agreement to assume the previously mentioned annuity contracts converting those contracts to direct business. The annuity contracts continue to be covered under the indemnity retrocession agreement ceded to GLAC after the contracts are converted to direct business. Annuity contracts having reserves of $332.0 million and $333.1 million have been converted to direct business as of December 31, 2016 and 2015, respectively and ceded to GLAC. Annuity contracts having reserves of $154.2 million and $161.2 million as of December 31, 2016 and 2015, respectively, continue as assumed by the Company from the unrelated party and ceded to GLAC.

10. Reinsurance (continued)

The Company has ceded to Heritage Life Insurance Company, a related party, reserves of $1,435.0 million and $1,521.3 million as of December 31, 2016 and 2015, respectively. These are recorded in policy reserve liability on the combined balance sheets.

As of December 31, 2016 and 2015, the value of the Company's funds withheld liability under all its reinsurance agreements was $352.8 million and $353.0 million, respectively.

At December 31, 2016 and 2015, the Company has receivables totaling $2,640.8 million and $2,750.7 million, respectively, for reserve credits, reinsurance claims, and other receivables from its reinsurers. Life insurance in force ceded at December 31, 2016 and 2015, was $2,428.9 million and $2,552.0 million, respectively.

As of December 31, 2016 and 2015, the Company had $1,742.1 million and $1,838.7 million, respectively, of reserves that were uncollateralized by the reinsurer.

11. Insurance Liabilities

The major components of policy reserves and annuity account values on the combined balance sheets are summarized as follows as of December 31:

	2016	2015
	(In Thousands)	
Liabilities for investment-type insurance contracts:		
Liabilities for individual annuities	**$ 23,222,608**	$ 19,873,048
Funding agreements	**652,549**	1,520,688
Other investment-type insurance contracts	**1,481**	1,255
Total liabilities for investment-type insurance contracts	**23,876,638**	21,394,991
Life and other reserves	**2,687,716**	2,629,065
Total policy reserves and annuity account values	**$ 26,564,354**	$ 24,024,056

The following is a summary of the account values and net amount at risk, net of reinsurance, for fixed indexed annuity contracts with GMDB invested in the general account as of December 31:

	2016			2015		
	Account Value	Net Amount at Risk	Weighted-Average Attained Age	Account Value	Net Amount at Risk	Weighted-Average Attained Age
	(Dollars in Millions)					
Rollup GMDB	**$ 691**	**$ 101**	**72**	$ 690	$ 69	71

The determination of GLWB and GMDB guarantees on fixed indexed annuities is based on models that involve a range of scenarios and assumptions, including those regarding expected market rates of return and volatility, contract surrender rates, and mortality experience. The Company holds reserves for the GLWB and GMDB guarantees on the fixed indexed annuity contract holders.

11. Insurance Liabilities (continued)

As of December 31, 2016 and 2015, the reserve liability for the GLWB guarantee was $940.1 million and $443.0 million, respectively, and the reserve liability for the GMDB guarantee was $21.9 million and $15.1 million, respectively. These reserve liabilities are included in policy reserves and annuity account values.

The following is a summary of the account values and net amount at risk, net of reinsurance, for variable annuity contracts with GMDB invested in both general and separate accounts as of December 31:

	2016			2015		
	Account Value	Net Amount at Risk	Weighted-Average Attained Age	Account Value	Net Amount at Risk	Weighted-Average Attained Age
			(Dollars in Millions)			
Return of premium	**$ 1,542**	**$ 21**	**64**	$ 1,570	$ 27	64
Reset	**128**	**1**	**58**	128	1	57
Roll-up	**134**	**62**	**70**	138	66	69
Step-up	**3,915**	**45**	**66**	3,795	68	66
Combo	**98**	**25**	**72**	105	28	72
Subtotal	**5,817**	**154**	**66**	5,736	190	65
Enhanced	**4**	**–**	**69**	5	–	69
Total GMDB	**$ 5,821**	**$ 154**	**66**	$ 5,741	$ 190	65

The determination of the GMDB and GMIB guarantees on variable annuities is based on models that involve a range of scenarios and assumptions, including those regarding expected market rates of return and volatility, contract surrender rates, and mortality experience. The Company holds reserves and embedded derivatives for GMDB, GMIB, GMWB, and GMAB guarantees it provides for the benefit of variable annuity contract holders. The liability for GMDBs on variable annuity contracts reflected on the combined balance sheets as of December 31, 2016 and 2015 was $19.2 million and $22.6 million, respectively. The liability for GMIBs on variable annuity contracts reflected on the combined balance sheets as of December 31, 2016 and 2015 was $20.1 million and $7.7 million, respectively. The embedded derivative for GMWBs and GMABs on variable

11. Insurance Liabilities (continued)

annuity contracts reflected on the combined balance sheets as of December 31, 2016 and 2015 was \$11.6 million and \$6.3 million, respectively. These liabilities are included in policy reserves and annuity account values.

12. Income Taxes

As of January 1, 2016, the Company was included in a consolidated Non-Life/Life federal income tax return filed by SBC. For the years ended December 31, 2015 and 2014, the Company filed a combination of consolidated federal and state income tax returns. SBC and eligible subsidiaries filed a consolidated Non-Life federal income tax return. SBLIC and FSBL each filed separate life federal income tax returns and SD filed a separate Non-Life federal income tax return. The Company is no longer subject to U.S. federal and state examinations by tax authorities for the years before 2013. The Internal Revenue Service (IRS) is not currently examining any of the Company's federal tax returns.

SBC allocates income tax expenses and benefits to companies in the group generally based upon pro rata contribution of taxable income or operating losses. Through the tax sharing agreement with SBC, the Company should receive from SBC \$5.3 million for 2016 taxes, which is included in other assets on the consolidated balance sheets.

The provision for income taxes includes current federal and state income tax expense or benefit and deferred income tax expense or benefit due to temporary differences between the financial reporting and income tax bases of assets and liabilities. Such deferred income taxes relate principally to reserves, DAC, DSI, VOBA, and unrealized capital gains and losses on fixed maturity investments available for sale.

As of December 31, 2016 and 2015, the Company had no gross unrecognized tax benefits. The Company recognizes interest and penalties related to unrecognized tax benefits in interest expense as a component of operating expenses in the combined statements of operations. The Company recorded no interest expense for unrecognized tax benefits for the years ended December 31, 2016, 2015, and 2014.

12. Income Taxes (continued)

Income tax expense consists of the following for the years ended December 31:

	2016	2015	2014
		(In Thousands)	
Current income tax expense	**$ 9,085**	$ 8,033	$ 10,287
Deferred income tax expense (benefit)	**87,555**	34,559	38,917
Income tax expense	**$ 96,640**	$ 42,592	$ 49,204

From a tax return perspective, the Company has $211.0 million of net operating loss carryforwards. Based on the Internal Revenue Code (IRC) Section 382 limitation calculation, the Company's use of these net operating carryforwards is limited to $12.0 million per year. The Company believes it will be able to utilize the tax benefits associated with the net operating loss carryforwards.

The Company had no net operating loss carryforwards in states in 2016.

12. Income Taxes (continued)

The differences between reported income tax expense and the results from applying the statutory federal rate to income before income tax expense are as follows for the years ended December 31:

	2016	2015	2014
		(In Thousands)	
Federal income tax expense computed at statutory rate	**$ 112,666**	$ 84,301	$ 66,896
Increases (decreases) in taxes resulting from:			
Valuation allowance	**(37,948)**	(31,596)	(28,299)
Tax exempt interest	**(446)**	(5,491)	(1,336)
Dividends received deduction	**(4,971)**	(4,483)	(3,800)
Credits	**–**	–	(582)
Changes in uncertain tax positions	**33,392**	14,280	12,504
Prior period adjustments	**1,643**	(2,157)	6,260
Disregarded entity tax on parent	**(8,089)**	(12,747)	(4,367)
Other	**393**	485	1,928
Income tax expense	**$ 96,640**	$ 42,592	$ 49,204

"Credits" in the above table primarily result from foreign tax credits. "Other" in the above table includes state income taxes, nondeductible meals and entertainment, nondeductible dues and penalties, and other miscellaneous differences and adjustments.

