

Atlantic Coast Life Insurance Company

**STATUTORY FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
AND OTHER LEGAL AND REGULATORY INFORMATION**

For the Years Ended December 31, 2017 and 2016



ATLANTIC COAST LIFE INSURANCE COMPANY

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Independent Auditor's Report

The Board of Directors

Atlantic Coast Life Insurance Company:

Report on the Statutory Financial Statements

We have audited the accompanying statutory financial statements of **Atlantic Coast Life Insurance Company** (the Company), which comprise the statutory statements of admitted assets, liabilities, and capital and surplus of **Atlantic Coast Life Insurance Company** as of December 31, 2017, and the related statutory statements of income, changes in capital and surplus, and cash flow for the year then ended, and the related notes to the statutory financial statements.

Management's Responsibility for the Statutory Financial Statements

Management is responsible for the preparation and fair presentation of these statutory financial statements in accordance with accounting practices prescribed or permitted by the South Carolina Department of Insurance. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of statutory financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statutory 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 statutory 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 statutory financial statements.

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

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the statutory financial statements, **Atlantic Coast Life Insurance Company** prepared these financial statements using accounting practices prescribed or permitted by the South Carolina Department of Insurance, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between these statutory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Principles” paragraph, the statutory financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of **Atlantic Coast Life Insurance Company** as of December 31, 2017, or the results of its operations or its cash flow for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the statutory financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of **Atlantic Coast Life Insurance Company** as of December 31, 2017, and the results of its operations and its cash flow for the year then ended in accordance with the financial reporting provisions prescribed or permitted by the South Carolina Department of Insurance described in Note 1.

Prior Period Financial Statements

The financial statements of **Atlantic Coast Life Insurance Company** as of December 31, 2016, were audited by other auditors whose report dated May 30, 2017, expressed an unmodified opinion on those statements.

Larson & Company, P.C.

Salt Lake City, Utah
May 31, 2018

ATLANTIC COAST LIFE INSURANCE COMPANY

Statutory Statements of Admitted Assets,
Liabilities, and Capital and Surplus
As of December 31, 2017 and 2016

<u>ADMITTED ASSETS</u>	<u>2017</u>	<u>2016</u>
Invested assets:		
Bonds	\$ 147,316,929	\$ 251,369,191
Common stocks	5,660,881	400,694
Mortgage loans on real estate	24,201,195	18,488,233
Properties held for the production of income	2,870,697	2,914,510
Cash, cash equivalents and short-term investments	238,918,132	64,357,800
Contract loans	663,531	165,322
Derivatives	185,451	-
Other invested assets	21,379,650	908,635
Receivables for securities	54,619	-
Total invested assets	441,251,085	338,604,385
Other admitted assets:		
Investment income due and accrued	2,812,769	2,354,752
Uncollected premiums and agent balances	15,249	25,175
Deferred premiums and agents' balances, net of loading of \$767,022 and \$220,623 for 2017 and 2016, respectively	498,836	1,077,672
Recoverable on paid losses		
Amounts recoverable from reinsurers	-	762,798
Other amounts receivable under reinsurance contracts	74,638	2,517,546
Federal income tax recoverable	-	1,592,682
Net deferred tax asset	403,776	659,717
Guaranty funds receivable or on deposit	-	227,767
Electronic data processing equipment and software, net of accumulated depreciation of \$503,163 and \$480,118 for 2017 and 2016, respectively	6,246	24,632
Other amounts receivable	772	556,428
Total other admitted assets	3,812,286	9,799,169
Total admitted assets	\$ 445,063,371	\$ 348,403,554

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

ATLANTIC COAST LIFE INSURANCE COMPANY

Statutory Statements of Admitted Assets,
Liabilities, and Capital and Surplus (Continued)
As of December 31, 2017 and 2016

<u>LIABILITIES AND CAPITAL AND SURPLUS</u>	<u>2017</u>	<u>2016</u>
Liabilities:		
Policy and contract liabilities:		
Aggregate reserve for life contracts	117,072,494	56,682,881
Aggregate reserve for accident and health contracts	98,573	110,505
Liability for deposit-type contracts	30,090,704	67,699,446
Contract claims-life	295,161	46,890
Contract claims-accident and health	12,335	12,335
Provision for policyholders' dividends and coupons payable	44,549	6,980
Total policy and contract liabilities	147,613,816	124,559,037
Other liabilities:		
Premiums and annuity considerations received in advance	200,198	70,046
Other amounts payable on reinsurance ceded	55,489	-
Interest maintenance reserve	2,161,418	-
Commissions to agents due or accrued	(17,460)	180,914
General expenses due or accrued	3,185,370	2,370,860
Taxes, licenses, and fees due or accrued	128,858	174,343
Current federal and foreign income taxes	446,934	-
Unearned investment income	33,631	35,334
Amounts withheld or retained by company as agent	519,321	464,278
Remittances and items not allocated	2,843,874	1,091,137
Liability for benefits of employees	13,511	14,784
Asset valuation reserve	3,581,919	1,708,551
Funds held under reinsurance treaties	257,645,646	148,178,398
Funds held under coinsurance	-	47,436,897
Derivatives	65,660	-
Payable for securities	2,876,971	-
Other amounts payable	-	224,741
Total other liabilities	273,741,340	201,950,283
Total liabilities	421,355,156	326,509,320
Capital and surplus:		
Common stock, \$18.9328037 and \$11.3584734 par value; 132,060 and 132,060 shares authorized; 300,000 and 300,000 issued and outstanding at December 31, 2017 and 2016, respectively	2,500,001	1,500,000
Surplus notes	8,750,000	8,750,000
Paid-in surplus	2,500,001	3,250,000
Unassigned surplus	9,958,213	8,394,234
Total capital and surplus	23,708,215	21,894,234
Total liabilities and capital and surplus	\$ 445,063,371	\$ 348,403,554

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

ATLANTIC COAST LIFE INSURANCE COMPANY

Statutory Statements of Income
For the Years Ended December 31, 2017 and 2016

	2017	2016
Income:		
Premium and annuity considerations	\$ 77,076,363	\$ 7,147,181
Net investment income	10,950,237	7,093,574
Amortization of interest maintenance reserve	391,783	157,468
Commissions and expense allowances on reinsurance ceded	13,767,557	10,631,624
Charges and fees for deposit-type contracts		
Other income	26,817	1,112,505
Total income	102,212,757	26,142,352
Benefits and expenses:		
Benefits to policyholders:		
Death benefits	10,452,105	6,069,859
Matured endowments	87,613	91,744
Annuity benefits	3,235,707	1,103,799
Disability benefits	11,667	17,231
Coupon benefits	14,302	(26,177)
Surrender benefits	514,378	264,194
Interests and adjustments on contract or deposit-type contract funds	2,943,249	1,693
Increase (decrease) in aggregate policy reserves	57,803,900	(6,062,280)
Total benefits to policyholders	75,062,921	1,460,063
Commissions	11,005,399	9,754,643
General insurance expenses	8,494,244	9,128,801
Insurance taxes, licenses and fees	692,459	1,361,266
Increase (decrease) in loading	334,196	(472,451)
Other deductions	-	(123)
Total benefits and expenses	95,589,219	21,232,199
Net gain (loss) from operations before dividends, federal income taxes and realized capital gains (losses)	6,623,538	4,910,153
Dividends to policyholders	-	-
Provision for income taxes	(2,560,718)	(753,201)
Net gain (loss) from operations before realized capital gains (losses)	4,062,820	4,156,952
Realized capital gains (losses), less capital gains tax (benefit) of \$(142,172) and \$(6,991) for 2017 and 2016, respectively	(195,092)	(68,834)
Net income	\$ 3,867,728	\$ 4,088,118

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

ATLANTIC COAST LIFE INSURANCE COMPANY

Statutory Statements of Changes in Capital and Surplus
For the Years Ended December 31, 2017 and 2016

	Common Stock	Paid-in Surplus	Surplus Notes	Unassigned Surplus	Total Capital and Surplus
Balance at January 1, 2016	\$ 1,500,000	\$ 3,250,000	\$ 8,750,000	\$ 5,422,717	\$ 18,922,717
Net income	-	-	-	4,088,118	4,088,118
Change in net unrealized capital gains (losses)	-	-	-	158,334	158,334
Change in net deferred tax assets	-	-	-	(624,138)	(624,138)
Change in non-admitted assets	-	-	-	(4,202)	(4,202)
Change in asset valuation reserve	-	-	-	(369,986)	(369,986)
Other changes in surplus	-	-	-	(276,609)	(276,609)
Balance at December 31, 2016	1,500,000	3,250,000	8,750,000	8,394,234	21,894,234
Net income	-	-	-	3,867,728	3,867,728
Change in net unrealized capital gains (losses)	-	-	-	1,495,890	1,495,890
Change in net deferred tax assets	-	-	-	(293,402)	(293,402)
Change in non-admitted assets	-	-	-	46,516	46,516
Change in asset valuation reserve	-	-	-	(1,873,381)	(1,873,381)
Other changes in surplus	-	(749,999)	-	(249,849)	(999,848)
Change in surplus as a result of reinsurance	-	-	-	(1,429,523)	(1,429,523)
Change in par value	1,000,001	-	-	-	1,000,001
Balance at December 31, 2017	\$ 2,500,001	\$ 2,500,001	\$ 8,750,000	\$ 9,958,213	\$ 23,708,215

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

ATLANTIC COAST LIFE INSURANCE COMPANY

Statutory Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash flow from operating activities:		
Premiums collected net of reinsurance	\$ 77,450,134	\$ 70,726,663
Net investment income	8,035,172	7,098,098
Other income	13,794,374	11,597,254
Benefits and loss related payments	(14,381,488)	(4,027,513)
Commissions and expenses paid	(14,343,384)	(20,561,978)
Dividends paid to policyholders	(1,984)	(1,941)
Federal income taxes recovered (paid)	(558,563)	(3,674,001)
Net cash flow from operating activities	69,994,261	61,156,582
Cash flow from investing activities:		
Proceeds from sales of bonds	266,359,788	30,809,036
Proceeds from sales of stocks	15,871,341	67,199
Proceeds from mortgage loan collections	17,745,339	16,919,481
Other invested assets	12,394,636	-
Miscellaneous	2,876,971	11,081
Payments for purchases of bonds	(161,651,305)	(212,294,641)
Payments for purchases of stocks	(19,452,372)	-
Payments for mortgage loans	(23,458,300)	(8,837,304)
Payments for real estate	(83,527)	(46,835)
Other invested assets	(32,106,199)	-
Miscellaneous applications	(240,070)	-
Net increase (decrease) in contract loans	413,734	(504,139)
Net cash flow from investing activities	78,670,036	(173,876,122)
Cash flow from financing and miscellaneous sources:		
Capital and paid in surplus, less treasury stock	250,002	-
Proceeds from deposit-type contracts	(37,608,742)	96,185,376
Increase in payable to reinsurer	-	45,433,905
Other cash provided	63,254,775	341,699
Net cash flow from financing and miscellaneous sources	25,896,035	141,960,980
Net increase (decrease) in cash	174,560,332	29,241,440
Cash, cash equivalents and short-term investments at beginning of year	64,357,800	35,116,360
Cash, cash equivalents and short-term investments at end of year	\$ 238,918,132	\$ 64,357,800

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

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Atlantic Coast Life Insurance Company (the Company) was incorporated on February 4, 1925 and commenced writing business on March 1, 1925. On February 24, 2015, YBCO, LLC, the company's former parent, entered into a stock purchase agreement to sell the Company to Advantage South, LLC, a Delaware limited liability company. The transaction was approved by the South Carolina Department of Insurance (the Department) on May 21, 2015, and was closed June 5, 2015. As of December 31, 2016, the principal lines of business of the company were ordinary and group life insurance and ordinary annuities, which made up approximately 99% of the company's premiums. As of December 31, 2015, the principal lines of business of the company were ordinary and group life insurance, which made up approximately 92% of the Company's premiums. The company is domiciled in South Carolina and licensed in 24 other states.

During 2016, the Company began selling multi-year guaranty annuity (MYGA) products primarily through independent marketing organizations. The growth in this product line, along with the reinsurance activity in 2016, is the primary contributor to the growth in assets and liabilities on the statutory statements of admitted assets, liabilities, and capital and surplus.

Advantage South, LLC is 51% owned by Advantage Capital Holdings, LLC, and was formed on January 23, 2015 to serve as an insurance holding company for the acquisition of the Company. Privately held Advantage Capital Holdings is a member of a group of affiliated companies with insurance operations.

The Company is subject to the broad administrative powers of the Department, which include, but are not limited to, limitation of dividends distributable and demands for additional capital and surplus.

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

The accompanying statutory financial statements of the Company are presented on the basis of accounting practices prescribed or permitted by the South Carolina Department of Insurance. Such practices vary in some respects from accounting principles generally accepted in the United States of America (U.S. GAAP) used by general business enterprises. The more significant variances from U.S. GAAP are as follows:

The South Carolina Department of Insurance recognizes only statutory accounting practices prescribed or permitted by the State of South Carolina for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under the South Carolina Insurance Law. The National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures* manual (NAIC SAP) has been adopted as a component of prescribed or permitted practices by the State of South Carolina.

a. *Investments:*

Investments in bonds are reported at amortized cost or fair value based on their National Association of Insurance Commissioners (NAIC) rating as described below in valuation of investments, unrealized gains or losses are credited or charged directly to surplus; for U.S. GAAP, such fixed maturity investments would be designated at purchase as held-to-maturity, trading, or available-for-sale. Held-to-maturity fixed investments would be reported at amortized cost, and the remaining fixed maturity investments would be reported at fair value with unrealized holding gains and losses reported in operations for those designated as trading and as a separate component of surplus for those designated as available-for-sale.

