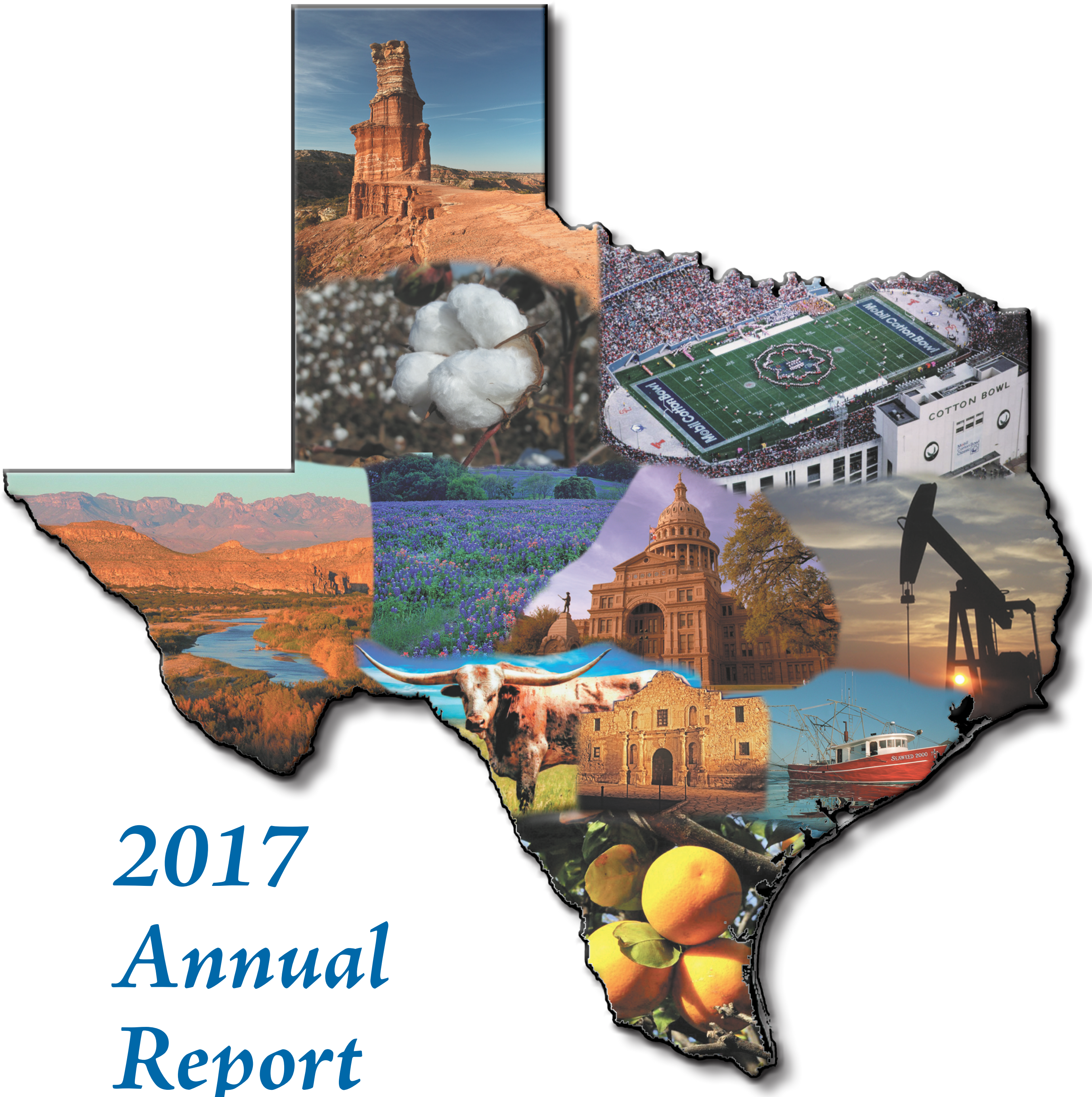
Texas Life & Health
Insurance Guaranty Association



2017 Annual Report

This annual report provides financial information and a summary report of the activities of the Texas Life & Health Insurance Guaranty Association ("Association") for fiscal year 2017. The information is general in nature and is not legal advice.

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REPORT FROM THE CHAIR

On behalf of the Texas Life and Health Insurance Guaranty Association ("Association"), I am pleased to submit the 2017 Annual Report. This is the 25th annual report since the Texas Legislature separated and privatized the Association's operations from within the Texas Department of Insurance in 1992.

In September of 2017, Texas Insurance Commissioner Kent Sullivan appointed or reappointed several individuals to the Association's Board of Directors. Commissioner Sullivan reappointed public representative, James Huckaby, and large company representative, Ted Kennedy, to new six-year terms. Commissioner Sullivan appointed David Sommer to fill a public representative vacancy and Patricia McCandless of Blue Cross Blue Shield of Texas to fill a large insurance company representative position formerly held by Barrie Stokes of Protective Life Insurance Company. Ms. Stokes had provided significant knowledge, experience and leadership as a director since 2014.

The Association was activated for two new insolvencies on March 1, 2017 when liquidation orders were entered by a Pennsylvania court against Penn Treaty Network America Insurance Company and American Network Insurance Company. The Association's estimated costs to fulfill its statutory obligations to the Texas resident policyholders of these two insolvent member insurance companies will be in the range of $135-$150 million.