12. Income Taxes (continued)

Net deferred income tax assets and liabilities consist of the following as of December 31:

	2016	2015
	(In Thousands)	
Deferred income tax assets:		
Future policy benefits	**$ 721,001**	$ 626,009
Net operating losses	**–**	425
Loss carryforward	**–**	37,457
Net unrealized capital loss on investments	**–**	134,781
Net unrealized loss on derivatives	**–**	6,689
Credit carryover	**8,666**	8,666
Rider fee	**28,546**	25,021
Other	**7,753**	6,462
Total deferred income tax assets	**765,966**	845,510
Valuation allowance	**(2,488)**	(40,436)
Net deferred income tax assets	**763,478**	805,074
Deferred income tax liabilities:		
Net unrealized gain on derivatives	**28,062**	–
Deferred policy acquisition costs and deferred sales inducements	**708,670**	646,332
Net unrealized capital gain on investments	**54,444**	–
Value of business acquired	**11,690**	11,647
Other intangibles	**15,130**	16,274
Depreciation	**42,923**	42,780
Commission accrual	**31,123**	36,091
Other	**44,313**	23,728
Total deferred income tax liabilities	**936,355**	776,852
Net deferred income tax assets (liabilities)	**$ (172,877)**	$ 28,222

The oldest credit carryover will expire in 2021 and relates to low-income housing tax credits.

12. Income Taxes (continued)

The Company assesses the available positive and negative evidence surrounding the recoverability of the deferred income tax assets and applies its judgment in estimating the amount of valuation allowance necessary under the circumstances. As of December 31, 2016 and 2015, the Company recorded a $0 and $37.8 million valuation allowance, respectively, on capital losses that management believes will not be realizable in the foreseeable future, as capital losses must be used against capital gains within five years. In addition, as of December 31, 2016 and 2015, the Company recorded a $2.5 million and $2.6 million valuation allowance, respectively, against a deferred tax loss that it does not expect will be recovered. The overall decrease in the valuation allowance of $37.9 million was primarily related to the decrease in the valuation allowance related to the sale of securities with unrealized built-in-losses that were limited under IRC Section 382, and the sale of securities which resulted in losses being realized during the year.

13. Intangible Assets

An analysis of other intangible asset balances for the years ended December 31, 2016 and 2015 is as follows:

	Licenses	Value of Customer Relationships and Developed Technology	Total
Balance at January 1, 2015	2,550	46,865	49,415
Amortization	–	(2,918)	(2,918)
Balance at December 31, 2015	2,550	43,947	46,497
Amortization	**–**	**(3,268)**	**(3,268)**
Balance at December 31, 2016	**$ 2,550**	**$ 40,679**	**$ 43,229**

13. Intangible Assets (continued)

The following summarizes amortizable intangible assets at December 31:

	2016		2015	
	Gross Carrying Amount	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**
	(In Thousands)			
Value of Customer Relationships and Developed technology	**$ 51,382**	**$ 10,703**	$ 51,382	$ 7,435

Intangible assets subject to amortization include value of customer relationships and developed technology. Intangible assets not subject to amortization include certain business licenses.

Impairment of intangibles is evaluated annually. No impairments were recognized in 2016 and 2015. The expected future amortization for the next five years of the Company's intangible assets is expected to be as follows as of December 31:

	Value of Customer Relationships and Developed Technology
	(In Thousands)
2017	$ 3,537
2018	3,647
2019	3,656
2020	3,567
2021	3,409

The weighted-average amortization period is 16 years for the intangible assets subject to amortization.

14. Fair Value Measurements

Fair Value Hierarchy

In accordance with ASC 820, the Company groups its financial assets and liabilities measured at fair value in three levels based on the inputs and assumptions used to determine the fair value. The levels are as follows:

Level 1 – Valuations are based upon unadjusted quoted prices for identical instruments traded in active markets. Level 1 assets include certain cash equivalents, certain equity securities, and certain separate account assets.

Level 2 – Valuations are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, model-based valuation techniques for which significant assumptions are observable in the market, and option pricing models using inputs observable in the market. Level 2 assets include certain cash equivalents, U.S. Treasury notes and bonds, other U.S. government securities, debt securities, certain asset-backed and mortgage-backed securities, certain options, certain equity securities, certain short-term investments, certain fixed maturity investments, and forwards that are model-priced by vendors using inputs that are observable or derived principally from or corroborated by observable market data.

Level 3 – Valuations are generated from techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Company's assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models using inputs unobservable in the market, discounted cash flow models, spread-based models, and similar techniques, using the best information available in the circumstances. Level 3 assets include private placements, structured products, certain equity securities, certain debt securities and asset-backed securities priced using broker quotes or other methods that used unobservable inputs, reinsurance derivative assets/liabilities, certain fixed maturity investments, certain separate account assets, and commission assignment derivative assets. Level 3 liabilities include embedded derivative instruments.

14. Fair Value Measurements (continued)

Determination of Fair Value

Under ASC 820, the Company bases fair values on the price that would be received to sell an asset (exit price) or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is the Company's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy in ASC 820.

Cash equivalents

Cash equivalents include securities with an original maturity of 90 days or less and money market accounts. The cash equivalents based on quoted market prices are included in Level 1 assets. When quoted prices are not available, the Company utilizes an independent pricing service, and includes those cash equivalents in Level 2 assets.

Fixed Maturity Investments

The fair values of fixed maturity securities in an active and orderly market are determined by utilizing third party pricing services. The Company has regular interactions with its investment advisors to understand the pricing methodologies used and to confirm the prices are utilizing observable inputs. The pricing methodologies will vary based on the asset class and include inputs such as estimated cash flows, reported trades, broker quotes, credit quality, industry and economic events. Fixed maturity investments with fair values obtained from pricing services, applicable market indices, or internal models with substantially observable inputs are included in Level 2.

The Company will obtain a broker quote or utilize an internal pricing model specific to the asset utilizing unobservable relevant inputs if the Company is not able to utilize observable inputs. These assets are included in Level 3.

14. Fair Value Measurements (continued)

Equity securities

Fair values of equity securities are determined using quoted prices in active markets for identical assets when available, which are included in Level 1. When quoted prices are not available, the Company utilizes internal valuation methodologies appropriate for the specific asset that use observable inputs such as underlying share prices; therefore, the assets are included in Level 2. Fair values might also be determined using broker quotes or through the use of internal models or analysis that incorporates significant assumptions deemed appropriate given the circumstances and consistent with what other market participants would use when pricing such securities. These assets are included in Level 3.

Mortgage loans

Mortgage loans include commercial mortgage loans for which the Company elected the fair value option. The fair value of the mortgage loans is determined through the use of internal models or analysis that incorporates significant assumptions deemed appropriate given the circumstances and consistent with what other market participants would use when pricing such loans. These assets are included in Level 3.

Short-term investments

Short-term investments include short-term notes receivable. Fair values of short-term investments are determined using broker quotes or through the use of internal models or analysis that incorporate significant assumptions deemed appropriate given the circumstances and consistent with what other market participants would use when pricing such investments. These assets are included in Levels 2 and 3.

Call options, forwards, and swaps

Certain fair values of call options are valued with models that use market observable inputs, which are included in Level 2. Forwards with fair values obtained from pricing services with substantially observable inputs are included in Level 2. Swaps with fair values obtained from counter parties with substantially observable inputs are included in Level 2.

14. Fair Value Measurements (continued)

Separate account assets

Separate account assets include equity securities, investments in notes receivable and investments in partnerships. The fair value of the equity securities within the separate accounts is determined using quoted prices in active markets for identical assets and is reflected in Level 1. The fair value of the investments in private notes within the separate accounts was determined using internal pricing models using inputs unobservable in the market. The fair value for partnerships within the separate accounts was determined through the use of an external third party pricing specialist through the use of the market approach, income approach, and underlying assets approach. The investments in private notes and partnerships are reflected in Level 3.

Reinsurance derivative asset/liability

The fair value of the reinsurance derivative is estimated based on the fair value of the assets supporting the funds withheld reinsurance liability under the coinsurance funds withheld arrangement or based on the fair value of the investment contract guarantee embedded derivative. These assets/liabilities are included in Level 3.