All single class and multi-class mortgage-backed/asset-backed securities (e.g., CMOs) are adjusted for the effects of changes in prepayment assumptions on the related accretion of discount or amortization of premium of such securities using either the retrospective or prospective methods. If it is determined that a decline in fair value is other than temporary, the cost basis of the security is written down to the undiscounted estimated future cash flows.

For U.S. GAAP purposes, all securities, purchased or retained, that represent beneficial interests in securitized assets (e.g., CMO, CBO, CDO, CLO, MBS and ABS securities), other than high credit quality securities, are adjusted using the prospective method when there is a change in estimated future cash flows. If it is determined that a decline in fair value is other than temporary, the cost basis of the security is written down to the discounted fair value. If high credit quality securities are adjusted, the retrospective method is used.

Investments in real estate are reported net of related obligations, if any, rather than on a gross basis. Changes between cost and admitted asset investment amounts are credited or charged directly to unassigned surplus rather than to a separate surplus account.

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

a. *Investments (Continued):*

Valuation allowances, if necessary, are established for mortgage loans based on the difference between the unpaid loan balance and the estimated fair value of the underlying real estate when such loans are determined to be in default as to the scheduled payments. Under U.S. GAAP, valuation allowances would be established when the Company determined it is probable that it will be unable to collect all amounts (both principal and interest) due according to the contractual terms of the loan agreement.

Such allowances are based on the present value of expected future cash flows discounted at the loan's effective interest rate or, if foreclosure is probable, on the estimated fair value of the underlying real estate, less estimated cost to sell.

b. Nonadmitted Assets:

Certain assets designated as "nonadmitted," principally nonoperating electronic data processing equipment, furniture and fixtures, agents' debit balances, prepaids, and other assets not specifically identified as an admitted asset within the Accounting Practices and Procedures Manual are excluded from the accompanying statement of admitted assets, liabilities and capital and surplus and are charged directly to unassigned surplus. Under U.S. GAAP, such assets are included in the balance sheet.

c. *Policy Acquisition Costs:*

Expenses incurred in connection with acquiring new insurance business, including such acquisition costs as sales commissions, are charged to operations as incurred. Expenses incurred are reduced for ceding allowances received or receivable. Under U.S. GAAP, such costs, to the extent recoverable, would be deferred and amortized over the effective period of the related insurance policies.

d. *Deferred Income Taxes:*

Deferred tax assets are limited to 1) the amount of federal income taxes paid in the prior three years that can be recovered through loss carrybacks for existing temporary differences that reverse by the end of the two subsequent calendar years, subject to a valuation allowance for deferred tax assets not realizable, plus 2) the lesser of the remaining gross deferred tax assets expected to be realized within three years of the balance sheet date or 15% of surplus excluding any net deferred tax assets, EDP equipment and operating software, plus 3) the amount of remaining gross deferred tax assets that can be offset against existing gross deferred tax liabilities. The remaining deferred tax assets are nonadmitted. Deferred taxes do not include amounts for state income taxes. Under U.S. GAAP, state income taxes are included in the computation of deferred taxes, a deferred tax asset is recorded for the amount of gross deferred tax assets expected to be realized in future years, and a valuation allowance is established for deferred tax assets not realizable.

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

e. *Guaranty Fund and Other Assessments:*

A liability for guaranty fund and other assessments (net of certain offsets depending on state rules) is accrued when all of the following conditions are met, 1) An assessment has been imposed or information available prior to issuance of the statutory financials statements indicates that it is probable that an assessment will be imposed, 2) the even obligating an entity to pay an imposed or probably assessment has occurred on or before the date of the financial statements, and 3) the amount of the assessment can be reasonable estimated. Under U.S. GAAP, the assessment recognized is typically accrued when premiums are written because the assessment generally is based on prospective premium writings.

f. *Electronic Data Processing (EDP) Equipment and Operating System Software:*

EDP equipment and operating system software are generally depreciating over a life not to exceed three years, which is generally shorter than their estimated useful life under U.S. GAAP. Nonoperating software is generally depreciated over a life not to exceed five years. The aggregate amount of admitted data processing equipment and operating system software, net of accumulated depreciation, shall be limited to three percent of the Company's capital and surplus as required to be shown on the statutory balance sheet of the Company for its most recently filed statement with the domiciliary state commissioner adjusted to exclude any EDP equipment and operating system software, net deferred tax assets and net positive goodwill.

g. *Statements of Cash Flow:*

Cash and short-term investments in the statements of cash flow represent cash balances and investments with initial maturities of one year or less. Under U.S. GAAP, the corresponding caption of cash and cash equivalents includes cash balances and investments with initial maturities of three months or less.

h. *Interest Maintenance Reserve:*

Interest rate related realized capital gains (net of losses) are reported as a liability (Interest Maintenance Reserve) and amortized to the maturity date of the instrument sold or called. Under U.S. GAAP, the realized capital gains (net or losses) are recorded in the income statement in the year incurred instead of being amortized over the remaining life of the instrument sold or called.

i. *Asset Valuation Reserve:*

An Asset Valuation Reserve is set up to establish a reserve to offset potential credit-related investment losses on all invested asset categories. Under U.S. GAAP such losses are recognized in the income statement when incurred.

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

j. *Benefit Reserves:*

Certain policy reserves are calculated based on statutorily required interest and mortality assumptions rather than on estimated expected experience or actual account balance as would be required under U.S. GAAP.

k. *Reinsurance:*

Policy and contract liabilities ceded to reinsurers have been reported as reductions of the related reserves rather than as assets as would be required under U.S. GAAP.

l. *Comprehensive Income:*

On a statutory basis, the Company does not report comprehensive income, as required by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 220, *Comprehensive Income*, for U.S. GAAP basis financial statements.

m. *Surplus Notes:*

Surplus notes are reported as a component of statutory surplus in the accompanying statutory financial statements. In financial statements prepared in conformity with U.S. GAAP, surplus notes would be accounted for as debt and included in liabilities.

n. *Statutory Requirements*

Statutory requirements indicate that statutory financial statements are to be prepared in a form and using the language and groupings substantially the same as the annual statement of the Company that is filed with the NAIC and the state regulatory authorities. Accordingly, the statutory financial statements are presented in a format consistent with the annual statement a licensed life insurance enterprise would file which differs from the presentation and disclosures of financial statements presented under U.S. GAAP.

o. *Annuity Contracts*

Contracts that have any mortality and morbidity risk, regardless of significance, and contracts with life contingent annuity purchase rate guarantees are classified as insurance contracts and amounts received under these contracts are reported as revenue for statutory reporting purposes, whereas under GAAP, for contracts, that do not subject the Company to significant risks arising from mortality or morbidity, the amounts received are reported as increases to policyholder account balances.

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

p. *Unauthorized Reinsurer:*

A liability is established when the reserves ceded to an unauthorized reinsurer exceed the eligible collateral supporting the reserves. Changes to these amounts are credited or charged directly to unassigned surplus. Under GAAP, no such liability is required.

The effects of the foregoing variances from U.S. GAAP on the accompanying statutory-basis financial statements have not been determined, but are presumed to be material.

Risks and Uncertainties

Certain risks and uncertainties are inherent to the Company's day-to-day operations and to the process of preparing its statutory financial statements. The more significant of those risks and uncertainties are presented below and throughout the notes to the statutory financial statements.

Reinsurance – Indemnity reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company; consequently, allowances are established for amounts deemed uncollectible. The Company evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. Based on high rating of its reinsurers, management believes that any liability arising from this contingency would not be material to the Company's financial position.

Investments – The Company is exposed to risks that issuers of securities owned by the Company will default, or that interest rates will change and cause a decrease in the value of its investments. Management mitigates these risks by conservatively investing in high-grade securities and by matching maturities of its investments with the anticipated payouts of its liabilities.

External Factors – The Company is regulated by the state in which it is domiciled. Such regulations, among other things, limit the amount of dividends and impose restrictions on the amount and types of investments the Company can carry on its statutory statements of admitted assets, liabilities and capital and surplus.

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Valuations of Investments

Investments are stated at valuation rates prescribed by, or deemed acceptable to, the NAIC. Bonds not backed by other loans are stated at amortized cost using the interest method, and equity security values approximate fair values, unless otherwise prescribed by the NAIC. Under NAIC guidelines, when market value rates are not available for bonds, fair value is determined by the Company. Realized gains or losses on the sale of bonds are determined based on the specific amortized cost of the investments sold and are included in net income. Realized gains or losses on the sale of equity securities are based on the specific-identification method and are included in net income. Unrealized gains and losses from revaluation of equity securities are reflected in unassigned surplus. Mortgage loans are stated at aggregate carrying cost less accrued interest. The Company reviews its investment portfolio for reductions in fair value below cost that, in the opinion of the Company, represent a permanent or other-than temporary impairment (OTTI). Declines in fair value of investments deemed to be OTTI or permanent are accounted for as a realized loss. Subsequent recoveries in fair value of equity securities are reflected as unrealized gains and are included as a component of surplus. The Company realized OTTI impairments of \$0 and \$0 for the year ended December 31, 2017 and 2016, respectively.

When investments are being recorded at fair value, the Company categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Values of Financial Instruments

The fair value of bonds, preferred and common stock, including the methods and assumptions used to estimate such amounts are described above. Other financial instruments include cash and short-term investments. The carrying amounts reported in the accompanying balance sheets for these financial instruments approximate their fair values.

Use of Estimates

The preparation of financial statements in conformity with NAIC SAP requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Such estimates and assumptions could change in the future, as more information becomes known which could impact the amounts reported and disclosed herein. The most significant estimates include those used in the evaluation of 1) asset impairments, actual results could differ from those estimates and assumptions 2) management's estimate of the reserves for aggregate policy reserves and 3) management's estimate of fair values of investments.

Benefit Reserves

Policy reserves include future policy benefit reserves for ordinary life, pre-need, annuity, and accident and health products. Future policy benefit reserves are principally provided under the net level and commissioners reserve valuation methods (CRVM). Mortality assumptions are primarily based on the 1941, 1958, 1961, 1980, and 2001 CSO Tables with interest assumptions varying from 3.0% to 5.75%. Use of the CRVM partially offsets the effect of the immediate expensing of acquisition costs by providing a policy reserve increase in the first policy year, which is less than the reserve increase in renewal years. Aggregate accident and health reserves are comprised primarily of unearned premiums.

Reserves for individual annuity contracts are computed primarily using the Commissioners' Annuity Reserve Valuation Method (CARVM).

Reserves for deposit-type contracts, which do not subject the reporting entity to any risks arising from policy holder mortality or morbidity, are equal to deposits received and interest credited to the benefit of contract holders, less fees and other charges assessed and surrenders or withdrawals that represent a return to the contract holders. The Company has determined that certain MYGA contracts without riders do not expose the Company to incremental loss related to mortality and classifies these contracts as deposit-type contracts using a CARVM reserve balance.

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Benefit Reserves (Continued)

The reserve for policy and contract claims consists of case-basis estimates for reported claims and estimates for unreported claims based on past claims reporting experience. Management believes reserves for policy and contract claims are adequate to cover the ultimate liability. However, the ultimate claim costs may vary from the amounts presently provided. Policy and contract claims payable estimates are continually reviewed and revised to reflect current conditions and claim trends. The resulting adjustments are reflected in the operating results in the year the revisions are made.

The Company waives deduction of deferred fractional premiums upon death of insureds and returns any portion of the final premium beyond the date of death. Surrender values are not in excess of the legally computed reserves. Additional reserves are established when the net premiums exceed the gross premiums on any insurance in force.

Substandard lives are charged an extra premium plus the regular gross premium for the true age. Mean reserves are determined by calculating the regular mean reserve to the plan at the related age and holding one-half for the extra premium charge for the year. Mean reserves are based on appropriate multiple of standard rates of mortality.

Tabular interest, tabular less actual reserves released, and tabular cost have been determined by formula. The tabular less actual reserve released has been determined by formula. For the determination of tabular interest on funds not involving life contingencies for each valuation rate of interest, the tabular interest is calculated as one hundredth of the product of such valuation rate of interest times the mean of the amount of funds subject to such valuation rate of interest held at the beginning and end of the year of valuation.

The liabilities related to policyholder funds left on deposit with the Company generally are equal to fund balances less applicable surrender charges.

The reserve for the immediate payment of claims (IPC) for certain older policies remained in the current year with a balance of \$8,179 as of December 31, 2017.

Asset Valuation Reserve and Interest Maintenance Reserve

An asset valuation reserve is maintained as prescribed by the NAIC for the purpose of stabilizing the surplus of the Company against fluctuations in the market values of long-term bonds, common and preferred stock, real estate, short-term investments, and other invested assets. Changes in the asset valuation reserve are charged against unassigned surplus.