Member insurers are subject to two types of assessments from the Association: Class A and Class B. Class A assessments provide the funding of administration and general expenses not related to a specific insolvency. Class B assessments provide the Association with the funding to carry out its statutory duties and policyholder protection for specific insolvencies. A $130 million Class B assessment was authorized and called during 2017. There was no Class A assessment authorized during 2017.

The Association continued its high level of participation in the National Organization of Life and Health Insurance Guaranty Associations ("NOLHGA"). In addition to serving on NOLHGA's Board of Directors, the Association remained active in its insolvency task forces and other special issue committees. The coordination of efforts and sharing of resources afforded through our membership in NOLHGA are vital to the efficient and timely delivery of the Association's statutory protection to Texas policyholders.

The Association continues its active role to protect policyholders in the great State of Texas. We continue to meet the challenges of any economic, governmental or legislative changes or issues that may arise. We perform the responsibilities entrusted to us with due diligence, transparency and full disclosure in regards to the Association's financial and operational undertakings. The Association uses all the tools at its disposal to protect the life, health and annuity policyholders in Texas in the event of the insolvency and liquidation of a member insurance company.

Respectfully,

James G. Lewis, Chair of the Board of Directors

DESCRIPTION OF THE ASSOCIATION AND ITS BOARD OF DIRECTORS

The Texas Life and Health Insurance Guaranty Association ("Association") was created in 1973 by the Texas legislature as a nonprofit legal entity. It is governed by Chapter 463 of the Texas Insurance Code.

The purpose of the Association is to protect Texas resident policyholders and their beneficiaries in the event a member insurance company licensed to write life, accident and health, or annuity business in Texas is declared insolvent and liquidated by court order.

The Association is responsible for continuing insurance policy coverage for Texas policyholders, including paying claims and other policy benefits. Each type of policy benefit is subject to limitations in accordance with Texas law.

When a court finds an insurance company insolvent and orders it liquidated, a receiver takes over the insurer and, under the court's supervision, liquidates the assets. The Association becomes one of the claimants against the estate of the insolvent insurance company, to the extent of the payments and benefits it provides to policyholders. The Association may recover a portion of its costs to protect the policyholders as the assets of the insolvent company are liquidated. If further funds are needed, the Association's Board of Directors determines the amount and levies an assessment, or bill, to the other member insurance companies.

Membership with the Association

An insurance company becomes a member when it is granted a certificate of authority, or license, by the Texas Department of Insurance. Membership is mandatory for all insurance companies licensed in Texas to write the types of life, accident and health, or annuity business protected by the Association.

An insurance company is excluded from membership if it is licensed by the Texas Department of Insurance as one of the following: 1) A fraternal benefit society, 2) A reciprocal or interinsurance exchange, 3) A health maintenance organization (HMO), 4) A mandatory state pooling plan, 5) A charitable gift only annuity company or 6) A program or entity similar to any of the above exclusions.

Supervision of the Association

The Association's business and affairs are supervised by the Board of Directors. There are regular quarterly meetings of the Board of Directors each year, plus special meetings as may be required. Meetings are noticed and held in compliance with applicable open meetings law.

The governing documents of the Board and the Association are its Plan of Operation, Bylaws and Chapter 463 of the Texas Insurance Code.

The nine members of the Association's Board of Directors are appointed by the commissioner of insurance. Five members must be officers or employees of member insurance companies; three must be officers or employees of companies that are among the top 50 premium writers in Texas, and two must come from smaller companies. The remaining four directors are "public" and must be independent of the insurance industry. Directors are appointed to staggered six-year terms and three directors' terms expire each odd-numbered year. A director can serve unlimited terms.

Directors receive no compensation but are entitled to reimbursement of their expenses related to Association activities. Each director must file a personal financial statement annually with the Texas Ethics Commission on a prescribed form. Counsel to the Board, Counsel to the Association and the Executive Director of the Association are compensated for their services.

BOARD OF DIRECTORS

as of December 31, 2017

James G. Lewis, Chair
President & CEO
Central Security Life Insurance Company
Richardson, Texas. Director since 2008
Current term expires September 30, 2019

James M. Harrison, Vice-Chair
Counsel, Government Relations
Principal Financial Group
Des Moines, Iowa. Director since 2007
Current term expires September 30, 2021

James E. Huckaby, Secretary
Executive Director -
Operations/Risk Management
Mesquite Independent School District
Mesquite, Texas. Director since 2013
Current term expires September 30, 2023

Dean Frigo
Retired City Government Executive
Amarillo, Texas. Director since 2007
Current term expires September 30, 2019

Ted Kennedy
Deputy Head, Government Affairs
American International Group, Inc.
Houston, Texas. Director since 2015
Current term expires September 30, 2023

David Sommer
Professor of Risk Management
St. Mary's University
San Antonio, Texas. Director since 2017
Current term expires September 30, 2021

Pati McCandless
Vice President, State Health Policy
Blue Cross Blue Shield of Texas
Austin, Texas. Director since 2017
Current term expires September 30, 2023

Robin L. Vincent
Benefits Administrator
Harris County
Houston, Texas. Director since 2016
Current term expires September 30, 2021

Thomas Munson
President & CEO
Landmark Life Insurance Company
Brownwood, Texas. Director since 2016
Current term expires September 30, 2019

Legal Counsel to the Board of Directors
B. Shelby Baetz
The Baetz Law Firm
Houston, Texas

Legal Counsel to the Association
Jacqueline Rixen
Law Office of Jacqueline Rixen
Austin, Texas

Executive Director
Bart A. Boles

BOARD COMMITTEES

as of December 31, 2017

Executive Committee

James G. Lewis, Chair
James M. Harrison
James E. Huckaby
Dean Frigo

Audit Committee

Dean Frigo, Chair
James E. Huckaby
Thomas Munson

Assessment/Investment Committee

James M. Harrison, Chair
Dean Frigo
Ted Kennedy

Personnel Committee

Robin L. Vincent, Chair
James E. Huckaby

CORPORATE GOVERNANCE

The Association's corporate governance policies continue to be monitored and reviewed by the Board of Directors and its Committees to maintain the integrity and transparency of the Association's activities.