Embedded derivatives – commission assignment

The fair value of commission assignment embedded derivative is determined by comparing the current period updated actuarial projected future cash flows, discounted to present value, to the amortized cost of the base level commission payments on the reporting date. The main variables considered in the actuarial projected future cash flows include: (i) policies that remain in-force; (ii) persistency expectations; (iii) expected future cash flows related to the level commission payments; and (iv) discount rate. These assets are included in Level 3.

Embedded derivatives – GMWB and GMAB reserves

The Company records guarantees for annuity contracts containing guaranteed riders for GMABs and GMWBs as derivative instruments. The fair value of the obligation is calculated based on unobservable inputs with actuarial and capital market assumptions related to the projected cash flows, including benefits and related contract charges, over the anticipated life of the related

14. Fair Value Measurements (continued)

contracts. The cash flow estimates are produced using stochastic techniques under a variety of market returns scenarios and other assumptions. These liabilities are included in Level 3.

Embedded derivatives – fixed indexed annuity contracts

Fair values of the Company's embedded derivative component of the fixed indexed annuity policy liabilities are determined by (i) projecting policy contract values and minimum guaranteed contract values over the expected lives of the contracts and (ii) discounting the excess of the projected contract value amounts at the applicable risk-free interest rates adjusted for the nonperformance risk related to those liabilities. The projections of policy contract values are based on the Company's best estimate assumptions for future policy growth and future policy decrements. The Company's best estimate assumptions for future policy growth include assumptions for the expected index credit on the next policy anniversary date derived from the fair values of the underlying call options purchased to fund such index credits and the expected costs of call options the Company will purchase in the future to fund index credits beyond the next policy anniversary. The projections of minimum guaranteed contract values include the same best estimate assumptions for policy decrements as were used to project policy contract values. These liabilities are included in Level 3.

14. Fair Value Measurements (continued)

Assets and Liabilities Measured and Reported at Fair Value

The following table presents categories reported at fair value as follows:

	December 31, 2016			
		Fair Value Hierarchy Level		
	Fair Value	Level 1	Level 2	Level 3
	(In Thousands)			
Assets:				
Cash equivalents	$ 912,158	$ 910,159	$ 1,999	$ –
Fixed maturity investments:				
U.S. Treasury securities and other U.S. government corporations and agencies	409,334	–	409,334	–
Obligations of government-sponsored enterprises	498,018	–	498,018	–
Corporate	7,019,014	–	2,239,835	4,779,179
Obligations of foreign governments	10,278	–	10,278	–
Municipal obligations	282,693	–	279,495	3,198
Commercial mortgage-backed	557,741	–	546,797	10,944
Residential mortgage-backed	131,517	–	122,240	9,277
Collateralized debt obligations	4,303	–	1,311	2,992
Other debt obligations	8,474,399	–	6,641,054	1,833,345
Total fixed maturity investments	17,387,297	–	10,748,362	6,638,935
Equity securities:				
Financial	1,017	79	938	–
Communications	30,113	30,113	–	–
Government	9,200	–	–	9,200
Industrial	54	54	–	–
Mutual funds	7,371	7,371	–	–
Total equity securities	47,755	37,617	938	9,200
Short-term investments	72,890	–	70,714	2,176
Call options	381,396	–	381,396	–
Forwards	15,888	–	15,888	–
Swaps	23,956	–	23,956	–
Reinsurance derivative asset	550	–	–	550
Commission assignment derivative asset	14,735	–	–	14,735
Separate account assets	5,652,990	3,782,690	–	1,870,300
Total assets	$ 24,509,615	$ 4,730,466	$ 11,243,253	$ 8,535,896
Liabilities:				
Embedded derivatives:				
GMWB and GMAB reserves	$ 16,287	$ –	$ –	$ 16,287
Fixed indexed annuity contracts	986,544	–	–	986,544
Total liabilities	$ 1,002,831	$ –	$ –	$ 1,002,831

14. Fair Value Measurements (continued)

	December 31, 2015			
		Fair Value Hierarchy Level		
	Fair Value	Level 1	Level 2	Level 3
	(In Thousands)			
Assets:				
Cash equivalents	$ 575,874	$ 550,875	$ 24,999	$ –
Fixed maturity investments:				
U.S. Treasury securities and other U.S. government corporations and agencies	747,832	–	747,832	–
Obligations of government-sponsored enterprises	639,007	–	639,007	–
Corporate	6,369,768	–	3,540,633	2,829,135
Obligations of foreign governments	19,258	–	19,258	–
Municipal obligations	531,974	–	528,383	3,591
Commercial mortgage-backed	586,000	–	508,246	77,754
Residential mortgage-backed	181,593	–	170,590	11,003
Collateralized debt obligations	17,108	–	17,108	–
Other debt obligations	7,991,334	–	4,912,182	3,079,152
Total fixed maturity investments	17,083,874	–	11,083,239	6,000,635
Equity securities:				
Financial	51,242	–	48,592	2,650
Mutual fund	6,633	6,633	–	–
Government	49,604	–	–	49,604
Consumer	481	–	–	481
Total equity securities	107,960	6,633	48,592	52,735
Forwards	4,664	–	4,664	–
Mortgage loans, fair value option	8,680	–	–	8,680
Short-term investments	390,120	–	75,416	314,704
Call options	340,410	–	340,410	–
Reinsurance derivative Asset	3,062			3,062
Separate account assets	5,310,310	3,816,358	–	1,493,952
Total assets	$ 23,824,954	$ 4,373,866	$ 11,577,320	$ 7,873,768
Liabilities:				
Embedded derivatives:				
GMWB and GMAB reserves	$ 10,442	$ –	$ –	$ 10,442
Fixed indexed annuity contracts	946,809	–	–	946,809
Total liabilities	$ 957,251	$ –	$ –	$ 957,251

14. Fair Value Measurements (continued)

Changes in Level 3 Fair Value Measurements

The reconciliation for all Level 3 assets and liabilities measured at fair value using significant unobservable inputs for the year ended December 31, 2016 is as follows:

		Total Realized/Unrealized Gains and Losses					
	Balance at January 1, 2016	Included in Net Income[1]	Included in Other Comprehensive Income[3]	Purchases, Issuances, Sales, and Settlements	Transfers	Balance at December 31, 2016	Change in Unrealized Gains (losses) in Net Income for Positions Still Held
			(In Thousands)				
Assets:							
Fixed maturity investments:							
Corporate	$ 2,829,135	$ (3,894)	$ 224,607	$ 890,864	$ 838,467	$ 4,779,179	$ 253
Municipal obligations	3,591	(7)	(341)	(45)	–	3,198	–
Commercial mortgage-backed	77,754	(101)	18	2,881	(69,608)	10,944	(95)
Residential mortgage-backed	11,003	160	(112)	(1,774)	–	9,277	(4)
Collateralized debt obligations	–	44	(209)	(144)	3,301	2,992	–
Other debt obligations	3,079,152	1,653	177,411	(1,043,039)	(381,832)	1,833,345	35
Total fixed maturity investments	6,000,635	(2,145)	401,374	(151,257)	390,328	6,638,935	189
Equity securities:							
Consumer	481	(1,648)	1,167	–	–	–	1,167
Financial	2,650	–	–	(2,650)	–	–	–
Government	49,604	–	–	(40,404)	–	9,200	–
Total equity securities	52,735	(1,648)	1,167	(43,054)	–	9,200	1,167
Mortgage loans, fair value option	8,680	718	(683)	(8,715)	–	–	–
Short-term investments	314,704	–	(16)	(312,512)	–	2,176	(15)
Reinsurance derivative asset	3,062	(2,512)	–	–	–	550	–
Commission assignment derivative asset	–	14,735	–	–	–	14,735	–
Separate account assets[2]	1,493,952	150,148	–	226,200	–	1,870,300	–
Total assets	$ 7,873,768	$ 159,296	$ 401,842	$ (289,338)	$ 390,328	$ 8,535,896	$ 1,341
Liabilities:							
Embedded derivatives:							
GMWB and GMAB reserves	$ 10,442	$ 5,845	$ –	$ –	$ –	$ 16,287	$ –
Fixed indexed annuity contracts	946,809	(85,604)	–	125,339	–	986,544	–
Total liabilities	$ 957,251	$ (79,759)	$ –	$ 125,339	$ –	$ 1,002,831	$ –

(1) Both realized gains (losses) and mark-to-market unrealized gains (losses) are generally reported in net realized capital gains (losses) within the combined statements of operations.