An interest maintenance reserve is established to capture and defer capital gains and losses not resulting from changes in credit quality on the sale of bonds. The reserve is amortized to operations through the original maturity date of each security using a basis that approximates the effective interest method.

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For purposes of the statement of cash flow, the Company considers all highly liquid debt instruments with maturity of one year or less to be cash equivalents. Therefore, short-term investments and cash on deposit are considered to be cash equivalents.

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist of temporary cash investments, fixed maturity securities and mortgage loans.

The Company cedes insurance to other insurance companies in the normal course of business which creates reserve credits and recoverables related to reinsurance ceded.

The Company maintains several bank accounts at the same institution. Accounts at this institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times for the years ended December 31, 2017 and 2016, such amounts were in excess of the FDIC insurance limit of \$250,000. The Company has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk on this balance due to the financial integrity of this institution.

The Company invests in money market mutual funds that are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although a money market mutual fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund. As of December 31, 2017 and 2016 the Company held **\$22,762,303** and \$19,780,841 in money market mutual funds, respectively.

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Premiums and Expenses

Life insurance premiums are recognized as income over the premium-paying period of the related policies. Annuity considerations are recognized as revenue when received. Deposits received on deposit-type contracts are not included in the statutory statements of operations, but are instead credited directly to the liability for deposit-type contracts. Health premiums are earned ratably over the terms of the related insurance and reinsurance contracts of the policies. Expenses incurred in connection with acquiring new insurance business, including acquisition costs such as sales commissions, are charged to operations as incurred. Deferred and uncollected life insurance premiums as of December 31 were as follows:

	2017		2016	
	Gross	Net of Loading and Reinsurance	Gross	Net of Loading and Reinsurance
Industrial	\$ 619	\$ (33)	\$ 371	\$ 129
Ordinary new business	585,777	(120,369)	501,521	97,273
Ordinary renewal	1,788,429	504,642	1,693,147	815,204
Group Life	567,263	120,045	421,463	189,207
Total	\$ 2,942,088	\$ 504,285	\$ 2,616,502	\$ 1,101,813

Furniture and Equipment

Amounts expended for furniture and fixtures are charged to surplus, net of accumulated depreciation, for statutory financial reporting. Data processing equipment is carried at cost, net of accumulated depreciation.

The admitted value of the Company's electronic data processing equipment and operating software is limited to 3% of capital and surplus. Electronic data processing equipment and software is depreciated using the 150% declining balance method over the lesser of its estimated useful life, or three years. Depreciation expense for the years ended December 31, 2017 and 2016 totaled **\$24,474** and \$32,986, respectively. Maintenance and repairs that do not materially extend the useful lives are charged to earnings as incurred. The Company non-admits all furniture and automobiles.

Reinsurance

Reinsurance premiums and benefits paid or provided are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

Net Investment Income

Net investment income primarily represents interest and dividends received or accrued on bonds. It also includes amortization of any purchase premium or discount using the interest method, adjusted prospectively for any change in estimated yield-to-maturity. Net investment income is reduced by direct and allocated investment expenses.

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Current income taxes incurred are charged to the statutory statements of operations based on tax returns for the current year and tax contingencies for current and prior years, to the extent not previously provided.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities, and their respective tax bases.

Gross deferred tax assets and liabilities are measured using enacted tax rates and are considered for admitted asset status according to the admissibility tests as set forth by the NAIC, net of any potential valuation allowance. Changes in deferred tax assets and deferred tax liabilities, including changes attributable to changes in tax rates, are recognized as a component of unassigned surplus.

Miscellaneous Income

The primary components of miscellaneous income during 2016 were the amortization of special surplus funds from a past deferred reinsurance gain, and fees earned on a sale of real property and other miscellaneous items. For the year ended December 31, 2017, the Company recorded any amortization of the special surplus funds from deferred reinsurance with the commissions and expense allowances on reinsurance ceded in accordance with NAIC SAP.

Related Party Transactions

A transaction between related parties involving the exchange of assets or liabilities is classified as either an economic transaction or a non-economic transaction. An economic transaction is defined as an arm's-length transaction which results in the transfer of risks and rewards of ownership and represents a consummated act thereof, i.e., "permanence." Non-economic transactions between the Company and a related party insurance entity are recorded at the lower of existing book values or fair values at the date of the transaction. Non-economic transactions between the Company and related parties that are not insurance entities are recorded at the fair value at the date of the transaction; however, to the extent that the transaction results in a gain, an offsetting unrealized capital loss and liability is recorded to defer any impact on surplus. Economic transactions between the Company and other related parties are recorded at fair value at the date of the transaction. To the extent that the related parties are affiliates under control of the Company, the Company defers the effects of such transactions that result in gains or increases in surplus by recording an offsetting unrealized capital loss and liability. A transaction involving services between related parties is recorded at the amount charged and is generally subject to regulatory approval.

Reclassification

Certain accounts relating to the prior year have been reclassified to conform to the current year presentation with no effect on previously reported net income or surplus.

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

2. INVESTMENTS

Bonds and stocks at December 31, 2017, are summarized as follows:

	Cost or Adjusted Carrying Value	Fair Value	Excess of Fair Value Over Book Value
Bonds:			
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 2,449,097	\$ 2,414,789	\$ (34,308)
State and political subdivisions	1,467,452	1,497,404	29,952
Foreign governments	256,201	253,103	(3,098)
Corporate securities	61,125,156	62,106,361	981,205
Loan-backed securities:			
Residential mortgage-backed	4,800,655	4,817,943	17,288
Commercial mortgage-backed	23,836,461	24,598,887	762,426
Other loan-backed and structured securities	53,381,907	54,809,327	1,427,420
Total bonds	\$ 147,316,929	\$ 150,497,814	\$ 3,180,885
Stocks:			
Common stocks	\$ 4,363,884	\$ 5,660,881	\$ 1,296,997
Total stocks	\$ 4,363,884	\$ 5,660,881	\$ 1,296,997

Bonds and stocks at December 31, 2016, are summarized as follows:

	Cost or Adjusted Carrying Value	Fair Value	Excess of Fair Value Over Book Value
Bonds:			
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 2,298,435	\$ 2,276,238	\$ (22,197)
State and political subdivisions	3,630,100	3,631,218	1,118
Foreign governments	406,111	391,001	(15,110)
Corporate securities	113,068,971	110,650,559	(2,418,412)
Loan-backed securities:			
Residential mortgage-backed	790,827	817,014	26,187
Commercial mortgage-backed	26,510,055	26,130,096	(379,959)
Other loan-backed and structured securities	104,664,692	104,408,547	(256,145)
Total bonds	\$ 251,369,191	\$ 248,304,673	\$ (3,064,518)
Stocks:			
Common stocks	\$ -	\$ 400,694	\$ 400,694
Total stocks	\$ -	\$ 400,694	\$ 400,694

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

2. INVESTMENTS (Continued)

Assets measured at fair value on a recurring basis are as follows:

Assets Measured at Fair Value				
	Fair Value	(Level 1)	(Level 2)	(Level 3)
December 31, 2017:				
Assets at fair value:				
Common stocks	\$ 5,660,881	\$ -	\$ -	\$ 5,660,881
Derivatives	185,451	-	-	185,451
Total at assets at fair value	5,660,881	-	-	5,660,881
Liabilities at fair value:				
Derivatives	(65,660)	-	-	(65,660)
Total at liabilities at fair value	(65,660)	-	-	(65,660)
Total	\$ 5,595,221	\$ -	\$ -	\$ 5,595,221
December 31, 2016:				
Stocks:				
Common	\$ 400,694	\$ -	\$ -	\$ 400,694
Total	\$ 400,694	\$ -	\$ -	\$ 400,694

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

2. INVESTMENTS (Continued)

The aggregate fair value for all financial instruments and the level within the fair value hierarchy in which the fair value measurements in their entirety fall as of December 31 is as follows:

2017						
Type of financial instrument:	Aggregate Fair Value	Admitted Assets	(Level 1)	(Level 2)	(Level 3)	Not Practicable (Carrying Value)
Bonds	\$ 150,497,814	\$ 147,316,929	\$ -	\$ 133,859,971	\$ 16,637,843	\$ -
Common stock	5,660,881	5,660,881	-	-	5,660,881	-
Mortgage loans	24,201,195	24,201,195	-	-	-	24,201,195
Real estate	2,870,697	2,870,697	-	-	-	2,870,697
Cash and short-term investments	238,918,132	238,918,132	29,832,439	206,835,693	2,250,000	-
Contract loans	663,531	663,531	-	663,531	-	-
Derivative assets	185,451	185,451	-	-	185,451	-
Other invested assets	21,379,650	21,379,650	-	-	21,379,650	-
Total	\$ 444,377,351	\$ 441,196,466	\$ 29,832,439	\$ 341,359,195	\$ 46,113,825	\$ 27,071,892

2016						
Type of financial instrument:	Aggregate Fair Value	Admitted Assets	(Level 1)	(Level 2)	(Level 3)	Not Practicable (Carrying Value)
Bonds	\$ 248,304,673	\$ 251,369,191	\$ 2,276,238	\$ 246,028,435	\$ -	\$ -
Preferred stock	-	-	-	-	-	-
Common stock	400,694	400,694	-	-	400,694	-
Mortgage loans	-	18,488,233	-	-	-	18,488,233
Real estate	-	2,914,510	-	-	-	2,914,510
Cash and short-term investments	64,357,800	64,357,800	64,357,800	-	-	-
Contract loans	165,322	165,322	-	165,322	-	-
Other invested assets	908,635	908,635	-	-	908,635	-
Total	\$ 314,137,124	\$ 338,604,385	\$ 66,634,038	\$ 246,193,757	\$ 1,309,329	\$ 21,402,743

The explanation for the financial instrument not measured as of December 31, 2017 is as follows:

2017				
Type or class of financial instrument:	Carrying Value	Effective Interest Rate	Maturity Date	Explanation
Mortgage loans	\$ 24,201,195	Various	Various	Mortgage loans not actively traded
Real estate	\$ 2,870,697	n/a	n/a	Real estate is not actively being marketed for sale

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

2. INVESTMENTS (Continued)

The explanation for the financial instrument not measured as of December 31, 2016 is as follows:

2016				
Type or class of financial instrument:	Carrying Value	Effective Interest Rate	Maturity Date	Explanation
Mortgage loans	\$ 18,488,233	Various	Various	Mortgage loans not actively traded
Real estate	\$ 2,914,510	n/a	n/a	Real estate is not actively being marketed for sale

On a quarterly basis, the Company reviews its investment portfolio for securities in an unrealized loss position for other-than temporary impairments. This review for potential impairment is performed on a specific identification basis and requires significant management judgment related to a number of qualitative and quantitative factors including the severity of the impairment, the duration of the impairment, recent trends and expected market performance. Management believes that the Company's unrealized losses on individual securities at December 31, 2017 and 2016 represent a temporary decline in market value.

The fair value measurements in Level 3 of the fair value hierarchy are as follows:

	Investment Class		
	Common Stock	Derivatives (Assets)	Derivatives (Liabilities)
Beginning Balance, January 1, 2016	\$ 306,069	\$ -	\$ -
Transfers into Level 3	-	-	-
Transfers out of Level 3	-	-	-
Total gains (losses) included in net income	-	-	-
Total gains (losses) included in surplus	94,625	-	-
Purchases	-	-	-
Issuances	-	-	-
Sales	-	-	-
Settlements	-	-	-
Ending Balance, December 31, 2016	400,694	-	-
Transfers into Level 3	-	-	-
Transfers out of Level 3	-	-	-
Total gains (losses) included in net income	782,832	11,436	(498)
Total gains (losses) included in surplus	896,324	60,959	(32,207)
Purchases	19,452,372	161,247	(53,693)
Issuances	-	-	-
Sales	(15,871,341)	(48,191)	20,738
Settlements	-	-	-
Ending Balance, December 31, 2017	\$ 5,660,881	\$ 185,451	\$ (65,660)

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

2. INVESTMENTS (Continued)

Bonds, Stocks, Cash, and Short-Term Investments

When available, the estimated fair value for bonds, stocks, cash and short-term investments are based on quoted prices in active markets that are readily and regularly obtainable. Generally, these investments are classified in Level 1. Generally, these are the most liquid of the Company's securities holdings and valuation of these securities does not involve management's judgment.

When quoted prices in active markets are not available, the determination of estimated fair value is based on market standard valuation methodologies, giving priority to observable inputs. The significant inputs to the market standard valuation methodologies for certain types of securities with reasonable levels of price transparency are inputs that are observable in the market or which can be derived principally from or corroborated by observable market data. Generally, these investments are classified as Level 2.

When observable inputs are not available, the market standard valuation methodologies for determining the estimated fair value of certain types of securities that trade infrequently, and therefore have little or no price transparency, rely on inputs that are significant to the estimated fair value that are not observable in the market or which cannot be derived principally from or corroborated by observable market data. These unobservable inputs can be based in large part on management's judgment or estimation, and cannot be supported by reference or market activity. Even though these inputs are unobservable, management believes they are consistent with that which other market participants would use when pricing such securities and are considered appropriate given the circumstances. Generally, these investments are classified as Level 3.

The estimated fair value of cash approximates carrying value and is classified as Level 1, given the nature of cash.