The Association's activities are conducted in accordance with the following corporate governance documents:

- ◊ Governing statute, Chapter 463 of the Texas Insurance Code
- ◊ Plan of Operation
- ◊ Bylaws
- ◊ Board of Directors Corporate Governance Guidelines
- ◊ Antitrust Compliance Policy and Annual Certification Form
- ◊ Policy Statement on Conflicts of Interest and Business Ethics and Annual Questionnaire
- ◊ Charter of the Audit Committee
- ◊ Charter of the Assessment/Investment Committee
- ◊ Charter of the Personnel Committee
- ◊ Business Continuity Plan
- ◊ Policy and Procedures Manual
- ◊ Privacy Policy

Additionally, the Association is subject to the Texas Open Meetings Act and the Texas Open Records Act. All Board of Directors and Committee meetings must be noticed in a timely and public fashion so any interested party may attend. All summaries of the minutes of Board of Directors and Committee meetings are available upon request.

In 2017, the Association continued corporate governance initiatives implemented in prior years and introduced new initiatives including:

- Enhancing hardware and procedures in response to findings from a full information technology risk assessment review and external network penetration test that was performed by a consulting firm,
- Reviewing and improving corporate governance documents,
- Augmenting current Association audits to achieve a heightened efficiency of operations,
- Initiating new corporate governance responsibility tracking techniques and
- Developing ongoing corporate governance video training for directors.

OVERVIEW OF OPERATIONS

GENERAL

The Association was activated to provide its statutory protection of policyholders for two member insurers in 2017. Substantial work was also carried out on ongoing insolvencies that began in prior years.

The Association continues to monitor troubled companies in order to be prepared should liquidation become necessary. The Board of Directors prefers to transfer insurance policies protected by the Association to a solvent carrier through an assumption reinsurance transaction. This has been the most frequently used method for guaranty associations to fulfill their statutory obligation to continue the coverage under the life insurance policies and annuity contracts. Only in cases where no company is willing to assume the policies, or the transfer funding cost associated with such an assumption transaction would be dramatically more expensive, does the Association continue the administration of the covered policies.

We believe the Association is in sound fiscal condition and has in place the appropriate policies and procedures to meet the needs of its policyholders, members and Texas taxpayers in a cost-efficient manner.

NOLHGA ACTIVITIES

National Organization of Life & Health
Insurance Guaranty Associations

The Association is a member of the National Organization of Life and Health Insurance Guaranty Associations ("NOLHGA"), a voluntary association consisting of the life and health insurance guaranty associations in all 50 states and the District of Columbia.

NOLHGA facilitates insolvency task forces and special issues committees to properly support its member associations in resolving multi-state insolvencies and addressing issues affecting the entire guaranty association system.

In addition to serving on a number of specific insolvency task forces, Association representatives serve on a number of other NOLHGA committees working to coordinate and improve the effectiveness and efficiency of the life and health insurance guaranty association system. This service includes NOLHGA's Board of Directors, Communications Committee, Legal Committee and several special issues committees.