(2) Gains and losses for separate account assets do not impact net income as the change in value of separate account assets is offset by a change in value of separate account liabilities.

(3) Both realized gains (losses) and unrealized gains (losses) on available-for-sale securities are generally reported in net unrealized and realized gains (losses) on available-for-sale securities in the combined statements of comprehensive income.

14. Fair Value Measurements (continued)

The details of the Level 3 purchases, issuances, sales, and settlements for the year ended December 31, 2016, is as follows:

	Purchases	Issuances	Sales	Settlements	Net
			(In Thousands)		
Assets:					
Fixed maturity investments:					
Corporate	$ 2,608,570	$ 24,360	$ 1,490,884	$ 251,182	$ 890,864
Municipal obligations	–	–	–	45	(45)
Commercial mortgage-backed	2,925	–	–	44	2,881
Residential mortgage-backed	6,472	–	4,121	4,125	(1,774)
Collateralized debt obligations	–	–	–	144	(144)
Other debt obligations	1,494,884	(38)	978,498	1,559,387	(1,043,039)
Total fixed maturity investments	4,112,851	24,322	2,473,503	1,814,927	(151,257)
Equity securities:					
Financial	–	–	2,650	–	(2,650)
Government	66,893	–	107,297	–	(40,404)
Total equity securities	66,893	–	109,947	–	(43,054)
Mortgage loans, fair value option	–	–	8,612	103	(8,715)
Short-term investments	2,192	–	314,704	–	(312,512)
Separate account assets	226,200	–	–	–	226,200
Total assets	$ 4,408,136	$ 24,322	$ 2,906,766	$ 1,815,030	$ (289,338)
Liabilities:					
Embedded derivatives:					
Fixed indexed annuity contracts	$ –	$ 144,325	$ –	$ (18,986)	$ 125,339
Total liabilities	$ –	$ 144,325	$ –	$ (18,986)	$ 125,339

14. Fair Value Measurements (continued)

The reconciliation for all Level 3 assets and liabilities measured at fair value using significant unobservable inputs for the year ended December 31, 2015 is as follows:

		Total Realized/Unrealized Gains and Losses					
	Balance at January 1, 2015	Included in Net Income[1]	Included in Other Comprehensive Income[3]	Purchases, Issuances, Sales, and Settlements	Transfers	Balance at December 31, 2015	Change in Unrealized Gains (losses) in Net Income for Positions Still Held
				(In Thousands)			
Assets:							
Fixed maturity investments:							
Obligation of government-sponsored enterprises	$ 14,903	$ 17	$ (3,088)	$ (11,832)	$ –	$ –	$ –
Corporate	2,330,665	(1,874)	957,872	(566,844)	109,316	2,829,135	(347)
Municipal obligations	3,406	(7)	192	–	–	3,591	–
Commercial mortgage-backed	33,407	2,668	(1,558)	43,237	–	77,754	(10)
Residential mortgage-backed	1,739	50	(112)	9,326	–	11,003	6
Collateralized debt obligations	1	–	–	(1)	–	–	(19)
Other debt obligations	2,796,132	14,055	1,313,499	(1,027,376)	(17,158)	3,079,152	(110)
Total fixed maturity investments	5,180,253	14,909	2,266,805	(1,553,490)	92,158	6,000,635	(480)
Equity securities:							
Financial	2,533	–	117	–	–	2,650	–
Government	–	–	–	49,604	–	49,604	–
Warrants	13	15	(13)	(15)	–	–	–
Consumer	–	–	(1,167)	1,648	–	481	
Total equity securities	2,546	15	(1,063)	51,237	–	52,735	–
Mortgage loans, fair value option	15,810	(797)	777	(7,110)	–	8,680	777
Short-term investments	62,374	(2,436)	831	253,935	–	314,704	–
Call options	52,732	(16,055)	–	(36,677)	–	–	(10,910)
Reinsurance derivative asset	–	3,062	–	–	–	3,062	–
Separate account assets[2]	1,464,320	(140,020)	–	169,652	–	1,493,952	–
Total assets	$ 6,778,035	$ (141,322)	$ 2,267,350	$ (1,122,453)	$ 92,158	$ 7,873,768	$ (10,613)
Liabilities:							
Embedded derivatives:							
GMWB and GMAB reserves	$ 12,035	$ (1,593)	$ –	$ –	$ –	$ 10,442	$ –
Reinsurance derivative liability	1,582	(1,582)	–	–	–	–	–
Fixed indexed annuity contracts	1,059,965	(214,722)	–	101,566	–	946,809	–
Total liabilities	$ 1,073,582	$ (217,897)	$ –	$ 101,566	$ –	$ 957,251	$ –

(1) Both realized gains (losses) and mark-to-market unrealized gains (losses) are generally reported in net realized capital gains (losses) within the combined statements of operations.

(2) Gains and losses for separate account assets do not impact net income as the change in value of separate account assets is offset by a change in value of separate account liabilities.

(3) Both realized gains (losses) and unrealized gains (losses) on available-for-sale securities are generally reported in net unrealized and realized gains (losses) on available-for-sale securities in the combined statements of comprehensive income.

14. Fair Value Measurements (continued)

The details of the Level 3 purchases, issuances, sales, and settlements for the year ended December 31, 2015, is as follows:

	Purchases	Issuances	Sales	Settlements	Net
			(In Thousands)		
Assets:					
Fixed maturity investments:					
Obligations of government-sponsored enterprises	$ 266	$ –	$ 12,098	$ –	$ (11,832)
Corporate	632,629	–	1,199,473	–	(566,844)
Commercial mortgage-backed	134,586	–	91,349	–	43,237
Residential mortgage-backed	10,792	–	1,466	–	9,326
Collateralized debt obligations	–	–	1	–	(1)
Other debt obligations	1,038,663	–	2,066,039	–	(1,027,376)
Total fixed maturity investments	1,816,936	–	3,370,426	–	(1,553,490)
Equity securities:					
Financial	241	–	241	–	–
Government	56,014	–	6,410	–	49,604
Consumer	1,648	–	–	–	1,648
Warrants	–	–	15	–	(15)
Total equity securities	57,903	–	6,666	–	51,237
Mortgage loans, fair value option	–	–	7,110	–	(7,110)
Short-term investments	316,475	–	62,540	–	253,935
Call options	–	–	36,677	–	(36,677)
Separate account assets	–	169,652	–	–	169,652
Total assets	$ 2,191,314	$ 169,652	$ 3,483,419	$ –	$ (1,122,453)
Liabilities:					
Embedded derivatives:					
Fixed indexed annuity contracts	$ –	$ 114,986	$ –	$ (13,420)	$ 101,566
Total liabilities	$ –	$ 114,986	$ –	$ (13,420)	$ 101,566

14. Fair Value Measurements (continued)

Transfers

Transfers of assets and liabilities measured at fair value between hierarchy levels for the year ended December 31, 2016 are as follows:

	Transfers out of Level 1 into Level 2	Transfers out of Level 1 into Level 3	Transfers out of Level 2 into Level 1	Transfers out of Level 2 into Level 3	Transfers out of Level 3 into Level 1	Transfers out of Level 3 into Level 2
	(In Thousands)					
Assets:						
Fixed maturity investments:						
Corporate	**$ –**	**$ –**	**$ –**	**$ 904,289**	**$ –**	**$ 65,822**
Commercial mortgage-backed	**–**	**–**	**–**	**–**	**–**	**69,608**
Collateralized debt obligations	**–**	**–**	**–**	**3,301**	**–**	**–**
Other debt obligations	**–**	**–**	**–**	**19,867**	**–**	**401,699**
Total fixed maturity investments	**$ –**	**$ –**	**$ –**	**$ 927,457**	**$ –**	**$ 537,129**

Transfers of assets and liabilities measured at fair value between hierarchy levels for the year ended December 31, 2015 are as follows:

	Transfers out of Level 1 into Level 2	Transfers out of Level 1 into Level 3	Transfers out of Level 2 into Level 1	Transfers out of Level 2 into Level 3	Transfers out of Level 3 into Level 1	Transfers out of Level 3 into Level 2
	(In Thousands)					
Assets:						
Fixed maturity investments:						
Corporate	$ –	$ –	$ –	$ 132,027	$ –	$ 22,711
Other debt obligations	–	–	–	59,830	–	76,988
Total fixed maturity investments	$ –	$ –	$ –	$ 191,857	$ –	$ 99,699

During 2016 and 2015, the majority of assets transferred into and out of Level 3 included those assets that the Company was or was not subsequently able to obtain a price from a recognized third-party pricing vendor, or incurred changes to the observability of inputs or valuation techniques.