Level 3 Investments

For Level 3 investments methodologies employed by the third party are as follows:

Fixed Income – Brokers

Broker quotes passed through by Pricing Vendors (not used in their generic model) or received directly from other brokers are assigned a Level 3 since the broker inputs cannot be corroborated as observable.

Fixed Income – Other Sources

When a price is not available from any of our third party external vendors and sufficient valuation information is available via Bloomberg or another source, securities are priced using Yieldbook Option Adjusted Spread ("OAS") analysis. When no information is available to use Yieldbook, the security will be benchmarked using a Barclay's Index based on credit sector and/or asset class.

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

2. INVESTMENTS (Continued)

Level 3 Investments (Continued)

Fixed Income – Purchase Price

For securities purchased within the pricing month, and no pricing source is available, Levels will be assigned using the trade date. Securities purchased within five business days of the month end valuation are assigned a Level 2. Otherwise, they are assigned a Level 3.

Equities – Other Sources

Securities traded on an exchange with a recent trade greater than 5 business days but less than 30 days would be assigned a Level 2. Securities not traded on an exchange but priced using observable inputs (evaluated price) would also be assigned a Level 2. When an equity security hasn't traded for 30 days and is currently listed on an exchange (e.g., OTC, etc.) it will be considered illiquid and assigned a Level 3. Securities priced via broker quotes which are non-binding will also be assigned a Level 3.

Equities – Purchase Price

Equities purchased within five business days of the month end valuation are assigned a Level 2 otherwise, if not within five business days and there is no pricing source available the security is assigned a Level 3.

Preferred Equities – Brokers

All broker quotes are assigned a Level 3. These brokers do not provide inputs and therefore are not observable and cannot be supported. Sources include Brokers, Bloomberg, etc.

Preferred Equities – Other Sources

When a price is not available from any of our third party external vendors and sufficient valuation information is available via Bloomberg or another source, securities are priced using Yieldbook Option Adjusted Spread analysis (sinking fund preferred). When no information is available to use Yieldbook, prior price will be used.

Derivatives

For non-managed assets, Conning will obtain both the security price and FAS 157 Level for assets that are not priced by our third party external vendors either directly from the client or their respective third party asset manager.

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

2. INVESTMENTS (Continued)

The following tables summarize those investments that, as of December 31, 2017 and 2016, were in an unrealized loss position for which other-than-temporary declines in value have not been recognized:

(\$ In Thousands)

	Less Than 12 Months			12 Months or More			Total Unrealized Losses
	Number Of Issues	Fair Value	Unrealized Losses	Number Of Issues	Fair Value	Unrealized Losses	
At December 31, 2017							
Bonds:							
U.S. government and agencies	7	\$ 4,557	\$ (7)	11	\$ 3,283	\$ (79)	\$ (86)
Industrial and miscellaneous	19	16,366	(114)	95	23,191	(516)	(630)
Mortgage backed securities	6	8,666	(67)	7	6,000	(44)	(111)
Total bonds	32	29,589	(188)	113	32,474	(639)	(827)
Equity securities:							
Common stock	-	-	-	-	-	-	-
Total bonds and equity securities	32	\$ 29,589	\$ (188)	113	\$ 32,474	\$ (639)	\$ (827)
Investment grade bonds	32	\$ 29,589	\$ (188)	113	\$ 32,474	\$ (639)	\$ (827)
Below investment grade bonds	-	-	-	-	-	-	-
Total bonds	32	\$ 29,589	\$ (188)	113	\$ 32,474	\$ (639)	\$ (827)

(\$ In Thousands)

	Less Than 12 Months			12 Months or More			Total Unrealized Losses
	Number Of Issues	Fair Value	Unrealized Losses	Number Of Issues	Fair Value	Unrealized Losses	
At December 31, 2016							
Bonds:							
U.S. government and agencies	12	\$ 990	\$ (29)	11	\$ 3,602	\$ (99)	\$ (128)
State and political subdivisions	146	92,998	(2,495)	16	8,242	(225)	(2,720)
Mortgage backed securities	43	57,762	(782)	49	30,216	(594)	(1,376)
Total bonds	201	151,750	(3,306)	76	42,060	(918)	(4,224)
Equity securities:							
Common stock	-	-	-	-	-	-	-
Total bonds and equity securities	201	\$ 151,750	\$ (3,306)	76	\$ 42,060	\$ (918)	\$ (4,224)
Investment grade bonds	201	\$ 151,750	\$ (3,306)	76	\$ 42,060	\$ (918)	\$ (4,224)
Below investment grade bonds	-	-	-	-	-	-	-
Total bonds	201	\$ 151,750	\$ (3,306)	76	\$ 42,060	\$ (918)	\$ (4,224)

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

2. INVESTMENTS (Continued)

Investments in stocks are carried at estimated fair value at each reporting date with unrealized gains and losses in fair value adjusted through unassigned surplus net of deferred taxes. These investments are subject to rapidly changing market conditions, more so than debt securities. Measures in such as fair value to original cost are utilized to evaluate other-than-temporary impairments in these types of investments, similar to debt security holdings. Industry factors and the overall financial condition of individual stock holdings are evaluated to determine potential price recovery. In addition, comparisons to fluctuations in the major stock market indices during the holding period are utilized to support changing valuations. The Company considers these factors, as well as the Company's intent and ability to hold the securities until the value recovers. The Company does not consider the unrealized losses on stocks to be other than temporary as of December 31, 2017 and 2016.

Investments in bonds are carried at book/adjusted carrying value. The unrealized losses in these securities are interest rate-related changes, which are anticipated to recover in the future. Since the Company has the intent and ability to hold these securities through recovery of the amortized cost of the bond, which may be maturity, the Company does not consider these unrealized losses to be other than temporary as of December 31, 2017.

Loan-backed Security Holdings – OTTI Losses and Aging of Unrealized Losses

The Company did not impair any loan-backed securities to estimated fair value during the years ended December 31, 2017 and 2016, because of either (i) an intent to sell the security or (ii) the inability or lack of intent to retain the security for a period of time sufficient to recover the amortized cost.

The Company did not impair any loan-backed securities to the estimated preserve value of projected future cash flows expected to be collected during the year ended December 31, 2017.

Evaluating Temporarily Impaired Bonds for OTTI

The Company performs a regular evaluation, on a security-by-security basis, of its securities holdings in accordance with its OTTI policy in order to evaluate whether such investments are other-than-temporarily impaired. These securities were included in the Company's OTTI review process. With respect to loan-backed securities in the bond portfolio, the Company performs scenario analysis. The scenarios attempt to project future delinquencies and principal losses. Based upon the company's current evaluation of its securities in an unrealized loss position in accordance with its impairment policy, the company's current intentions and assessments (as applicable to the type of security) about holding, selling and any requirements to sell these securities, the Company concluded that these securities were not other than temporarily impaired. Future impairments will depend primarily on economic fundamentals, issuer performance (including changes in estimated present value of projected future cash flows to be collected) and changes in credit rating, collateral valuation, interest rates and credit spreads. If economic fundamentals deteriorate or if there are adverse changes in the above factors, additional impairments may be incurred in upcoming periods.

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

2. INVESTMENTS (Continued)

Maturities of bonds are as follows:

	Admitted Asset Value
2018	\$ 5,447,969
2019-2023	37,743,177
2024-2028	99,903,748
2029-2038	3,084,044
After 2038	1,137,991
Total by maturity	\$ 147,316,929

Sources of realized capital gains (losses) for the year ended December 31, 2017 and 2016 are summarized as follows:

	2017	2016
Bonds:		
Gross gains from sales	\$ 742,714	\$ -
Gross losses from sales	(1,706,004)	(37,995)
Preferred stock:		
Gross gains from sales	-	6,756
Gross losses from sales	-	(401)
Common stock:		
Gross gains from sales	782,835	-
Gross losses from sales	(2)	-
Derivatives:		
Gain on Sale of Derivatives	15,424	-
Loss on Sale of Derivatives	(4,486)	-
Short-term Investments:		
Gain on Sale of ST Investments	-	13,240
Loss on Sale of ST Investments	(528,937)	(2,160)
Amount transferred to IMR net of tax	361,192	(55,265)
Capital gains (tax) benefit	142,172	6,991
Net capital gains (losses)	\$ (195,092)	\$ (68,834)

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

2. INVESTMENTS (Continued)

At December 31, 2017 and 2016, bonds with an admitted asset value of **\$2,449,097** and \$2,298,435 were on deposit with state insurance departments to satisfy regulatory requirements.

Cash, Cash Equivalents and Short-Term Investments

Cash, cash equivalents and short-term investments consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Cash, cash equivalents and short-term investments:		
Cash	\$ 7,073,546	\$ 29,892,832
Cash equivalents	26,541,508	-
Short-term investments	<u>205,303,078</u>	<u>34,464,968</u>
Total cash, cash equivalents and short-term investments	<u>\$ 238,918,132</u>	<u>\$ 64,357,800</u>

Mortgage Loans

The Company's mortgage loans are all on properties located in the United States and are diversified by geographic location. Mortgage loans are comprised entirely of commercial loans as of December 31, 2017 and 2016.

In 2017, the Company originated 13 new mortgage loans. The minimum rate of 5.0 percent and a maximum rate of 8.0 percent. The maximum percentage of any one loan to the value of security at the time of the loan, exclusive of insured or guaranteed or purchase money mortgages was 65 percent.

In 2016, The Company originated 12 new mortgage loans. The minimum rate of 8.0 percent and a maximum rate of 11.0 percent. There were no tax assessments or amounts advanced and not included in the mortgage loan balance at the end of 2016.

Mortgage loans at December 31, 2017 and 2016 totaled **\$24,201,195** and \$18,488,233 respectively. There were also no impaired mortgage loans at December 31, 2017 and 2016.

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

2. INVESTMENTS (Continued)

Derivatives

On July 11, 2017, the South Carolina Department of Insurance approved the Derivative Use Plan ("DUP") of the Company, as required under South Carolina Insurance Code 38-12-300. The Plan was filed in relation to the Company's implementation of a hedge strategy designed to control the economic risk of loss due to changes in value, yield, price, cash flow or quantity of assets and liabilities that the Company has, or may acquire, and/or to mitigate the economic impact of any potential changes in the currency exchange rates or the degree of exposure as to the assets or liabilities denominated in a foreign currency. The Company adopted a position that considers certain derivative instruments to be a prudent component of its investment and risk management activities and established a plan that all derivative transactions entered into by, or on behalf of, the Company must be in compliance with.

a. Discussion of the Market Risk, Credit Risk, and Cash Requirements of Derivatives:

The Company uses derivatives to manage risks from changes in interest rates or foreign currency values, to alter interest rate or currency exposures arising from mismatches between assets and liabilities (including duration mismatches), to hedge against changes in the value of assets it anticipates acquiring and other anticipated transactions and commitments it plans on entering into and to replicate the investment performance of otherwise permissible investments. Insurance statutes restrict the Company's use of derivatives for speculation purposes.

The Company, at inception, may designate derivatives as (1) hedge of the fair value of a recognized asset or liability or unrecognized firm commitment, (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid to a recognized asset or liability, or (3) a derivative that does not qualify for hedge accounting, including replications.

Most of the Company's derivative arrangements with counterparties require the posting of collateral upon meeting certain net exposure thresholds. For derivatives related to securitization entities, there are no arrangements that require either party to provide collateral and the recourse of the derivatives counterparty is typically limited to the assets held by the securitization entity and there is no recourse to any entity other than the securitization entity.

The Company is also exposed to credit-related losses in the event of nonperformance by counterparties to derivative instruments. The Company manages counterparty risk by transacting with high-rated counterparties and uses collateral support where possible. The Company's maximum credit exposure to derivative counterparties is limited to the sum of the net fair value of contracts with counterparties that exhibit a positive fair value of net collateral.

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

2. INVESTMENTS (Continued)

Derivatives (Continued)

b. Description of the Company's Objectives for Using the Derivatives:

The Company uses interest rate swaps, equity index options, equity return swaps, credit default swaps and/or financial futures for hedging. Interest rate swaps and financial futures are used to reduce market risks from changes in interest rates and to alter interest rate exposures arising from mismatches between assets and liabilities. Equity index options and equity return swaps are used to hedge the equity market risks that are part of some of the Company's annuity liabilities. Credit default swaps are used to manage the credit risk of bond investments by entering into agreements that protect against potential reductions in credit quality.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. In this documentation, the Company specifically identifies the asset, liability or forecasted transaction that has been designated as a hedged item, states how the hedging instrument is expected to hedge the risks related to the hedged item and sets for the method that will be used to retrospectively and prospectively assess the hedging instrument's effectiveness. The Company generally determines hedge effectiveness based on total changes in fair value of a derivative instrument.

The Company discontinues hedge accounting prospectively when: (i) it is determined that the derivatives is no longer effective in offsetting changes in the fair value of the cash flows of a hedge item, (ii) the derivative expires or is sold, terminated or exercised, (iii) the derivative is re-designed as a hedge instrument is no longer appropriate.

The Company designates and accounts for the follow as fair value hedges when they have met the effectiveness requirements of SSAP No. 86, Accounting for Derivative Instruments and Hedging, Income Generation and Replication (Synthetic Asset) Transactions ("SSAS No. 86"): (i) various types of interest rate swaps to convert fixed rate investments to floating rate investments, and (ii) other instruments to hedge various other fair value exposures of investments.