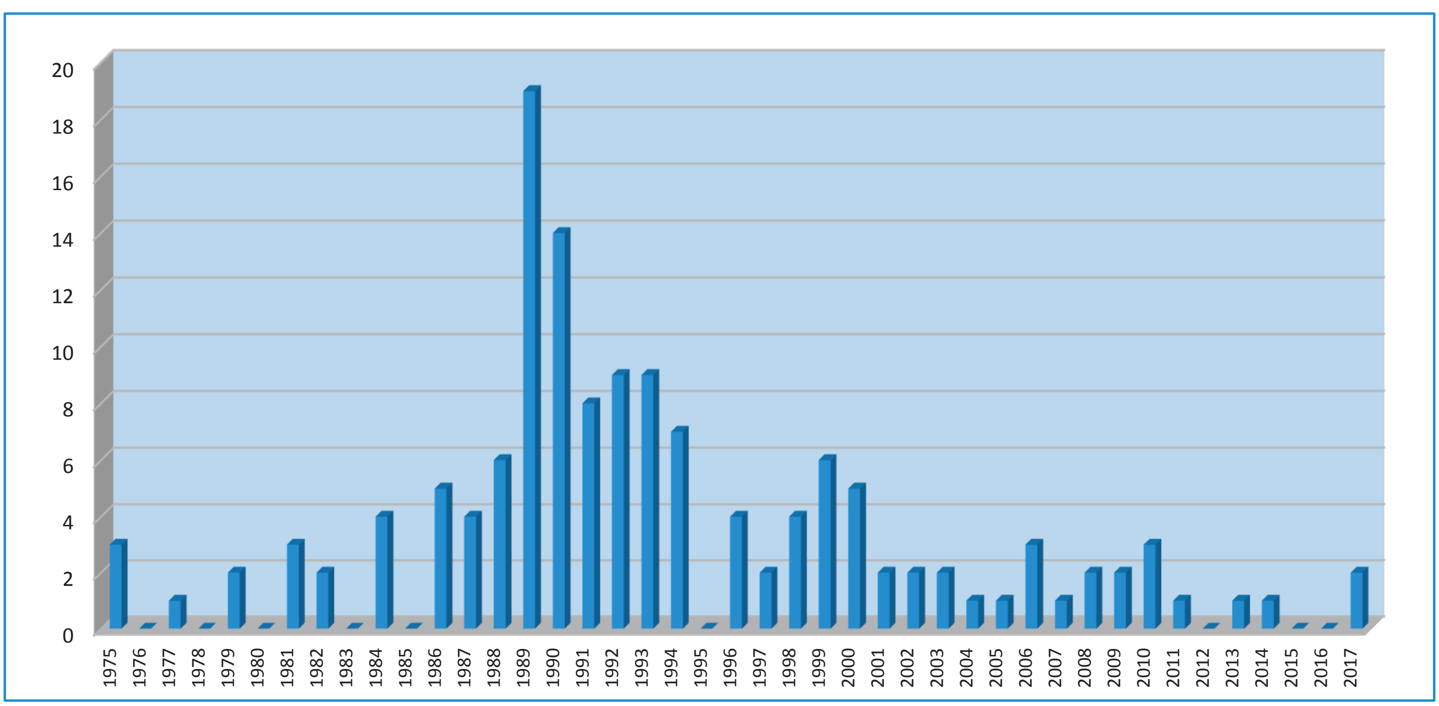
Being a member of NOLHGA is another tool the Association uses to better protect the residents of Texas who hold life, health and annuity policies.

ACTIVE RECEIVERSHIPS

At the beginning of 2017, there were 20 active receiverships of foreign and domestic member insurance companies that had also been designated as “impaired insurers” by the Texas Commissioner of Insurance. In addition, two member insurance companies, which had been placed under an order of rehabilitation or conservation by a court in their state of domicile, were declared insolvent and an impairment order was issued by the Texas Commissioner of Insurance in 2017.

No member insurance company receivership estates were closed during 2017, leaving the Association activated for 22 open receivership estates, 18 of which are foreign domiciled member insurers and four of which are Texas domestics.

NEW ACTIVATIONS BY YEAR SINCE ASSOCIATION FORMATION



POLICY BENEFIT PAYMENTS

Summary of Policy Benefit Payments

The Association met its statutory obligations to continue coverage and pay the policy benefit claims for Texas resident policyholders, either by:

1. Directly paying claims as they became due or

2. Negotiating and funding the transfer of the policies to a solvent member insurance company through an assumption reinsurance agreement. Some of these assumption reinsurance agreements were part of continuing court-approved, multi-year plans.

Direct Claims Payments

The Association funded 120 direct claims, totaling approximately $301,883 during 2017. These claims, from three different insolvent companies, were processed by third-party administrators under service agreements.

The charts below reflect the number of direct claims payments for each of the last five years and the division of the Association's funding between direct claims payments and assumption reinsurance transactions.

Reinsurance Agreements

The Association is a party to both assumption and co-insurance reinsurance transactions because of a co-insurance transaction entered in 2017.

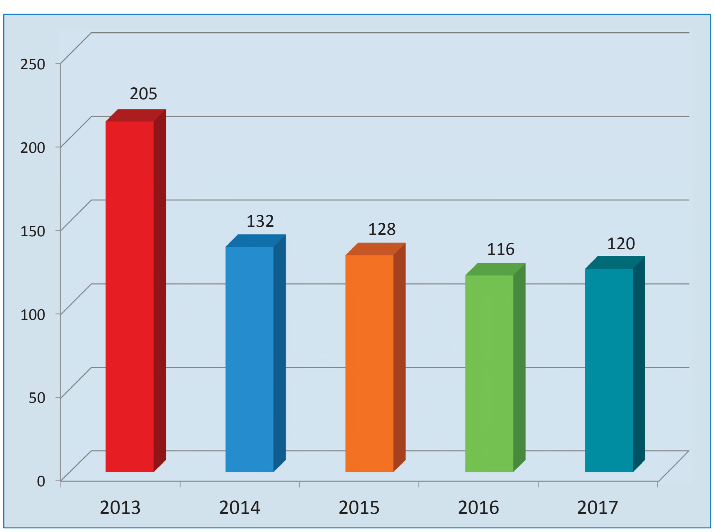
During 2017, the Association's net payments under reinsurance agreements, to transfer the covered insurance policy obligations of insolvent member insurers to active insurance companies, totaled approximately $118,145,619.