The transfers between levels are determined as of the end of the period for which the transfer is completed.

14. Fair Value Measurements (continued)

Quantitative Information about Level 3 Fair Value Measurements

The following table provides quantitative information about the significant unobservable inputs used for fair value measurements categorized within Level 3, excluding assets and liabilities for which significant unobservable inputs primarily consist of those valued using broker quotes.

	December 31, 2016			
	Assets / Liabilities Measured at Fair Value	Valuation Technique(s)	Unobservable Input Description	Input/Range of Inputs [Weighted Average]
			(In Thousands)	
Assets:				
Fixed maturity investments:				
Corporate	**$ 4,072,370**	Discount Model	Credit Spread	145 - 1227 [310] basis points (bps)
	6,985		Discount Rate	5.9% - 29.4% [10.5%]
	233,005	Market Comparables	Credit Spread	185 - 400 bps [278]
	19,762		Loan to Cash Value	10.3x - 15.1x [15.1x]
	25,505	Waterfall Model	Cash Flows	
	16,393	Trade Price	Recent Trade Price	100
	59	Distressed Pricing	Distressed Pricing	2
	19	Recovery Analysis	Recovery Rate	1
Other debt obligations	**1,022,534**	Discount Model	Credit Spread	145 - 290 [181] bps
	6,083		Discount Rate	6.75% - 7.75% [6.9%]
	122,417	Underlying Pricing Model	Market Value of Underlying Investments	100.56
	10,242	Market Comparables	Credit Spread	390 - 606 [403] bps
	68,159		Yield	378 - 801 [553] bps
	44,083	Trade Price	Recent Trade Price	100
	1,588	Residual Equity	Residual Equity	
Total fixed maturity investments	**5,649,204**			
Short-term investments	**2,040**	Trade Price	Recent Trade Price	100
Reinsurance derivative asset	**550**	See Note (1)		
Commission assignment derivative asset	**14,735**	Income Approach	Years discounted	0.00 yrs - 9.92 yrs
			Risk Adjusted Discount Rate	7.00%
Separate account assets	**1,870,300**	Revenue Multiples	Projected revenues	5.5 – 6.0x [5.75x]
		Discounted cash flow	Discount rate	620 – 825 [701] bps
		Land Sale Comparison	Value per Buildable Square Footage	$22.00 - 335.00
		See Note (3)		
Total assets	**$ 7,536,829**	See Note (2)		

14. Fair Value Measurements (continued)

	December 31, 2016			
	Assets / Liabilities Measured at Fair Value	Valuation Technique(s)	Unobservable Input Description	Input/Range of Inputs [Weighted Average]
			(In Thousands)	
Liabilities:				
Embedded derivatives:				
GMWB and GMAB reserves	**$ 16,287**	Discounted cash flow	Own credit spread	1.15%
			Long-term equity market volatility	Market Consistent
			Risk margin	5.00%
Fixed index annuity contracts	**986,544**	Discounted cash flow	Own credit spread	1.15%
			Risk margin	0.13% – 0.17%
Total liabilities	**$ 1,002,831**			

14. Fair Value Measurements (continued)

	December 31, 2015			
	Assets / Liabilities Measured at Fair Value	Valuation Technique(s)	Unobservable Input Description	Input/Range of Inputs [Weighted Average]
			(In Thousands)	
Assets:				
Fixed maturity investments:				
Corporate	$ 2,553,054	Discount Model	Credit Spread	86-1269 [351] basis points (bps)
	12,662		Discount Rate	7.3% - 13.8% [9.8%]
	17,872		Credit Spread	210-260 [241] bps
	29,762	Trade Price	Recent Trade Price	100
		Market Comparables	Credit Spread	12%-14% [13%]
	8,438		Yield	155-291 [229]
			Loan to Cash Value	2.5x
	441	Distressed Pricing	Distressed Pricing	2-71 [18]
Other debt obligations	1,805,214	Discount Model	Credit Spread	145-1177 [280] bps
	279,213	Underlying Pricing Model	Market Value of Underlying	90-91 [90]
	55,549	Discount Model	Discount Rate	8.3-13.8 [10]
	5,189	Residual Equity	Residual Equity	
Total fixed maturity investments	4,767,394			
Equity securities - Consumer	481	Market Comparables	Market Comparables	73
Mortgage loans, at fair value	8,680	Underlying Pricing Model	Credit Spread	100-400 [217] bps
	301,978	Short Term Loan	Par	
	12,726	Trade Price	Recent Trade Price	100
Reinsurance derivative assets	3,062	See Note (1)		
Separate account assets	1,493,952	Revenue Multiples	Projected revenues	5.5 – 6.0x [4.75x]
		Discounted cash flow	Discount rate	370 – 825 [424] bps
		Land Sale Comparison	Value per Buildable Square Footage	$21.84 - 325 [190.85]
		Stale price	Par	
		See Note (3)		
Total assets	$ 6,588,273	See Note (2)		

14. Fair Value Measurements (continued)

	December 31, 2015				
	Assets / Liabilities Measured at Fair Value		Valuation Technique(s)	Unobservable Input Description	Input/Range of Inputs [Weighted Average]
				(In Thousands)	
Liabilities:					
Embedded derivatives:					
GMWB and GMAB reserves	$	10,442	Discounted cash flow	Credit spread	1.35%
				Long-term equity market volatility	Market Consistent
				Risk margin	5.00%
Fixed index annuity contracts		946,809	Discounted cash flow	Credit spread	1.35%
				Risk margin	0.13% – 0.17%
Total liabilities	$	957,251			

(1) Equal to the net unrealized gains or losses on the underlying assets held in trust to support the funds withheld liability and the fair value of the investment guarantee embedded derivative.
(2) The table above excludes certain securities for which the fair value of $999.1 million and $1,285.5 million as of December 31, 2016 and 2015, respectively, was based on non-binding broker quotes.
(3) Separate account investments in partnerships for which the fair value as of December 31, 2016 and 2015, was determined through the manager's representation of the fair value of the underlying investments.

Market comparable discount rates are used as the base rate in the discounted cash flows used to determine the fair value of certain assets. Increases or decreases in the credit spreads on the comparable assets could cause the fair value of assets to significantly decrease or increase, respectively. Additionally, the Company may adjust the base discount rate or the modeled price by applying an illiquidity premium given the highly structured nature of certain assets. Increases or decreases in this illiquidity premium could cause significant decreases or increases, respectively, in the fair value of the asset.

Increases or decreases in assumed lapse and mortality rates could cause the fair value of the commission assignment embedded derivative to significantly decrease or increase, respectively.

Increases or decreases in market volatilities could cause significant increases or decreases, respectively, in the fair value of the GMWB and GMAB reserve and fixed index annuity contract embedded derivative. Long duration interest rates are used as the mean return when projecting the growth in the value of associated account value. The amount of claims will increase if account value is not sufficient to cover guaranteed withdrawals.

14. Fair Value Measurements (continued)

Increases or decreases in risk free rates could cause the fair value of the GMWB and GMAB reserve and fixed index annuity contract embedded derivatives to significantly decrease or increase, respectively. Increases or decreases in the Company's credit risk, which impacts the rates used to discount future cash flows, could significantly decrease or increase, respectively, the fair value of the embedded derivative. All of these changes in fair value would impact net income.

Increases or decreases in market volatilities of the underlying assets supporting the funds withheld liability could cause significant increases or decreases, respectively, in the fair value of the embedded derivatives.