The Company also uses certain derivatives, including equity options and financial future and certain interest rate swaps for hedging that (i) do not meet or no longer meet the criteria of an effective hedge or (ii) meet the required hedge criteria but the Company has chosen not to apply hedge accounting. These derivatives are accounted for at fair value with the changes in fair value recorded in surplus as a realized gain (loss).

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

2. INVESTMENTS (Continued)

Derivatives (Continued)

c. *Description of the Accounting Policies for Recognizing and Measuring Derivatives Used:*

Derivative instruments are carried at values consistent with the items being hedged. As of December 31, 2017, interest rate swaps that are qualifying for hedge accounting were carried at amortized cost while non-qualifying interest rate swaps, credit default swaps, options, equity return swaps and/or futures were carried at fair value. Realized investment gains and losses were reduced by amounts transferred to Interest Maintenance Reserves ("IMR") and are reflected as an element of net income, net tax. Any fees associated with swaps are held in surplus and the full fee amount will be recognized in income at the time of termination.

Real Estate

The components of the Company's real estate are summarized as follows:

	<u>2017</u>	<u>2016</u>
Occupied by the Company:		
Land	\$ -	\$ -
Properties occupied by the Company	-	-
Accumulated depreciation	-	-
Net real estate occupied by the Company	<u>-</u>	<u>-</u>
Properties held for the production of income:		
Buildings	4,703,443	4,619,916
Accumulated depreciation	<u>(1,832,746)</u>	<u>(1,705,406)</u>
Net real estate held for the production of income	<u>2,870,697</u>	<u>2,914,510</u>
Net real estate	<u>\$ 2,870,697</u>	<u>\$ 2,914,510</u>

3. CONTINGENT LIABILITIES

The Company is subject to assessments for its proportionate share of liabilities of insolvent insurers in the states where the Company operates which have guarantee association statutes. A provision for estimated future assessments has not been recorded in the accompanying statutory financial statements.

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

4. CAPITAL AND SURPLUS

Life insurance companies are subject to certain Risk-Based Capital (RBC) requirements as specified by the NAIC. Under those requirements, the amount of capital and surplus maintained by a life insurance company is to be determined based on the various risk factors related to it.

The NAIC has developed life risk-based capital (RBC) standards that relate an insurer's reported statutory capital and surplus to the risks inherent in its overall operations. The RBC formula uses the statutory annual statement to calculate the minimum indicated capital level to protect the Company from various risks that it faces. The NAIC model law calls for various levels of regulatory action based on the magnitude of an indicated RBC capital deficiency, if any. The Company continues to monitor its internal capital requirements and the RBC requirements. The Company has determined that its capital levels are in excess of the minimum capital requirements for all RBC action levels. Management believes that the Company's capital levels are sufficient to support the level of risk inherent in its operations.

The RBC requirements provide for four different levels of regulatory attention depending on the ratio of the Company's total adjusted capital (TAC) to its authorized control level (ACL). The four regulatory attention levels (and the associated percentage of TAC to ACL) are defined as follows: (1) Company Action (200%), (2) Regulatory Action (150%), (3) Authorized Control Level (100%), and (4) Mandatory Control Levels (70%). As of December 31, 2017 and 2016, the Company maintained TAC in excess of 200% of ACL.

The maximum amount of dividends that can be paid to shareholders by insurance companies domiciled in the State of South Carolina without prior approval of the Department is subject to certain restrictions relating to unassigned surplus, current period net income, and dividends or other distributions made within the previous 12-month period. Under South Carolina law, the Company is required to maintain minimum capital of \$600,000 and statutory surplus of \$600,000. The Company's capital and surplus exceed these minimum amounts at December 31, 2017 and 2016.

All dividends or distributions must be reported to the Department. Dividends or distributions are considered extraordinary if they exceed the greater of (a) 10% of surplus regarding policyholders as shown in the insurer's most recent annual statement; or (b) net income, not including net realized capital gains or losses, as shown in the insurer's most recent annual statement. The Company approved dividends of \$0 and \$0 for payment in 2017 and 2016 respectively. The Company did pay an extraordinary dividend in 2016. Refer to Note 6 for additional information regarding the extraordinary dividend payment.

The portion of unassigned funds (surplus) represented or (reduced) by cumulative unrealized gains and (losses) in 2017 and 2016 was **\$2,230,855** and \$546,329, respectively. The portion of unassigned funds (surplus) represented or (reduced) by nonadmitted asset values in 2017 and 2016 was **\$262,906** and \$309,422, respectively.

The unrealized gains are net of the applicable deferred tax liabilities of \$758,491 and \$185,752 in 2017 and 2016, respectively.

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

5. EMPLOYEE BENEFITS

Postemployment Benefits and Compensated Absences

The Company at one time provided certain health care and life insurance postretirement benefits for retired employees. Employees became eligible for these benefits if they were employed by the Company for over 20 years and if they reached retirement age while working for the Company.

Net postretirement benefits costs (recovery) for the years ended December 31, 2017 and 2016, were **\$(1,274)** and \$(745), respectively, and include the expected cost of such benefits for interest, cost, gains and losses arising from differences between actuarial assumptions and actual experience, and amortization of the transition obligation. The

Company made contributions of **\$3,421** and \$3,624 in 2017 and 2016, respectively, as claims were incurred.

The unfunded postretirement benefit obligation for retirees and other fully eligible plan participants at December 31, 2017 and 2016 was **\$13,511** and \$14,784 respectively. The discount rate is used in determining the accumulated postretirement obligation was 6.50%.

The Company's health, long-term disability, dental, and group life plans cover substantially all of its employees and qualified employee dependents. The Company makes contributions to these plans sufficient to provide for benefit payments required under the plans.

6. RELATED PARTIES

Service Agreements

The Company is a party to service agreements with its affiliates that provide a broad range of services rendered. Services are requested by the recipient as deemed necessary for its operation. These agreements involve cost allocation arrangements, under which the recipient pays the provider for all expenses, direct and indirect, reasonably and equitably determined to be attributable to the services provided. There are also certain service arrangements with affiliates pursuant to which the provider, at the request of the recipient, renders specified services for a stated fee, including agreements for certain investment advisory services. Expenses incurred by the Company under these agreements totaled **\$4,975,572** and \$6,897,724 as of December 31, 2017 and 2016. The Company had balances of **\$0** and \$1,024,637 due to affiliates under these agreements at December 31, 2017 and 2016, respectively, which is recorded in general expenses due on the statutory statements of admitted assets, liabilities and capital and surplus.

Reinsurance Agreements

The Company has entered into a reinsurance agreement with Haymarket Insurance Company, an affiliated under common control, effective December 31, 2016. See Note 8 for further information.

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

6. RELATED PARTIES

Surplus Note

The Company has issued an \$8,750,000 surplus note to Ability Insurance Company (an affiliate). The surplus note was issued May 1, 2015.

Lease Agreement

The Company also has a sublease agreement with Secure Administrative Solutions (SAS), an affiliate, for use of their building space. The lease was effective January 1, 2016 and automatically renews on December 31, 2018 until SAS exercises the termination provisions as set out in the lease agreement. The monthly lease payments total \$19,660. This is comprised of \$17,666 for the space and \$2,000 for the rental of furniture. Rental payments expected to be received in 2018 total \$235,920.

7. NET INVESTMENT INCOME

Net investment income is comprised of the following:

	<u>2017</u>	<u>2016</u>
Interest:		
U.S. government bonds	\$ 1,424,424	\$ 57,519
Other bonds	9,275,207	6,935,413
Preferred stocks	-	531
Common stocks	66,975	22,800
Mortgage loans	2,577,502	1,006,907
Real estate	537,690	535,904
Policy loans	56,429	81,317
Cash and short-term investments	445,183	602,224
Other invested assets	2,622,508	791
Aggregate write-ins for investment income	13,180	-
Total	17,019,098	9,243,406
Less:		
Allocated expenses:		
Depreciation	127,340	128,010
Interest expense	650,000	710,938
Investment taxes, licenses and fees	77,307	71,146
Investment expenses	5,214,214	1,239,738
Net investment income	\$ 10,950,237	\$ 7,093,574

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

8. REINSURANCE

Reinsurance Ceded

In the ordinary course of business, the Company has entered into indemnity reinsurance agreements with unaffiliated reinsurance companies to reduce overall risk. Amounts recoverable from reinsurers are estimated in a manner consistent with the liability associated with the reinsured business. The reinsurance program varies according to the type of business, age of the insured, and risk classification.

At December 31, 2017 and 2016, aggregate reserves and deposit-type liabilities were reduced by **\$418,611,396** and \$195,295,005 respectively. Additionally, the Company had funds withheld of **\$257,645,646** and \$148,178,399 as collateral related to its reinsurance activities and had no overdue ceded reinsurance balances.

On December 31, 2016, the Company entered into two new reinsurance agreements. In the first agreement, the Company ceded 35% of certain life and annuity insurance policies specifically related to preneed and annuity insurance, and home services insurance to Southland National Insurance Corporation of Durham, North Carolina on a funds withheld basis. The second agreement is for 25% Quota Share coinsurance between the Company and Haymarket Insurance Company of Omaha, Nebraska applying to identified annuities. Haymarket Insurance Company and the Company are members of the same Advantage Capital Holdings, LLC Holding Company Group.

The Company accrued a due to reinsurer liability of \$45,996,117 for the Haymarket agreement.

On November 6, 2015, the Company entered into a reinsurance agreement effective September 30, 2015 with Beechwood Bermuda International Ltd. Ofo Hamilton, Bermuda (Beechwood) related to life and annuity policies and contracts issued directly by the Company on or before December 31, 2013 to be reinsured on a 50% coinsurance with funds withheld basis. *Amendment 1 to Reinsurance Agreement*, was executed effective December 31, 2015 to expand the life and annuity policies and contracts to be reinsured to include those issued directly by the Company on or before December 31, 2015. Subsequently to year-end, *Amendment 2 to Reinsurance Agreement*, became effective January 1, 2016 to reinsure certain life and annuity insurance policies and contracts the Company issue after December 31, 2015. The Company terminated the agreement with Beechwood, with respect to annuities on July 31, 2016. On March 31, 2017, The Company entered into an agreement to recapture all business ceded to Beechwood under the agreements described above.

The Company recorded a gain of approximately \$3,920,000, net of tax, related to the cessions under the Beechwood reinsurance transactions. The gain consisted of investment-related gains of approximately \$3,304,000 and a ceding commission of \$616,000 that are deferred in special surplus funds resulting from reinsurance. Approximately, \$323,000 of the deferred gain in special surplus funds was accreted into income during 2016.

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

8. REINSURANCE (Continued)

As noted above, on March 31, 2017, The Company entered into an agreement to recapture all business ceded to Beechwood as of January 1, 2017. Reserves recaptured were approximately \$101,500,000. Additionally, the Company transferred assets of approximately \$101,800,000 back into its general account assets from the Beechwood funds withheld account and cleared a reinsurance receivable of approximately \$250,000. The resulting gain from operations was not significant. The unamortized deferred gain of approximately \$3,600,000 was reclassified from surplus back into IMR. After recapture, the Company's RBC remained in excess of any regulatory action levels.

On December 13, 2017, the Company entered into an indemnity reinsurance agreement, effective October 1, 2017, with Converge Re II (Converge), a reinsurance company domiciled in Puerto Rico, related to annuity policies and contracts issued directly by the Company on and between January 1, 2016 and December 31, 2016 to be reinsured on a 65% coinsurance with funds withheld basis and annuity policies and contracts issued directly by the Company on and or between January 1, 2017, including reinsured contracts issued after the effective date to be reinsured on a 40% coinsurance with funds withheld basis.

The Company recorded a gain of approximately \$2,285,000, net of tax of \$1,177,000, related to the cessions under the Converge reinsurance transactions. The gain consisted of a ceding commission of \$2,285,000 that is deferred in special surplus funds resulting from reinsurance. Approximately, \$114,000 of the deferred gain in special surplus funds was accreted into income during 2017.

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

8. REINSURANCE (Continued)

At December 31, 2017 and 2016, the effect of the coinsurance agreements described above on premiums and reserves is as follows:

	2017	2016
Premiums:		
Gross	\$ 105,784,668	\$ 101,705,243
Ceded	(28,708,305)	(94,558,062)
Net premiums	\$ 77,076,363	\$ 7,147,181
 Deposit type contracts:		
Deposits received	\$ 280,125,507	\$ 118,855,008
Ceded	(250,034,803)	(51,155,562)
Net deposit type contracts	\$ 30,090,704	\$ 67,699,446
 Net due and deferred:		
Gross due and deferred		
Gross	\$ 2,942,080	\$ 2,617,536
Ceded	(1,642,484)	(2,224,027)
Net	1,299,596	393,509
Loading		
Gross	(1,692,348)	(1,514,689)
Ceded	897,038	1,287,486
Net	(795,310)	(227,203)
Net due and deferred		
Gross	1,249,731	1,102,848
Ceded	(745,446)	(936,541)
Net	\$ 504,285	\$ 166,307
 Aggregate reserves - life:		
Gross	\$ 285,649,088	\$ 200,822,324
Ceded	(168,576,593)	(144,139,443)
Net	\$ 117,072,494	\$ 56,682,881
 Aggregate reserves - accident and health:		
Gross	\$ 98,572	\$ 110,505
Ceded	-	-
Net	\$ 98,573	\$ 110,505
 Claims payable:		
Gross	\$ 409,925	\$ 280,752
Ceded	(102,429)	(221,519)
Net	\$ 307,496	\$ 59,233
 Claims:		
Gross	\$ 20,257,607	\$ 14,471,832
Ceded	(6,470,515)	(7,189,199)
Net	\$ 13,787,092	\$ 7,282,633

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

8. REINSURANCE (Continued)

The Company does not directly control any reinsurers with which the Company conducts business. No policies issued by the Company have been reinsured with a foreign company which is controlled, either directly or indirectly, by a party not primarily engaged in the business of insurance. The Company does not have any reinsurance agreements in effect under which the reinsurer may unilaterally cancel the agreement. At December 31, 2017 and 2016, there are no reinsurance agreements in effect such that the amount of losses paid or accrued exceed the total direct premium collected.