The 2017 reinsurance activity is summarized in the table below:

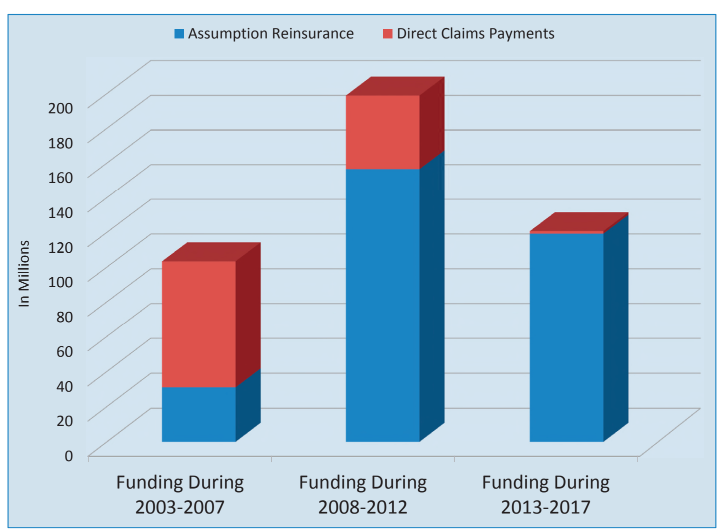
INSOLVENT MEMBER INSURANCE COMPANY	2017 FUNDING
Executive Life Insurance Company [1]	$ 71,404
Lincoln Memorial Life Insurance Company	1,019,600
Memorial Service Life Insurance Company [2]	4,967
Penn Treaty Nework America/America Network Insurance Companies	$ 117,049,648
	$ 118,145,619

[1] Continuing multi-year plan
[2] Funding to true up a prior year's assumption

NUMBER OF DIRECT CLAIMS PAYMENTS 2013-2017



DIRECT CLAIMS AND ASSUMPTION REINSURANCE PAYMENTS



REMAINING POLICY BENEFIT OBLIGATIONS

The Association projects its future insurance policy obligations for existing insolvencies based on claims experience, actuarial estimates of runoff policy liabilities, scheduled payments under court-approved multi-year plans and negotiated assumption reinsurance transfer costs. These estimates are updated monthly based on the best information available and are subject to change.

As of year-end 2017, the Association estimates its aggregate future policy benefit obligations to be approximately $3.86 million. This level is again substantially lower than in prior years because of the payments to fully resolve all policy obligations in several insolvencies.

SUMMARY OF RECOVERIES

The Association, along with the other affected guaranty associations, is a creditor of the receivership estate of an insolvent insurance company. Generally, the guaranty associations represent the largest creditor class in any insurance company insolvency. In most states' receivership statutes, the administrative expenses of a receiver and the guaranty associations are in the highest priority creditor class and receive the first distributions as assets are liquidated. The guaranty associations' claims for the benefits paid to policyholders, or for their payments to transfer policies under an assumption reinsurance agreement, along with policyholders' claims for benefits in excess of the guaranty associations' statutory coverage limits, are usually the next creditor class and ahead of the other classes, such as federal or local governments, unsecured creditors, agents, bond or note holders, and shareholders.

The amount of the Association's claims filed with receivership estates are reflected in its financial statements as a receivable. The amount of any anticipated recovery is contingent on the efficient operations of the receiver to maximize the value realized as assets are liquidated and the value of claims of creditors in the same class. The estimated amount that may be received is reduced by an allowance for collectability.

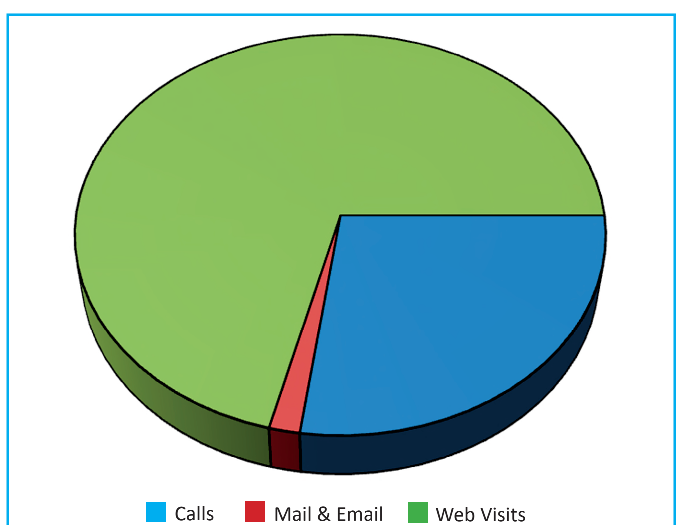
The Association has continued to file updated proofs of claim with receiverships. As of year-end 2017, the Association had filed outstanding claims totaling approximately $595 million with receivership estates that remain open as active court proceedings. It is not possible to project what amount of recoveries the Association may realize on these claims without final financial information from these estates, including the adjusted amount of assets liquidated and the creditor claims by class. Recoveries in the form of asset distributions from receivership estates to the Association during 2017 totaled approximately $9.39 million.

CONSUMER SERVICES

The Association's staff provides general coverage and operational information by telephone, email and mail in response to requests from Texas residents. Also, the Association's website (www.txlifega.org) provides visitors with a large amount of information, including meetings schedule, frequently asked questions on Association coverage, Board of Directors roster, policyholder protection policy attachment and specific insolvency related notices.

During 2017, the Association received a total of 2,508 phone calls through its direct or toll-free phone numbers, logged 6,546 visitors to its website and fielded 158 email and mail requests for information.

2017 CONSUMER SERVICES



ACTIVITIES ON CONTINUING INSOLVENCIES

The Association provided ongoing coverage and paid policy benefits on five different insolvencies during 2017. The following three ongoing insolvencies are specifically mentioned because of their financial impact and complexity.