Financial Instruments Not Reported at Fair Value

The carrying value and estimated fair value of financial instruments not recorded at fair value on a recurring basis but required to be disclosed at fair value are as follows:

	December 31, 2016				
			Fair Value Hierarchy Level		
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
			(In Thousands)		
Assets (liabilities)					
Mortgage loans	$ 1,680,637	$ 1,694,178	$ –	$ –	$ 1,694,178
Notes receivable from related parties	3,669,321	3,669,321	–	2,289,927	1,379,394
Policy loans	445,362	459,386	–	–	459,386
Business-owned life insurance	20,165	20,165	–	–	20,165
Company-owned life insurance	26,035	26,035	–	–	26,035
Supplementary contracts without life contingencies	(41,003)	(30,337)	–	–	(30,337)
Individual and group annuities	(6,203,124)	(6,059,103)	–	–	(6,059,103)
Debt from consolidated VIEs	(720,055)	(690,196)	–	–	(690,196)
Notes payable related to commission assignments	(68,998)	(68,998)	–	–	(68,998)
Surplus notes payable	(80,728)	(118,536)	–	–	(118,536)
Long-term debt SAILES 2-0, LLC	(76,462)	(77,942)	–	–	(77,942)
Mortgage debt	(21,001)	(23,248)	–	–	(23,248)
Separate account liabilities	(5,652,990)	(5,652,990)	(3,782,690)	–	(1,870,300)

14. Fair Value Measurements (continued)

	December 31, 2015				
			Fair Value Hierarchy Level		
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
			(In Thousands)		
Assets (liabilities)					
Mortgage loans	$ 1,329,395	$ 1,342,642	$ –	$ –	$ 1,342,642
Notes receivable from related parties	2,134,634	2,134,634	–	–	2,134,634
Policy loans	427,665	440,753	–	–	440,753
Business-owned life insurance	19,914	19,914	–	–	19,914
Company-owned life insurance	23,829	23,829	–	–	23,829
Supplementary contracts without life contingencies	22,794	19,734	–	–	19,734
Individual and group annuities	5,687,642	5,473,093	–	–	5,473,093
Debt from consolidated VIEs	(425,732)	(373,136)	–	–	(373,136)
Notes payable related to commission assignments	(97,095)	(97,095)	–	–	(97,095)
Surplus notes payable	(129,535)	(162,836)	–	–	(162,836)
Long-term debt SAILES 2-0, LLC	(83,431)	(85,027)	–	–	(85,027)
Mortgage debt	(24,041)	(23,985)	–	–	(23,985)
Repurchase agreements	(727,712)	(727,712)	(727,712)	–	–
Separate account liabilities	(5,310,310)	(5,310,310)	(3,816,358)	–	(1,493,952)

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments not measured at fair value but for which fair value is disclosed:

Mortgage loans – The carrying amounts of the residential mortgage loans reported on the combined balance sheets approximate their fair values. Fair values of the commercial mortgage loans not held under the fair value option are estimated using discounted cash flow analyses based on a variety of factors, including credit spreads, duration of the loans and prepayment terms and assumptions.

Notes receivable from related parties – The carrying amounts of certain notes receivable from related parties reported on the combined balance sheets for these instruments approximate their fair value. Fair values of certain notes receivable from related parties are valued with models that use market observable inputs.

14. Fair Value Measurements (continued)

Policy loans – Fair values for policy loans are estimated using discounted cash flow analyses based on market interest rates for similar loans to borrowers with similar credit ratings. Loans with similar characteristics are aggregated for purposes of the calculations.

Business-owned life insurance and company-owned life insurance – The carrying amounts reported on the combined balance sheets for these instruments approximate their fair value.

Supplementary contracts without life contingencies – The fair values of the Company's reserves and liabilities for investment-type insurance contracts are estimated using discounted cash flow analyses based on risk-free rates, nonperformance risk, and a risk margin. Investment-type insurance contracts include insurance, annuity, and other policy contracts that do not involve significant mortality or morbidity risk and are only a portion of the policyholder liabilities appearing on the combined balance sheets. Insurance contracts include insurance, annuity, and other policy contracts that do involve significant mortality or morbidity risk. The fair values for insurance contracts, other than investment-type contracts, are not required to be disclosed.

Individual and group annuities – The fair values of the Company's reserves and liabilities for investment-type insurance contracts are estimated using discounted cash flow analyses based on risk-free rates, nonperformance risk, and a risk margin. Investment-type insurance contracts include insurance, annuity, and other policy contracts that do not involve significant mortality or morbidity risk and are only a portion of the policyholder liabilities appearing on the combined balance sheets.

Debt from consolidated VIEs – Fair values are estimated using discounted cash flow analyses.

Notes payable to related parties – The carrying amounts reported on the combined balance sheets for these instruments approximate their fair values.

Notes payable related to commission assignments – The carrying amounts reported on the combined balance sheets for these instruments approximate their fair values.

14. Fair Value Measurements (continued)

Surplus notes payable, long-term debt and mortgage debt – Fair values are estimated using discounted cash flow analyses based on current borrowing rates for similar types of borrowing arrangements.

Repurchase agreements – The carrying amounts reported on the combined balance sheets for these instruments approximate their fair values.

Separate account liabilities – The fair values of the separate account liabilities are estimated based on the fair value of the related separate account assets, as these are considered to be pass-through contracts. As the applicable separate account assets are already reflected at fair value, any adjustment to the fair value of the block is an assumed adjustment to the separate account liabilities.

15. Commitments and Contingencies

In connection with its investments in certain limited partnerships, the Company is committed to invest additional capital of $22.9 million and $29.4 million at December 31, 2016 and 2015, respectively, over the next several years as required by the general partner.

As of December 31, 2016 and 2015, the Company had committed up to $801.3 million and $667.0 million, respectively, in unfunded bridge loans, unfunded revolvers, and other private investments.

Expected future minimum rent income related to the noncancelable portion of the FHLB and SAILES operating leases (see Note 1) to be received as of December 31 are as follows (in thousands):

2017	$	17,353
2018		16,637
2019		16,398
2020		16,398
2021		16,398
Thereafter		51,927

15. Commitments and Contingencies (continued)

The amounts received under both leases are recorded in other revenues on the combined statements of operations.

Guarantees of related parties: The Company provided payment guarantees on behalf of its related party, SE2, LLC (SE2), to certain SE2 customers for all obligations and liabilities arising or incurred under the third-party administration agreements between such customers and SE2.

Other legal and regulatory matters: The Company is party to legal and arbitral proceedings, subject to complaints, and the like in the ordinary course of business, is periodically examined by its regulators in the ordinary course of business, and may discuss certain matters with its regulators that come up during such examinations or otherwise. Management currently does not believe that any litigation, arbitration, complaint or other such matter to which it is party, or that any actions by its regulators with respect to any such examinations or matters under discussion with them, will, alone or collectively, materially adversely affect the Company's results of operations or financial condition.

16. Debt

Line of Credit

At December 31, 2016, the Company has access to a $601.1 million line of credit facility from FHLB. Overnight borrowings in connection with this line of credit bear interest at 0.15% over the Federal Funds rate (.75% at December 31, 2016). The Company had no borrowings under this line of credit at December 31, 2016 and 2015. The amount of the line of credit is determined by the fair market value of the Company's available collateral held by FHLB, primarily mortgage-backed securities and commercial mortgage loans, not already pledged as collateral under existing contracts as of December 31, 2016.

16. Debt (continued)

Long-Term Debt

The Company has outstanding surplus notes with a carrying value of $80.7 million and $129.5 million at December 31, 2016 and 2015, respectively, issued by SBLIC. The surplus notes consist of $50.0 million of 8.75% notes issued in May 1996, which matured and paid off on May 15, 2016, and $100.0 million of 7.45% notes issued in October 2003 and maturing on October 1, 2033. The surplus notes were issued pursuant to Rule 144A under the Securities Act of 1933. The surplus notes have repayment conditions and restrictions, whereby each payment of interest or principal on the surplus notes may be made only with the prior approval of the Kansas Insurance Commissioner and only out of SBLIC surplus funds that the Kansas Insurance Commissioner determines to be available for such payment under the Kansas Insurance Code.