9. FEDERAL INCOME TAXES

The Company is taxed as a life insurer in accordance with provisions of the Internal Revenue Code.

The Company is subject to state premium taxes and, accordingly, is exempt from state income taxes.

The components of the net deferred tax asset (liability) at December 31 are as follows:

	12/31/2017		
	(1)	(2)	(3) (Col 1+2)
	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
(a) Gross deferred tax assets	\$ 2,249,582	\$ -	\$ 2,249,582
(b) Statutory valuation allowance adjustments	-	-	-
(c) Adjusted gross deferred tax assets (1a - 1b)	2,249,582	-	2,249,582
(d) Deferred tax assets nonadmitted	-	-	-
(e) Subtotal net admitted deferred tax asset (1c - 1d)	2,249,582	-	2,249,582
(f) Deferred tax liabilities	1,478,126	367,680	1,845,806
(g) Net admitted deferred tax asset/(net deferred tax liability) (1e - 1f)	\$ 771,456	\$ (367,680)	\$ 403,776

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

9. FEDERAL INCOME TAXES (Continued)

	12/31/2016		
	(4)	(5)	(6)
	Ordinary	Capital	(Col 4+5) Total
(a) Gross deferred tax assets	\$ 1,533,246	\$ -	\$ 1,533,246
(b) Statutory valuation allowance adjustments	-	-	-
(c) Adjusted gross deferred tax assets (1a - 1b)	1,533,246	-	1,533,246
(d) Deferred tax assets nonadmitted	-	-	-
(e) Subtotal net admitted deferred tax asset (1c - 1d)	1,533,246	-	1,533,246
(f) Deferred tax liabilities	374,969	498,560	873,529
(g) Net admitted deferred tax asset/(net deferred tax liability) (1e - 1f)	\$ 1,158,277	\$ (498,560)	\$ 659,717
	Change		
	(7)	(8)	(9)
	Ordinary	Capital	(Col 7+8) Total
(a) Gross deferred tax assets	\$ 716,336	\$ -	\$ 716,336
(b) Statutory valuation allowance adjustments	-	-	-
(c) Adjusted gross deferred tax assets (1a - 1b)	716,336	-	716,336
(d) Deferred tax assets nonadmitted	-	-	-
(e) Subtotal net admitted deferred tax asset (1c - 1d)	716,336	-	716,336
(f) Deferred tax liabilities	1,103,157	(130,880)	972,277
(g) Net admitted deferred tax asset/(net deferred tax liability) (1e - 1f)	\$ (386,821)	\$ 130,880	\$ (255,941)

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

9. FEDERAL INCOME TAXES (Continued)

The admission calculation components per SSAP No. 101, *Income Taxes* are as follows:

	12/31/2017		
	(1)	(2)	(3)
	Ordinary	Capital	(Col 1+2) Total
Admission Calculation Components SSAP No. 101			
(a) Federal income taxes paid in prior years recoverable through loss carrybacks	\$ -	\$ -	\$ -
(b) Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets from 2(a) above) after application of the threshold limitation (the lesser of 2(b)1 and 2(b)2 below)	1,402,682	-	1,402,682
(1) Adjusted gross deferred tax assets expected to be realized following the balance sheet date	1,402,682	-	1,402,682
(2) Adjusted gross deferred tax assets allowed per limitation threshold	XXX	XXX	-
(c) Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from 2(a) and 2(b) above) offset by gross deferred tax liabilities	846,901	-	846,901
(d) Deferred tax assets admitted as a result of application of SSAP No. 101			
Total (2(a) + 2(b) + 2(c))	\$ 2,249,583	\$ -	\$ 2,249,583
	12/31/2016		
	(4)	(5)	(6)
	Ordinary	Capital	(Col 4+5) Total
Admission Calculation Components SSAP No. 101			
(a) Federal income taxes paid in prior years recoverable through loss carrybacks	\$ 972,113	\$ -	\$ 972,113
(b) Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets from 2(a) above) after application of the threshold limitation (the lesser of 2(b)1 and 2(b)2 below)	431,821	-	431,821
(1) Adjusted gross deferred tax assets expected to be realized following the balance sheet date	431,821	-	431,821
(2) Adjusted gross deferred tax assets allowed per limitation threshold	XXX	XXX	-
(c) Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from 2(a) and 2(b) above) offset by gross deferred tax liabilities	129,312	-	129,312
(d) Deferred tax assets admitted as a result of application of SSAP No. 101			
Total (2(a) + 2(b) + 2(c))	\$ 1,533,246	\$ -	\$ 1,533,246

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

9. FEDERAL INCOME TAXES (Continued)

The change in admission calculation components per SSAP No. 101, *Income Taxes* are as follows:

	Change		
	(7)	(8)	(9)
	Ordinary	Capital	(Col 7+8) Total
Admission Calculation Components SSAP No. 101			
(a) Federal income taxes paid in prior years recoverable through loss carrybacks	\$ (972,113)	\$ -	\$ (972,113)
(b) Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets from 2(a) above) after application of the threshold limitation (the lesser of 2(b)1 and 2(b)2 below)	970,861	-	970,861
(1) Adjusted gross deferred tax assets expected to be realized following the balance sheet date	970,861	-	970,861
(2) Adjusted gross deferred tax assets allowed per limitation threshold	XXX	XXX	-
(c) Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from 2(a) and 2(b) above) offset by gross deferred tax liabilities	717,589	-	717,589
(d) Deferred tax assets admitted as a result of application of SSAP No. 101			
Total 2(a) + 2(b) + 2(c)	<u>\$ 716,337</u>	<u>\$ -</u>	<u>\$ 716,337</u>

The ratio percentage and the adjusted capital and surplus used to determine the recovery period and the threshold limitation at December 31, 2017 and 2016 are as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
(a) Ratio percentage used to determine recovery period and threshold limitation amount	<u>1850%</u>	<u>1001%</u>
(b) Amount of adjusted capital and surplus used to determine recovery period and threshold limitation in 2 (b) 2 above	<u>\$ 23,475,949</u>	<u>\$ 22,943,055</u>

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

9. FEDERAL INCOME TAXES (Continued)

The impact on the deferred tax calculation from the Company's tax planning strategies is as follows:

	12/31/2017		12/31/2016		Char
	(1)	(2)	(3)	(4)	(5)
	Ordinary	Capital	Ordinary	Capital	(Col 1-3) Ordinary
Impact of tax-planning strategies					
(a) Determination of adjusted gross deferred tax assets and net admitted deferred tax assets, by tax character as a percentage. Note 9A1(c)					
1. Adjusted gross DTAs amount from Note 9A1(c)	<u>2,249,582</u>	<u>-</u>	<u>1,533,246</u>	<u>-</u>	<u>716,336</u>
2. Percentage of adjusted gross DTAs by tax character attributable to the impact of tax planning strategies	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
3. Net admitted adjusted gross DTAs amount from Note 9A1(e)	<u>2,249,582</u>	<u>-</u>	<u>1,533,246</u>	<u>-</u>	<u>716,336</u>
4. Percentage of net admitted adjusted gross DTAs by tax character admitted because of the impact of tax planning strategies	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
(b) Does the Company's tax-planning strategies include the use of reinsurance?			Yes		No

There are no deferred tax liabilities the Company has not recognized as of December 31, 2017 and 2016.

Current income taxes incurred consist of the following major components:

	(1)	(2)	(3)
	12/31/2017	12/31/2016	(Col 1-2) Change
Current income tax:			
(a) Federal	<u>\$ 3,000,083</u>	<u>\$ 312,064</u>	<u>\$ 2,688,019</u>
(b) Foreign	<u>-</u>	<u>-</u>	<u>-</u>
(c) Subtotal	<u>3,000,083</u>	<u>312,064</u>	<u>2,688,019</u>
(d) Federal income tax on net capital gains	<u>43,899</u>	<u>366,431</u>	<u>(322,532)</u>
(e) Utilization of operating loss carry-forwards	<u>-</u>	<u>-</u>	<u>-</u>
(f) Other	<u>(439,364)</u>	<u>68,714</u>	<u>(508,078)</u>
(g) Federal and foreign income taxes incurred	<u><u>\$ 2,604,618</u></u>	<u><u>\$ 747,209</u></u>	<u><u>\$ 1,857,409</u></u>

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

9. FEDERAL INCOME TAXES (Continued)

Deferred income taxes incurred consist of the following major components:

	(1)	(2)	(3)
	12/31/2017	12/31/2016	(Col 1-2) Change
2. Deferred tax assets:			
(a) Ordinary:			
(1) Discounting on unpaid losses	\$ -	\$ -	\$ -
(2) Unearned premium reserve	-	-	-
(3) Policyholder reserves	1,773,810	132,486	1,641,324
(4) Investments	-	-	-
(5) Deferred acquisition costs	373,661	804,313	(430,652)
(6) Policyholder dividends accrual	-	-	-
(7) Fixed assets	55,210	105,203	(49,993)
(8) Compensation and benefit accruals	2,838	5,027	(2,189)
(9) Pension accrual	-	-	-
(10) Receivables - nonadmitted	-	-	-
(11) Net operating loss carryforward	-	-	-
(12) Tax credit carry-forward	-	431,821	(431,821)
(13) Other (including <5% total of ordinary tax assets)	44,064	54,396	(10,332)
(99) Subtotal	2,249,583	1,533,246	716,337
(b) Statutory valuation allowance adjustment	-	-	-
(c) Nonadmitted	-	-	-
(d) Admitted ordinary deferred tax assets (2a99-2b-2c)	2,249,583	1,533,246	716,337
(e) Capital:			
(1) Investments	-	-	-
(2) Net capital loss carry-forward	-	-	-
(3) Real estate	-	-	-
(4) Other (including items <5% of total capital tax assets)	-	-	-
(99) Subtotal	-	-	-
(f) Statutory valuation allowance adjustment	-	-	-
(g) Nonadmitted	-	-	-
(h) Admitted capital deferred tax assets (2e99-2f-2g)	-	-	-
(i) Admitted deferred tax assets (2d + 2h)	2,249,583	1,533,246	716,337
3. Deferred tax liabilities:			
(a) Ordinary:			
(1) Investments	-	-	-
(2) Fixed assets	6,649	-	6,649
(3) Deferred and uncollected premium	107,958	374,969	(267,011)
(4) Policyholder reserves	1,363,520	-	1,363,520
(5) Other (including items <5% of total ordinary tax liabilities)	-	-	-
(99) Subtotal	1,478,127	374,969	1,103,158
(b) Capital:			
(1) Investments	348,265	185,752	162,513
(2) Real estate	19,415	312,808	(293,393)
(3) Other (including items <5% of total capital tax liabilities)	-	-	-
(99) Subtotal	367,680	498,560	(130,880)
(c) Deferred tax liabilities (3a99 + 3b99)	1,845,807	873,529	972,278
4. Net deferred tax assets/(liabilities) (2i - 3c)	\$ 403,776	\$ 659,717	\$ (255,941)

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

9. FEDERAL INCOME TAXES (Continued)

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (“Tax Act”) was signed into law. The new law includes, among other items, a permanent reduction to the U.S. corporate income tax rate from 34 percent to 21 percent effective January 1, 2018. As a result, the company is required to re-measure, through change in capital and surplus, its deferred tax assets and liabilities using the enacted rate at which management expects them to be recovered or settled. The primary impact to the Company was the re-measurement of federal deferred tax assets and liabilities from 34 % to 21%. The re-measurement of the net deferred tax asset resulted in a reduction of capital and surplus of \$249,958.

The provision for federal and foreign income taxes incurred is different from that which would be obtained by applying the statutory Federal income tax rate to income before income taxes. The significant items causing this difference are as follows:

	<u>12/31/2017</u>	<u>Effective Tax Rate</u>
Income before taxes	\$ 6,441,751	
Provision computed at statutory rate	\$ 2,190,195	34.00 %
Small life insurance company deduction	(173,008)	(2.69)%
Meals & entertainment	2,029	0.03 %
Change in non-admitted assets as a DTA	15,815	0.25 %
Reinsurance amortization	510,299	7.92 %
IMR in operating income	(308,875)	(4.79)%
Impact of DTA Re-measurement	465,550	7.23 %
Prior year/other	(3,958)	(0.06)%
Total	\$ 2,698,047	41.88 %
Federal and foreign income taxes incurred	\$ 2,560,719	39.75 %
Federal income tax on net capital gains (losses)	43,899	0.68 %
Impact of DTA Re-measurement	465,550	7.23 %
Change in net deferred income taxes	(372,121)	(5.78)%
Total statutory income taxes	\$ 2,698,047	41.88 %

At December 31, 2016, the Company utilized all available AMT credit carryovers. There are none carried over to the tax year ended December 31, 2017.