PENN TREATY AND AMERICAN NETWORK INSURANCE COMPANIES

Penn Treaty Network America Insurance Company ("Penn Treaty") and American Network Insurance Company ("ANIC"), its insurance company subsidiary, are Pennsylvania domestic life insurance companies that write long-term care ("LTC") insurance beginning in 1972. In 2002, Penn Treaty's adjusted capital and surplus were below the Regulatory Action Level, requiring it to file a Corrective Action Plan with the Pennsylvania Insurance Department. Penn Treaty and ANIC suspended underwriting activities, reviewed and adjusted underwriting and claims protocols, increased reserves, sought and obtained additional reinsurance, commenced efforts to raise capital, adopted the Corrective Action Plan and then resumed writing new business.

Penn Treaty and ANIC were placed in rehabilitation on January 6, 2009. After evaluating several rehabilitation alternatives, the Pennsylvania Commissioner filed petitions for liquidation on October 2, 2009 with the Commonwealth Court of Pennsylvania. Penn Treaty's statutory capital and surplus was reported to be negative by more than $1.3 billion as of June 30, 2009 and ANIC's statutory capital and surplus was negative by more than $45 million.

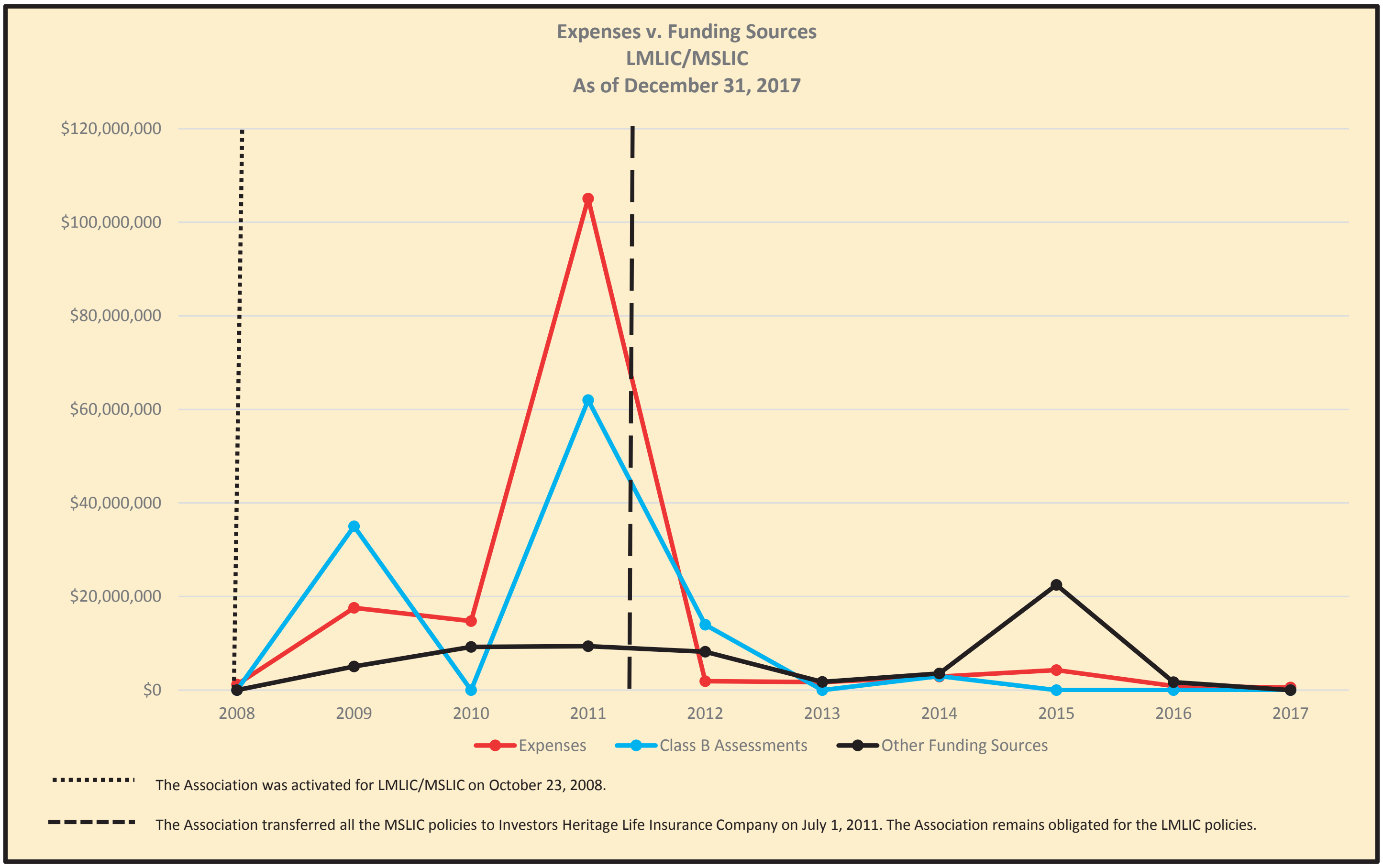
After a hearing on the liquidation petitions that spanned more than a year, on May 3, 2012, the Court issued an order denying the liquidation petitions and ordering the rehabilitator to file a plan of rehabilitation that addressed and eliminated the inadequate and discriminatory premium rates for the policies issued prior to 2002. For the following four years, various rehabilitation plans were developed through meetings with representatives of various interested parties, including the shareholders, agents, guaranty associations and a small number of large health insurance companies. Ultimately, the rehabilitation petitions were converted to liquidation petitions in July 2016. Liquidation orders against Penn Treaty and ANIC were entered in the Court on March 1, 2017.