Gennessee Insurance Agency, LLC (Gennessee) had a note outstanding of $31.0 million as of December 31, 2016, which bears interest at a rate of 7.0%, maturing August 15, 2025. Gennessee had notes outstanding of $44.2 million as of December 31, 2015, which bore interest with rates ranging from 6.0% to 9.0%, and with maturities ranging from January 20, 2016 to January 31, 2017. The Company paid interest on these notes of $3.0 million and $3.7 million for the years ended December 31, 2016 and 2015, respectively.

Dunbarre Insurance Agency, LLC had notes outstanding as of December 31, 2016 and 2015 of $38.0 million and $52.9 million, respectively, which bear interest with rates ranging from 7.0% and 8.0%, with maturities ranging from March 21, 2017 to June 15, 2025. The Company paid interest on these notes of $3.5 million and $5.2 million for the years ended December 31, 2016 and 2015, respectively.

On August 5, 2016, the Company entered into a note payable with a related party of $51.8 million. This note has an interest rate of LIBOR plus 8% and a maturity of August 5, 2021.

16. Debt (continued)

SAILES had a long-term note outstanding with a related party as of December 31, 2016 and 2015 of $76.5 million and $84.4 million, respectively, which bears interest at a rate of 6.0% per annum and matures on February 28, 2025. The loan amortizes quarterly in arrears to the final maturity date.

At December 31, 2016, future principal payments for the years ending December 31 are as follows (in thousands):

2017	$	7,409
2018		7,864
2019		8,347
2020		8,859
2021		9,402
Thereafter		34,581
	$	76,462

Mortgage Debt

The primary mortgage financing for the Company’s home office property was arranged through FHLB, which also occupies a portion of the premises. Although structured as a sale-leaseback transaction, substantially all of the risks and rewards of property ownership have been retained by the Company. Accordingly, the arrangement has been accounted for as a mortgage financing of the entire premises by the Company, with an operating lease from FHLB for the portion of the premises that it presently occupies.

The underlying mortgage loan agreement with FHLB bears interest at 6.726% and will be fully paid off in 2022, with monthly principal and interest payments totaling $381,600, including $62,805 applicable to the portion of the building leased to FHLB. The financing is collateralized by a first mortgage on the premises.

The outstanding mortgage balance at December 31, 2015 and 2014, of $24.0 million and $27.0 million, respectively, is reflected in the assets of the Company by reducing its investment in real

16. Debt (continued)

estate as an encumbrance. Mortgage loan interest expense paid for the years ended December 31, 2015 and 2014, was $1.7 million and $1.9 million, respectively. This amount is reported as a reduction of net investment income in the combined statements of operations.

At December 31, 2016, combined future aggregate principal maturities of the mortgage borrowing for the years ending December 31 are as follows (in thousands):

2017	$	3,266
2018		5,835
2019		3,120
2020		3,336
2021		3,568
Thereafter		1,876
	$	21,001

Interest expense as presented in the combined statements of operations consisted of the following for the year ended December 31:

		2016		2015		2014
				(In Thousands)		
Debt/notes payable:						
Surplus note interest	**$**	**10,283**	$	13,893	$	13,665
Consolidated VIE interest		**36,281**		23,848		3,402
Commission assignment interest		**6,558**		9,347		5,247
SAILES interest		**5,352**		5,802		6,245
Mortgage interest		**1,522**		1,710		1,908
Notes payable interest		**1,841**		11		–
Total debt/notes payable interest		**61,837**		54,611		30,467
Repurchase agreement interest		**3,221**		2,399		640
Other interest		**983**		7		(72)
Total	**$**	**66,041**	$	57,017	$	31,035

17. Related-Party Transactions

There are numerous transactions between the Company and entities related to the Company. Following are those the Company considers material (0.5% of assets for investment related transactions) that are not otherwise discussed (see Notes 1, 2 and 10).

The Company reported amounts receivable from parent, subsidiaries and affiliates of $10.4 million and $1.1 million at December 31, 2016 and 2015. The Company reported amounts payable to parent, subsidiaries and affiliates of $1.0 million and $7.2 million at December 31, 2016 and 2015, respectively. Inter-company transactions regularly occur in the normal course of business and are normally settled within 30 days.

The Company occasionally receives loan representation fees, origination fees, and commitment fees for performing activities related to the creation of a new loan. These fees are deferred and amortized into income over the life of the loan. The Company received $2.1 million and $3.6 million for the years ended December 31, 2016 and 2015, respectively, in fees from related parties. The Company recognized income for these fees of $871,000 and $345,000 for the years ended December 31, 2016 and 2015, respectively, which is included in other revenues in the combined statements of operations.

The Company paid $10.6 million and $17.3 million for the years ended December 31, 2016 and 2015, respectively, for loan origination costs with related parties. These loan origination costs are deferred and amortized over the life of the loan. The Company recognized amortization expense of $2.1 million and $834,000 for the years ended December 31 2016, and 2015, respectively, which is included in commissions and other operating expenses in the combined statements of operations.

17. Related-Party Transactions (continued)

As of December 31, 2016 and 2015, the Company had the following investments in related parties with interest rates ranging from 3.7% to 7.5% and maturity dates ranging from January 2017 through November 2019. These investments are included in notes receivable from related parties in the combined balance sheets:

	2016	2015
	(In Thousands)	
ACS Holdings, LLC	**$ –**	$ 206,200
CBAM Funding 2016-1, LLC	**570,400**	–
CH Funding, LLC	**231,126**	–
CPD Funding 2016-1, LLC	**294,000**	–
Four Six Four Aircraft, LLC	**3,000**	220,245
Steamboat Portfolio Trust, LLC (formerly LSBF Holdings, LLC)	**–**	260,000
PD Holdings, LLC	**262,867**	174,389
Cain Hoy Enterprises, LLC	**–**	275,500
Canon Portfolio Trust, LLC (formerly SBC Funding II, LLC)	**259,000**	253,762
McLean Funding, LLC	**580,000**	–
Note Funding 1892-2, LLC	**358,322**	–
SCF Funding, LLC	**183,426**	–
Stonebriar Commercial Finance, LLC	**472,086**	–
Other	**455,094**	744,538
	$ 3,669,321	$ 2,134,634

17. Related-Party Transactions (continued)

As of December 31, 2016 and 2015, the Company had the following individually material investments in other related parties. These investments are included in fixed maturity investments available for sale on the combined balance sheets.

	2016	2015
	(In Thousands)	
American Media Productions, LLC	**$ 373,998**	$ 270,760
Cain Hoy Enterprises, LP	**273,944**	266,548
Delaware Life Insurance Company	**243,808**	211,789
Efland Funding, LLC	**224,034**	273,412
Four Six Four Aircraft, LAK	**241,947**	–
5180-2 CLO, LP	**328,540**	–
Maranon Loan Funding, LTD	**191,531**	–
Mayfair Portfolio Trust, LLC	**235,000**	–
SCF Realty Capital Master Trust (formerly SB Private Investments, LLC)	**280,333**	–
Steamboat Portfolio Trust, LLC (formerly LSBF Holdings, LLC)	**233,000**	–
Stonebriar Holdings, LLC	**271,000**	–
Wanamaker Portfolio Trust, LLC (formerly SBC Funding, LLC)	**481,000**	463,519
Other	**1,956,139**	1,581,400

The Company has contracted with Guggenheim Partners Investment Management, LLC (GPIM) to perform investment advisory services. The Company paid fees of $13.7 million, $28.2 million, and $21.8 million associated with the services performed for the years ended December 31, 2016, 2015, and 2014, respectively. These fees are included in commissions and other operating expense in the combined statements of operations.

17. Related-Party Transactions (continued)

The Company entered into commission assignment agreements with Searcy Insurance Agency, LLC, South Blacktree Agency, LLC, and Saganaw Insurance Agency, LLC, affiliated companies, making payments of $121.4 million, $138.9 million, and $141.5 million for the years ended December 31, 2016, 2015, and 2014, respectively.

The Company received payments under administrative service agreements of $11.1 million, $11.8 million, and $13.8 million from affiliate sponsored mutual funds, for the years ended December 31, 2016, 2015 and 2014, respectively. These fees are included in asset based fees on the combined statements of operations.

The Company paid $76.7 million, $45.8 million, and $67.8 million for the years ended December 31, 2016, 2015, and 2014, respectively, to various other related parties for providing management and administrative services. These fees are included in commissions and other operating expenses on the combined statements of operations.