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

9. FEDERAL INCOME TAXES (Continued)

The Company did not have any protective tax deposits under Section 6603 of the Internal Revenue Code.

The Company's federal income tax return is not consolidated with any other entities.

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), replaced by Accounting Standard Codification (ASC) 740, *Income Taxes*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (FAS 109), also replaced by Accounting Standard Codification (ASC) 740, *Income Taxes*. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740 also provides guidance on derecognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure, and transition. As of December 31, 2017 and 2016 the Company has not adopted the provisions of ASC 740 because it is not required by the accounting practices prescribed or permitted by the South Carolina Department of Insurance. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to ASC 740. Currently, the 2013, 2014, and 2015 tax years are open and subject to examination by the taxing authorities.

Prior to 1984, the Company was allowed certain special deductions for federal income tax reporting purposes that were required to be accumulated in a "policyholders' surplus account" (PSA). In the event that those amounts are distributed to shareholders, or the balance of the account exceeds certain limitations prescribed by the Internal Revenue code, the excess amounts would be subject to income tax at current rates. Income taxes also would be payable at current rates if the Company ceases to qualify as a life insurance company for tax reporting purposes, or if the income tax deferral status of the PSA is modified by future tax legislation. The Company has not accrued income taxes on the PSA balance of \$2,472,447 at December 31, 2017 and 2016. No deferred tax liabilities are recognized related to the PSA. Under the provisions of the Tax Act, the Internal Revenue Code related to the PSA has been repealed. The Tax Act requires the Company to pay tax on its PSA over an eight year period. Ordinary life insurance losses are not allowed to offset the PSA subject to tax. The ultimate tax that will be payable on this amount is \$519,214.

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

10. PARTICIPATING POLICIES

At December 31, 2017 and 2016, did not have any participating policies.

11. SURPLUS NOTE

During 2015, the South Carolina Department of Insurance approved a contribution (surplus) note between the Company (issuer) and Ability Insurance Company (lender) in the amount of \$8,750,000. The scheduled maturity date of the loan is May 1, 2030. Subject to the approval of the Insurance Commissioner of the State of South Carolina the Company will pay interest thereon, quarterly, in arrears on March 1, June 1, September 1, and December 1 each year.

Interest payments on the surplus note as of December 31, 2017 were as follows:

<u>Date Issued</u>	<u>Interest Rate</u>	<u>Par Value</u>	<u>Carrying Value of Note</u>	<u>Interest and/or Principal Paid During Current Year</u>	<u>Total Interest and/or Principal Paid</u>	<u>Unapproved Interest and/or Principal</u>	<u>Date of Maturity</u>
5/1/2015	6.5%	\$ 8,750,000	\$ 8,750,000	\$ 710,938	\$ 1,413,976	\$ 47,396	5/1/2030
Totals		<u>\$ 8,750,000</u>	<u>\$ 8,750,000</u>	<u>\$ 710,938</u>	<u>\$ 1,413,976</u>	<u>\$ -</u>	

Each payment of interest and principal may be made only to the extent that the Company has sufficient surplus, excluding capital, and only if the Company is in compliance with South Carolina Statutes. The unapproved interest of \$47,396 is the amount of interest computed under the terms of the surplus note. However, the Company does not accrue interest until approved for payment by the Department. At December 31, 2017 and 2016, the Company had accrued **\$0** and \$0, respectively, in accrued interest on the surplus note.

The surplus debenture has the following subordination terms and liquidation preference: in the event of reorganization, dissolution, 100% reinsurance or liquidation of the Company, after retirement of all its outstanding obligations and other than subordinated debentures, the holders of the subordinated debentures with remaining unpaid balances shall be entitled to a preferential right in the remaining assets of the Company equal to the unpaid balance, plus accrued interest, before any distribution of such assets to shareholders or other owners.

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

12. DIRECT PREMIUM WRITTEN/PRODUCED BY THIRD PARTY ADMINISTRATOR

The aggregate amount of direct premiums written through managing general agents or third party administrators as of December 31, 2017 and 2016 was:

Name and Address Managing General Agent Or Third Part Administrator	FEIN#	Exclusive Contract	Type of Business Written	Type of Activity Granted	Total Direct Prem Written/ Produced By
For the year ended December 31, 2017:					
Secure Administrative Solutions, LLC 1405 West 2200 South Salt Lake City, Utah 84119	46-4813559	No	Multi-year guarantee Annuities	C,CAP,R,U	\$ 69,929,053
					\$ 2,811,612
					\$ 160,294,311
					\$ 2,158,723
					\$ 17,590,943
					\$ 12,907,104
					\$ 1,101,712
					\$ 649,541
					\$ 94,330
For the year ended December 31, 2016:					
Secure Administrative Solutions, LLC 1405 West 2200 South Salt Lake City, Utah 84119	46-4813559	No	Multi-year guarantee Annuities	C,CAP,R,U	\$ 73,194,821
					\$ 123,211,506
					\$ 4,457,498
					\$ 857,000
					\$ 3,725,969
					\$ 2,037,632
					\$ 87,160

ATLANTIC COAST LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

13. UNPAID CLAIMS, LOSSES AND LOSS ADJUSTMENT EXPENSES – ACCIDENT AND HEALTH CONTRACTS

Reserves for incurred losses and loss adjustment expenses attributable to insured events of prior years has increased (decreased) by approximately \$1,050 and \$20,814 during the years ended December 31, 2017 and 2016, respectively.

	<u>2017</u>	<u>2016</u>
Balance at January 1	\$ 12,335	\$ 5,720
Incurred, related to:		
Current year	10,617	3,032
Prior years	1,050	20,814
Total incurred	11,667	23,846
Paid, related to:		
Current year	10,617	3,032
Prior years	1,050	14,199
Total paid	11,667	17,231
Balance at December 31	\$ 12,335	\$ 12,335

14. SUBSEQUENT EVENTS

In preparing these statutory financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through May 31, 2018, the date the financial statements were available to be issued.

OTHER LEGAL AND REGULATORY INFORMATION



**Independent Auditor's Report on Other Legal
And Regulatory Information**

The Board of Directors
Atlantic Coast Life Insurance Company

Report on Other Legal and Regulatory Requirements

We have audited the statutory financial statements of **Atlantic Coast Life Insurance Company** as of and for the year ended December 31, 2017, and our report thereon dated May 31, 2018, which expressed an unmodified opinion on those statutory financial statements, appears on pages 2-3. Our audit was conducted for the purpose of forming an opinion on the statutory financial statements as a whole. The schedules of selected financial data, investment risks interrogatories, and summary investment schedule are presented for purposes of additional analysis and are not a required part of the statutory financial statements, but are required as other legal and regulatory information required by the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual. This information is presented in a format consistent with the Annual Statement filed by **Atlantic Coast Life Insurance Company** with the State of South Carolina Department of Insurance. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the statutory financial statements. The information has been subjected to the auditing procedures applied in the audit of the statutory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory financial statements or to the statutory financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the statutory financial statements as a whole.

Larson & Company, P.C.

Salt Lake City, Utah
May 31, 2017

ATLANTIC COAST LIFE INSURANCE COMPANY

Schedule of Selected Financial Data

December 31, 2017

	Totals
Investment income earned:	
U.S. Government bonds	\$ 1,424,424
Other bonds	9,275,207
Common stocks	66,975
Mortgage loans	2,577,502
Real estate	537,690
Policy loans	56,429
Cash and short-term investments	445,183
Other invested assets	2,622,508
Commission advances	13,180
	\$ 17,019,098
Real estate owned:	
Book value less encumbrances	\$ 2,870,697
Mortgage loans - book value	
Commercial mortgages	24,201,195
Total mortgages loans	\$ 24,201,195
Mortgage loans by standing - statement value	
Good standing	\$ 24,201,195
Interest overdue more than 90 days, but not in foreclosure	\$ -
Other long-term invested assets	\$ 21,379,650
Bonds by maturity and class:	
Bonds by maturity - statement value	
Due within one year	\$ 5,447,969
Over 1 through 5 years	37,743,177
Over 5 through 10 years	99,903,748
Over 10 through 20 years	3,084,044
Over 20 years	1,137,991
Total by maturity	\$ 147,316,929
Bonds by NAIC designation - statement value	
NAIC 1	\$ 83,337,931
NAIC 2	44,138,731
NAIC 3	12,693,445
NAIC 4	3,688,085
NAIC 5	411,207
NAIC 6	-
Exempt obligations	3,047,530
Total by class	\$ 147,316,929

See independent auditor's report on other legal and regulatory information

ATLANTIC COAST LIFE INSURANCE COMPANY

Schedule of Selected Financial Data (Continued)

December 31, 2017

	Totals
Total bonds publicly traded	\$ 243,689,152
Total bonds privately placed	\$ 110,460,060
Preferred stocks (statement value)	\$ -
Common stocks (market value)	\$ 5,660,881
Short-term investments (book value)	\$ 205,303,078
Cash and cash equivalents on deposit:	
Checking accounts	\$ 7,073,546
Money market funds	26,541,508
Total cash and cash equivalents on deposit	\$ 33,615,054
Life insurance in force:	
Ordinary	\$ 297,335,768
Amount of accidental death insurance in-force under ordinary policies	\$ 58,604,990
Life insurance policies with disability provisions in-force under ordinary policies	\$ 903,000
Supplementary contracts in force:	
Ordinary - not involving life contingencies:	
Amount on deposit	\$ -
Income payable	\$ -
Annuities - ordinary:	
Immediate amount of income payable	\$ -
Deferred fully paid account balance	\$ 4,051,600
Accident and health in force:	
Ordinary	\$ 78,631
Deposit funds and dividend accumulations:	
Deposit funds - account balance	\$ -
Dividend accumulations - account balance	\$ -
Claim payments in 2017:	
Other accident and health benefits incurred in year ended December 31:	
Prior Years	\$ 1,050
Current Year	10,617
Total	\$ 11,667

See independent auditor's report on other legal and regulatory information

ATLANTIC COAST LIFE INSURANCE COMPANY

Investment Risks Interrogatories

December 31, 2017

1. Reporting entity's total admitted assets as reported on Page 2 of the annual statement.

\$ 445,063,371

2. Ten largest exposures to a single issue/borrower/investment:

	1	2	3	4
	Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01	Free	Bond	\$ 6,000,000	1.3%
2.02	39th Ave	Other Invested Asset	\$ 5,000,000	1.1%
2.03	LSG 485	Other Invested Asset	\$ 5,000,000	1.1%
2.04	CRMN	Bond	\$ 4,370,000	1.0%
2.05	46590 LA	Bond	\$ 4,074,564	0.9%
2.06	28851 QA	Bond	\$ 3,641,328	0.8%
2.07	80285 CA	Bond	\$ 3,299,642	0.7%
2.08	17323 CA	Bond	\$ 3,214,652	0.7%
2.09	Oak Haven	Mortgage Loan	\$ 3,107,923	0.7%
2.10	95000 LA	Bond	\$ 3,083,001	0.7%

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating:

	1	2
3.01 NAIC - 1	\$ 293,217,741	65.9%
3.02 NAIC - 2	\$ 44,138,733	9.9%
3.03 NAIC - 3	\$ 12,693,445	2.9%
3.04 NAIC - 4	\$ 3,688,086	0.8%
3.05 NAIC - 5	\$ 411,207	0.1%
3.06 NAIC - 6	\$ -	0.0%
	3	4
3.07 P/RP - 1	\$ -	0.0%
3.08 P/RP - 2	\$ -	0.0%
3.09 P/RP - 3	\$ -	0.0%
3.10 P/RP - 4	\$ -	0.0%
3.11 P/RP - 5	\$ -	0.0%
3.12 P/RP - 6	\$ -	0.0%

4. Assets held in foreign investments:

4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets?

Yes [] No [X]

If response to 4.01 above is yes, responses are not required for interrogatories 5 – 10.