The Penn Treaty and ANIC coverage obligations to Texas resident policyholders, for which the Association became statutorily obligated to protect, was calculated through an actuarial model to be approximately $202.03 million on an aggregate basis. After discounting at a 4.25% interest rate as of March 1, 2017 (the Liquidation Date), the present value of these coverage obligations totaled approximately $137.01 million. The Association, and 43 other guaranty associations, participated in the formation of LTC Reinsurance PCC ("LTC Re"), a captive insurance company, and then 100% coinsured their obligations to LTC Re. The coinsurance agreements with LTC Re required payments from each of the ceding guaranty associations equal to 90% of the discounted liability through a 20% cash payment within 90 days after the Liquidation Date, and the remaining 70% through promissory notes with up to five equal annual installments plus interest at 4.25%. In May 2017, the Association made the 20% cash payments for both companies totaling $27,402,654 and executed two promissory notes with LTC Re with face amounts totaling $95,909,289.

The Commonwealth Court of Pennsylvania approved the use of a portion of the Penn Treaty and ANIC estate assets to continue funding the guaranty associations' ongoing claims obligations and administration expenses as early access distributions to the guaranty associations. This relieved LTC Re of monthly funding obligations under the Interim Services Agreement with the Receiver for a period of time. LTC Re notified the Association that these early access payments would reduce the principal and interest obligations under the notes the Association issued to LTC Re. The Association paid off both promissory notes with LTC Re on December 15, 2017 with payments totaling approximately $89,646,994. The note payoff amounts reflected the deduction of approximately $9,353,174 of early access funding credits as of the December 15, 2017 pay-off date. There was no penalty for the prepayment of the notes in full. The Association has no amounts currently owing to LTC Re.

The Association will continue to monitor the multidecade administration of its Penn Treaty and ANIC obligations to determine whether any additional funding will be required for the 10% of the discounted obligations amount that was not required in the initial funding to LTC Re or whether additional funding is otherwise required under the coinsurance agreements. The need for additional funding will be impacted by the actual experience of the block of business when compared to the assumptions in the actuarial model, the Association's share of the investment returns realized by LTC Re, the ultimate allocation and distribution of Penn Treaty and ANIC assets, and the financial impact of any premium rate increases that may be approved and implemented. The Association's exposure for additional funding, if any, may not be known for several decades.

MEMORIAL SERVICE AND LINCOLN MEMORIAL LIFE INSURANCE COMPANIES



Memorial Service Life Insurance Company ("Memorial Service") was a stipulated premium insurance company authorized to transact business only in Texas. Lincoln Memorial Life Insurance Company ("Lincoln Memorial") was an insurance company domiciled in Texas but held licenses to conduct the business of insurance in 44 states.

The business of both Memorial Service and Lincoln Memorial focused primarily on the sale of small face-amount life policies used to fund prepaid funeral benefit contracts. The prepaid funeral benefits contracts were marketed by an affiliated non-insurance entity, National Prearranged Services, Inc. ("NPS").

Memorial Service and Lincoln Memorial were placed under an order of liquidation on September 22, 2008. The Association participated in the court-approved Liquidation Plan that had been developed between the Texas Department of Insurance, the Special Deputy Receiver ("SDR") and the guaranty associations affected by the insolvency of these two companies. Under the Liquidation Plan, the guaranty associations provide coverage for the risk that was originally transferred under the whole life insurance policy—that is, payment of a lump-sum death benefit to fund the funeral services and merchandise for the insured. The Liquidation Plan operates as a "runoff." The SDR serves as the third-party administrator for the guaranty associations. Death claims are processed as incurred. Valid claims are paid subject to the Liquidation Plan and only after an assignment and release have been signed and delivered to the SDR.

The Association provided protection for 65,369 policies owned by Texas residents, with face amounts totaling approximately $215 million.

In 2011, the Association transferred the 52,553 active Memorial Service life insurance policies to Investors Heritage Life Insurance Company ("IHLIC") through an assumption reinsurance agreement funded by a $94,151,700 payment to IHLIC. The Association has conducted additional true-up transactions with IHLIC to resolve data correction adjustments to reserve calculations used in the closing and to fund claims for policies transferred that were later discovered to involve a death prior to the closing date. The Association paid $4,967 to fund two true-ups in 2017.

In 2017, the Association participated in an assumption reinsurance agreement with Liberty Bankers Life Insurance Company ("Liberty") that was developed through a NOLHGA task force. The Association funded $1,019,600 to transfer the majority of its remaining Lincoln Memorial life insurance policies to Liberty. The Association retained approximately 127 policies that will require additional data research and adjustment. The Association will continue to pay benefits under these policies as deaths occur while the research is being conducted. These policies may be transferred at a later date.

During 2017, the Association funded $202,463 of Lincoln Memorial death claims for Texas resident insureds. The Association's death claim payments since the beginning of the insolvencies totaled approximately $36,978,163 as of year-end 2017.