During the year ended December 31, 2016 and 2015, the Company paid the following dividends to SBC:

	2016	2015
	(In Thousands)	
Note Funding 1892, LLC	**$ 6,500**	$ 22,280
Note Funding - GPIM	–	5,934
Note Funding OHA, LLC	–	2,990
Note Funding 1892-2, LLC	**4,160**	2,850
Note Funding OHA II, LLC	–	2,170
DLSV 2015, LLC	–	1,347
	$ 10,660	$ 37,571

The Company received $400.0 million as a capital contribution from SBC during 2015. SBC forgave $3.0 million of notes payable from SFR during 2015; which is treated as a capital contribution for the Company.

18. Statutory Financial Information and Regulatory Net Capital Requirements

The Company's statutory-basis financial statements are prepared on the basis of accounting practices prescribed or permitted by the Kansas Insurance Department (the Department) and the New York Department of Financial Services (NYDFS), as applicable. Kansas and New York have adopted the National Association of Insurance Commissioners' statutory accounting practices (NAIC SAP) as the basis of its statutory accounting practices. In addition, the Commissioner of the Kansas Insurance Department (the Kansas Commissioner) and the Superintendent of Insurance of the State of New York (the New York Superintendent) have the right to permit other specific practices that may deviate from prescribed practices. Permitted statutory accounting practices encompass all accounting practices that are not prescribed; such practices may differ from state to state, may differ from company to company within a state, and may change in the future.

Since 2012, the Kansas Commissioner has granted approval of a permitted accounting practice for eligible derivative assets that differ from NAIC SAP which allows the Company, to the extent the hedging program is and continues to be economically effective, to report the eligible derivative assets at amortized cost. In addition, the corresponding reserve liabilities that are hedged by the eligible derivative assets are calculated under Actuarial Guideline (AG) 35, whereas the permitted practice allows the reserves to assume the market value of the eligible derivative assets associated with the current interest crediting periods to be zero. At the conclusion of each interest crediting period, interest credited is reflected in reserves as realized. This permitted practice will expire on September 30, 2017, unless extended by the Kansas Commissioner.

The Kansas Commissioner has also granted SBLIC approval of a permitted accounting practice to reset, effective with the 2016 Annual Statement, unassigned surplus to zero in accordance with SSAP No. 72 – Surplus and Quasi-Reorganizations (SSAP No. 72) following its change of control on January 31, 2017 (see Note 19).

The combined impact of these permitted practices, including the impact of income taxes, was to increase statutory surplus by $28.6 million and $75.8 million as of December 31, 2016 and 2015, respectively.

FSBL did not have any permitted practices as of December 31, 2016 and 2015.

The Company offers riders on its fixed indexed annuities (FIAs) which provide for future withdrawal and death benefits. In accordance with the NAIC's Accounting Practices and

18. Statutory Financial Information and Regulatory Net Capital Requirements (continued)

Procedures Manual, the FIAs with riders should be reserved for under revised Actuarial Guideline 33 (AG33). In 2012, the Company requested and received approval from the Kansas Commissioner to use an alternative methodology to reserve for these contracts under the Practical Considerations section of AG33. The reserve held at December 31, 2016 for FIAs with riders issued prior to February 1, 2015 was based on Actuarial Guideline 43 (AG43), the approved alternative method for these contracts. AG43 is a principles-based reserving methodology which requires ongoing review of and updates to the assumptions. The Company closely monitors developing experience on this type of business as well as any new emerging industry information. The Company adjusts its AG43 assumptions when it determines it is reasonable and appropriate and reports the results of its experience analysis to the Department. During the fourth quarter 2014 review of the Company's AG43 statutory reserving assumptions and methodology with respect to FIAs with riders, management determined that certain lapse, income utilization and investment assumptions should be strengthened over time. The Company recorded a portion of the reserve increase in 2014 and the Company and the Kansas Commissioner agreed to phase-in the remaining reserve increase related to strengthening these assumptions over a five year period from 2015 to 2019. In addition to the 2016 scheduled amount, the Company also recorded the remainder of the reserve strengthening scheduled for 2017 to 2019, as of December 31, 2016. For FIAs with riders issued on or after February 1, 2015, the AG33 reserving methodology has been utilized.

Statutory capital and surplus, including surplus notes (see Note 16) of the insurance operations, were \$1,590.7 million and \$1,313.5 million at December 31, 2016 and 2015, respectively. Statutory net income (loss) of the insurance operations was (\$80.3) million, \$77.9 million, and \$118.3 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Life insurance companies are subject to certain risk-based capital (RBC) requirements as specified by State law. The NAIC has a standard formula for calculating RBC based on the risk factors relating to an insurance company's capital and surplus, including asset risk, credit risk, underwriting risk, and business risk. State laws specify regulatory actions if any insurance company's adjusted capital falls below certain levels, including the company action-level RBC and the authorized control-level RBC.

18. Statutory Financial Information and Regulatory Net Capital Requirements (continued)

SBLIC may not, without notice to the Kansas Commissioner and (A) the expiration of 30 days without disapproval by the Kansas Commissioner or (B) the Kansas Commissioner's earlier approval, pay a dividend or distribution of cash or other property whose fair market value together with that of other dividends or distributions made within the preceding 12 months exceeds the greater of (1) 10% of its surplus as regards to policyholders as of the preceding December 31 or (2) the net gain from operations, not including realized capital gains, for the 12-month period ending on the preceding December 31. Any dividends paid must be paid from unassigned surplus. In 2016, SBLIC was not allowed to pay dividends without the approval or non-disapproval of the Kansas Commissioner.

FSBL is allowed to pay ordinary dividends to shareholders where the aggregate amount in any calendar year does not exceed the greater of 10% of its surplus to policyholders or its net gain from operations as of the immediately preceding calendar year, not including realized capital gains, not to exceed 30% of its surplus to policyholders. Ordinary dividends can only be paid out of earned surplus. Insurers are to provide the NYDFS with a 10-day prior notice before paying an ordinary dividend. Furthermore, the New York Superintendent may, in his discretion, limit or disallow any ordinary dividends if the New York Superintendent determines that a domestic stock life insurer's surplus to policyholders following any dividend distribution is not reasonable in relation to the insurer's outstanding liabilities and not adequate to meet its financial needs or the insurer is financially distressed.

SD is subject to the SEC Uniform Net Capital Rule (Rule 15c3-1 under the Securities Exchange Act of 1934). SD computes its net capital requirements under the basic method, which requires the maintenance of minimum net capital (greater of $25,000 or 6 2/3% of aggregated indebtedness) and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. Advances to related parties, dividend payments, and other equity withdrawals are subject to certain notification and other provisions of the SEC Uniform Net Capital Rule or other regulatory bodies.

At December 31, 2016, SD had net capital of $20.5 million, which was $18.3 million in excess of its required net capital of $2.2 million. SD claims exemption from Rule 15c3-3, which requires a reserve with respect to customer funds, pursuant to Paragraph (k)(2)(i) thereof. SD's ratio of aggregate indebtedness to net capital was 162.32 to 1 at December 31, 2016.

19. Subsequent Events

Subsequent events have been evaluated through April 28, 2017, which is the date the financial statements were issued.

The Company's parent changed in a transaction that closed on January 31, 2017. This change of control provides the Company with the option to go through a purchase accounting process which may result in adjustments to the financial statements of certain companies in the group. Management is evaluating the effect of purchase accounting on the Company's financial statements but an estimate of the impact on these statements cannot be made at this time.

On February 20, 2017, the following entities were distributed to SBC: Note Funding 1892, LLC; NF-GPIM, LLC; Note Funding OHA, LLC; Note Funding OHA II, LLC; SB Funding 2016-2, LLC; Note Funding II, LLC; and DLSV 2015-1, LLC.

On February 22, 2017, the Company converted to a single member limited liability company under Kansas law. Prior to this, the Company was named SBL Holdings, Inc. The Company has elected to continue to be taxed as a corporation by filing the correct election with the Internal Revenue Service.

On February 27, 2017, the Company raised $750 million in a private debt offering, having a maturity of February 27, 2020 and an interest rate of LIBOR plus 2.25%.