4.02 Total admitted assets held in foreign investments	\$ 49,150,511	11.0%
4.03 Foreign-currency-denominated investments	\$ -	0.0%
4.04 Insurance liabilities denominated in that same foreign currency	\$ -	0.0%

ATLANTIC COAST LIFE INSURANCE COMPANY

Investment Risks Interrogatories (Continued)

December 31, 2017

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating:

		1	2
5.01	Countries rated NAIC – 1	\$ 48,694,684	10.9%
5.02	Countries rated NAIC – 2	\$ 455,826	0.1%
5.03	Countries rated NAIC – 3 or below	\$ -	0.0%

6. Two largest foreign investment exposures to a single country, categorized by the country's NAIC sovereign rating:

		1	2
Countries rated NAIC – 1:			
6.01	Country: Cayman Islands	\$ 43,353,657	9.7%
6.02	Country: United Kingdom	\$ 2,026,493	0.5%
Countries rated NAIC - 2:			
6.03	Country: Mexico	\$ 256,201	0.1%
6.04	Country: Spain	\$ 199,626	0.0%
Countries rated NAIC - 3 or below:			
6.05	Country:	\$ -	0.0%
6.06	Country:	\$ -	0.0%

7. Aggregate unhedged foreign currency exposure:

\$ - 0.0%

8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign rating:

Not Applicable

9. Two largest unhedged foreign currency exposures to a single country, categorized by the country's NAIC sovereign rating:

Not Applicable

10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:

	1 Issuer	2 NAIC Rating	3	4
10.01	CRMN1AAR1	1	\$ 4,370,000	1.0%
10.02	28851QAC7	1	\$ 3,641,328	0.8%
10.03	05583WAE3	1	\$ 3,000,000	0.7%
10.04	75887VAG6	1	\$ 3,000,000	0.7%
10.05	89289UAW8	1	\$ 2,488,214	0.6%
10.06	67590ABH4	1	\$ 2,000,000	0.4%
10.07	92558EAG7	1	\$ 2,000,000	0.4%
10.08	631707AG1	1	\$ 1,981,559	0.4%
10.09	BCC29KEV9	1	\$ 1,838,269	0.4%
10.10	98625WAA6	1	\$ 1,831,973	0.4%

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:

11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []

If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.

12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions:

12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the Reporting entity's total admitted assets? Yes [X] No []

If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.

See independent auditor's report on other legal and regulatory information

ATLANTIC COAST LIFE INSURANCE COMPANY

Investment Risks Interrogatories (Continued)

December 31, 2017

13. Amounts and percentages of admitted assets held in the largest 10 equity interests:

13.01 Are assets held in equity interest less than 2.5% of the reporting entities total admitted? Yes [] No [X]

If response to 13.01 is yes, responses are not required for the remainder of Interrogatory 13.

	1	2	3
	<u>Issuer</u>		
13.02	39THAVEN6	\$ 5,000,000	1.1%
13.03	LSG485HO2	\$ 5,000,000	1.1%
13.04	AIREXCEC8	\$ 1,521,223	0.3%
13.05	SANCUSCB6	\$ 1,333,067	0.3%
13.06	SUNDBECS5	\$ 1,297,017	0.3%
13.07	SANCUSCA8	\$ 855,564	0.2%
13.08	SANCUSB27	\$ 832,253	0.2%
13.09	FREEDOM34	\$ 500,000	0.1%
13.10	FREEDO327	\$ 467,980	0.1%
13.11	OCEANCHC6	\$ 250,000	0.1%

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:

14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? Yes [] No [X]

If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.

	1	2	3
14.02	Aggregate statement value of investments held in nonaffiliated, privately placed equities:	\$ -	0.0%
	Largest 3 investments held in nonaffiliated, privately placed equities:		
14.03	Other Invested Asset	\$ 5,000,000	1.1%
14.04	Other Invested Asset	\$ 5,000,000	1.1%
14.05	Other Invested Asset	\$ 1,521,223	0.3%

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []

If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgages loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? Yes [] No [X]

If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

	1	2	3
	<u>(Type (Residential, Commercial, Agricultural))</u>		
16.02	Commercial	\$ 3,107,923	0.7%
16.03	Commercial	\$ 2,962,650	0.7%
16.04	Commercial	\$ 2,941,741	0.7%
16.05	Commercial	\$ 1,940,000	0.4%
16.06	Commercial	\$ 1,907,365	0.4%
16.07	Commercial	\$ 1,900,000	0.4%
16.08	Commercial	\$ 1,890,000	0.4%
16.09	Commercial	\$ 1,829,989	0.4%
16.10	Commercial	\$ 1,683,246	0.4%
16.11	Commercial	\$ 1,680,375	0.4%

Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

See independent auditor's report on other legal and regulatory information

ATLANTIC COAST LIFE INSURANCE COMPANY

Investment Risks Interrogatories (Continued)

December 31, 2017

		Loans		
16.12	Construction loans	\$	-	0.0%
16.13	Mortgage loans over 90 days past due	\$	-	0.0%
16.14	Mortgage loans in the process of foreclosure	\$	-	0.0%
16.15	Mortgage loans foreclosed	\$	-	0.0%
16.16	Restructured mortgage loans	\$	-	0.0%

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

Loan-to-Value		Residential		
		1	2	
17.01	Above 95%	\$	-	0.0%
17.02	Between 91% to 95%	\$	-	0.0%
17.03	Between 81% to 90%	\$	-	0.0%
17.04	Between 71% to 80%	\$	-	0.0%
17.05	Below 70%	\$	-	0.0%
		Commercial		
		3	4	
17.01	Above 95%	\$	-	0.0%
17.02	Between 91% to 95%	\$	-	0.0%
17.03	Between 81% to 90%	\$	-	0.0%
17.04	Between 71% to 80%	\$	-	0.0%
17.05	Below 70%	\$	24,201,195	5.4%
		Agriculture		
		5	6	
17.01	Above 95%	\$	-	0.0%
17.02	Between 91% to 95%	\$	-	0.0%
17.03	Between 81% to 90%	\$	-	0.0%
17.04	Between 71% to 80%	\$	-	0.0%
17.05	Below 70%	\$	-	0.0%

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

18.01 Are assets held in real estate reported in less than 2.5% of the reporting entity's total admitted assets? Yes No

If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

19 Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans:

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the Reporting entity's total admitted assets? Yes No

If response to 19.01 is yes, responses are not required for the remainder of Interrogatory 19.

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ATLANTIC COAST LIFE INSURANCE COMPANY

Investment Risks Interrogatories (Continued)

December 31, 2017

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

		At Year-End	
		1	2
20.01	Securities lending agreements (do not include assets held as collateral for such transactions)	\$ -	0.0%
20.02	Repurchase agreements	\$ -	0.0%
20.03	Reverse repurchase agreements	\$ -	0.0%
20.04	Dollar repurchase agreements	\$ -	0.0%
20.05	Dollar reverse repurchase agreements	\$ -	0.0%

		At End of Each Quarter		
		1st Quarter	2nd Quarter	3rd Quarter
		3	4	5
20.01	Securities lending agreements (do not include assets held as collateral for such transactions)	\$ -	\$ -	\$ -
20.02	Repurchase agreements	\$ -	\$ -	\$ -
20.03	Reverse repurchase agreements	\$ -	\$ -	\$ -
20.04	Dollar repurchase agreements	\$ -	\$ -	\$ -
20.05	Dollar reverse repurchase	\$ -	\$ -	\$ -

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps, and floors:

		Owned	
21.01	Hedging	\$ -	0.0%
21.02	Income generation	\$ -	0.0%
21.03	Other	\$ -	0.0%
		Written	
21.01	Hedging	\$ -	0.0%
21.02	Income generation	\$ -	0.0%
21.03	Other	\$ -	0.0%

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

		At Year-End		
		1	2	
22.01	Hedging	\$ -	0.0%	
22.02	Income generation	\$ -	0.0%	
22.03	Replications	\$ -	0.0%	
22.04	Other	\$ -	0.0%	
		At End of Each Quarter		
		1st Quarter	2nd Quarter	3rd Quarter
		3	4	5
22.01	Hedging	\$ -	\$ -	\$ -
22.02	Income generation	\$ -	\$ -	\$ -
22.03	Replications	\$ -	\$ -	\$ -
22.04	Other	\$ -	\$ -	\$ -

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Investment Risks Interrogatories (Continued)

December 31, 2017

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

		At Year-End	
		1	2
23.01	Hedging	\$ -	0.0%
23.02	Income generation	\$ -	0.0%
23.03	Replications	\$ -	0.0%
23.04	Other	\$ -	0.0%
		At End of Each Quarter	
		1st Quarter	2nd Quarter
		3	4
		3rd Quarter	5
23.01	Hedging	\$ -	\$ -
23.02	Income generation	\$ -	\$ -
23.03	Replications	\$ -	\$ -
23.04	Other	\$ -	\$ -

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ATLANTIC COAST LIFE INSURANCE COMPANY

Summary Investment Schedule

December 31, 2017

	Gross Investment Holding*		Admitted Assets as Reported in the Annual Statement			
	1	2	3	4	5	6
	Amount	Percentage	Amount	Securities Lending Reinvested Collateral Amount	Total (Col. 3+4) Amount	Percentage
1 Bonds:						
1.1 US Treasury Securities	\$ 2,449,098	0.56%	\$ 2,449,098	\$ -	\$ 2,449,098	0.56%
1.2 U.S. government agency and corporate obligations (excluding mortgage-backed securities):						
1.21 Issued by US Government Agencies	-	0.00%	-	-	-	0.00%
1.22 Issued by US Government-sponsored agencies	-	0.00%	-	-	-	0.00%
1.3 Non-U.S. Government (including Canada, excluding mortgage-backed securities)	256,201	0.06%	256,201	-	256,201	0.06%
1.4 Securities issued by states, territories and possessions and political subdivisions in the United States:						
1.41 States, territories and possessions general obligations	142,152	0.03%	142,152	-	142,152	0.03%
1.42 Political subdivisions of states, terr. and possessions and political subdivisions general obligations	330,009	0.07%	330,009	-	330,009	0.07%
1.43 Revenue and assessment obligations	995,291	0.23%	995,291	-	995,291	0.23%
1.44 Industrial development bonds and similar obligations	-	0.00%	-	-	-	0.00%
1.5 Mortgage-backed securities (includes residential and commercial MBS):						
1.51 Pass-through securities:						
1.511 Issued or guaranteed by GNMA	79,714	0.02%	79,714	-	79,714	0.02%
1.512 Issued or guaranteed by FNMA and FHLMC	4,119,123	0.93%	-	-	-	0.00%
1.513 All other	-	0.00%	4,119,123	-	4,119,123	0.93%
1.52 CMOs and REMICs:						
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	518,719	0.12%	518,719	-	518,719	0.12%
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521	-	0.00%	-	-	-	0.00%
1.523 All other	23,919,560	5.42%	23,919,560	-	23,919,560	5.42%
2 Other debt and other fixed income securities (excluding short term):						
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	68,802,056	15.59%	68,802,056	-	68,802,056	15.59%
2.2 Unaffiliated foreign securities	45,705,006	10.36%	45,705,006	-	45,705,006	10.36%
2.3 Affiliated securities	-	0.00%	-	-	-	0.00%

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ATLANTIC COAST LIFE INSURANCE COMPANY

Summary Investment Schedule (Continued)

December 31, 2017

	Gross Investment Holding*		Admitted Assets as Reported in the Annual Statement			
	1	2	3	4	5	6
	Amount	Percentage	Amount	Securities Lending Reinvested Collateral Amount	Total (Col. 3+4) Amount	Percentage
3 Equity interests:						
3.1 Investments in mutual funds	-	0.00%	-	-	-	0.00%
3.2 Preferred stocks:						
3.21 Affiliated	-	0.00%	-	-	-	0.00%
3.22 Unaffiliated	-	0.00%	-	-	-	0.00%
3.3 Publicly traded equity securities (excluding preferred stocks):						
3.31 Affiliated	-	0.00%	-	-	-	0.00%
3.32 Unaffiliated	-	0.00%	-	-	-	0.00%
3.4 Other equity securities:						
3.41 Affiliated	-	0.00%	-	-	-	0.00%
3.42 Unaffiliated	5,660,881	1.28%	5,660,881	-	5,660,881	1.28%
3.5 Other equity interests including tangible personal property under leases:						
3.51 Affiliated	-	0.00%	-	-	-	0.00%
3.52 Unaffiliated	-	0.00%	-	-	-	0.00%
4 Mortgage loans:						
4.1 Construction and land development	-	0.00%	-	-	-	0.00%
4.2 Agricultural	-	0.00%	-	-	-	0.00%
4.3 Single family residential properties	-	0.00%	-	-	-	0.00%
4.4 Multifamily residential properties	-	0.00%	-	-	-	0.00%
4.5 Commercial loans	24,201,195	5.48%	24,201,195	-	24,201,195	5.48%
4.6 Mezzanine real estate loans	-	0.00%	-	-	-	0.00%
5 Real estate investments:						
5.1 Property occupied by company	-	0.00%	-	-	-	0.00%
5.2 Property held for production of income (including \$ of property acquired in satisfaction of debt)	2,870,697	0.65%	2,870,697	-	2,870,697	0.65%
5.3 Property held for sale (including \$ property acquired in satisfaction of debt)	-	0.00%	-	-	-	0.00%
6 Contract loans	663,531	0.15%	663,531	-	663,531	0.15%
7 Derivatives	185,451	0.04%	185,451	-	185,451	0.04%
8 Receivables for securities	54,619	0.01%	54,619	-	54,619	0.01%
9 Securities lending	-	0.00%	-	-	-	0.00%
10 Cash, cash equivalents and short-term investments	238,918,132	54.15%	238,918,132	-	238,918,132	54.15%
11 Other invested assets	21,379,650	4.85%	21,379,650	-	21,379,650	4.85%
12 Total invested assets	<u>\$ 441,251,085</u>	<u>100.00%</u>	<u>\$ 441,251,085</u>	<u>\$ -</u>	<u>\$ 441,251,085</u>	<u>100.00%</u>

* Gross Investment Holdings as valued in compliance with NAIC Accounting Practices & Procedures Manual

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