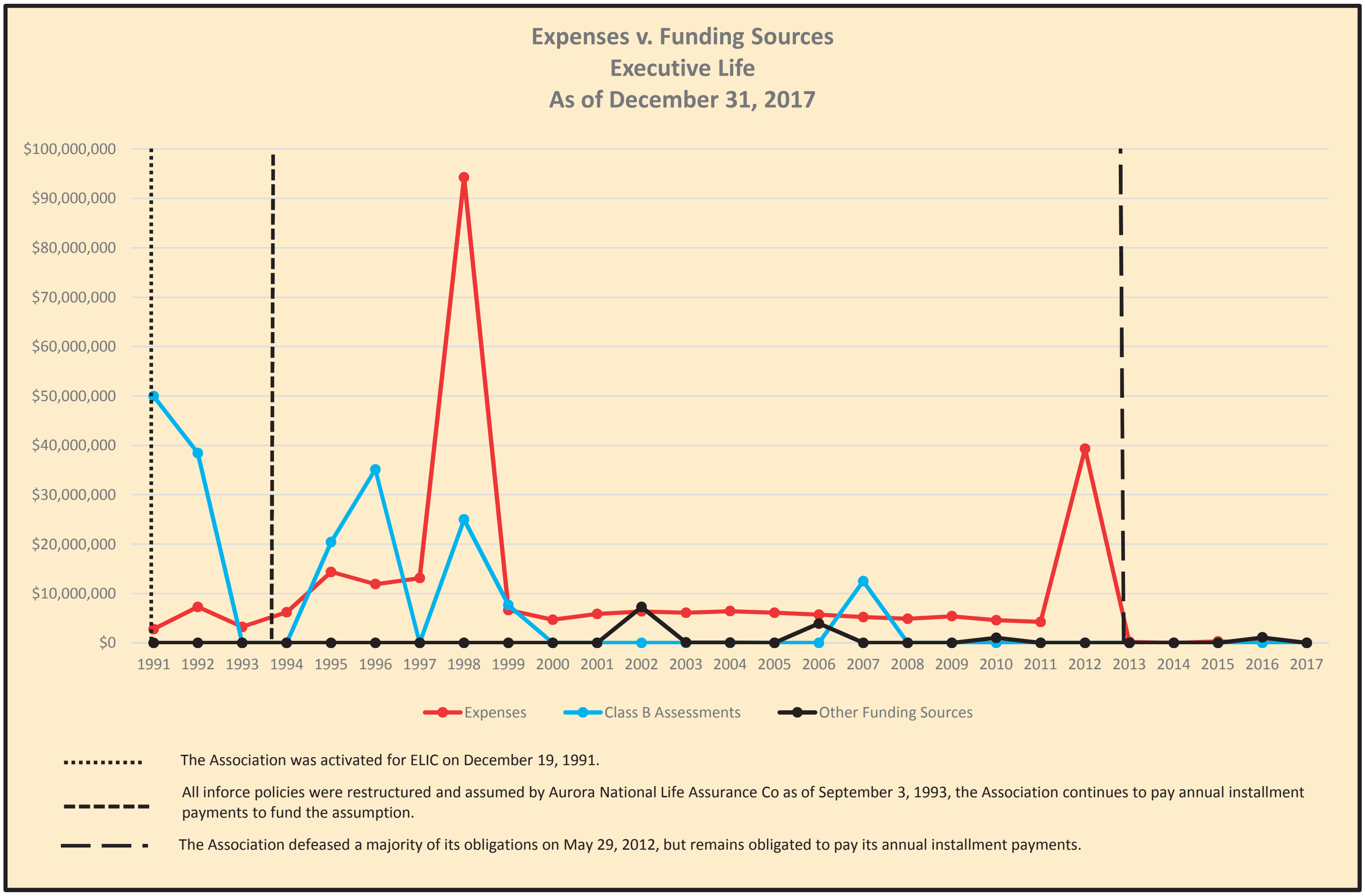
EXECUTIVE LIFE INSURANCE COMPANY

Executive Life Insurance Company ("ELIC") was a member insurance company domiciled in California that wrote life insurance, structured settlement annuities, group annuities and guaranteed investment contracts. ELIC invested heavily in the junk bond market, seeking returns to offset the very competitive rates of return it guaranteed under its insurance contracts. When the junk bond market collapsed in late 1990 and early 1991, ELIC faced a liquidity crisis because of substantial increases in policyholder withdrawals. The California court placed ELIC under a conservation order on April 11, 1991. A liquidation order was entered on December 6, 1991.

The covered insurance policy obligations, for the affected guaranty associations, were transferred to Aurora National Life Assurance Company ("Aurora") in 1993 as part of the court-approved Rehabilitation Plan. Through the Enhancement Agreement to the Rehabilitation Plan, the guaranty associations make annual payments to Aurora to satisfy their obligations to policyholders. Since 1992, the Association has continued to fund its annual installment payment obligations to Aurora. The Association's Board of Directors elected to make the May 2012 defeasance payment of $39,231,008 to eliminate $73,758,402 of estimated remaining aggregate installment payment obligations.

The portion of the annual installment obligations under Articles 22 and 23 of the Enhancement Agreement were not included in the defeasance amount. The Association paid a $71,404 installment to Aurora in April 2017. The estimated remaining obligations to Aurora are $786,585.

The Association has made $262,858,861 of payments to Aurora through direct payments of the installments and the defeasance amount. In addition, the Association's share of distributions from the Executive Life Insurance Company trusts and the receivership estate totaling approximately $31,232,433 were paid to Aurora through the installment mechanism as credits to also discharge the Association's installment payment obligations. As of year-end 2017, the total paid to Aurora by the Association through both the direct payments and crediting of distributions have totaled approximately $294,091,294. ELIC is the most expensive insolvency in the history of the Association.



ADDITIONAL INSOLVENCY ACTIVITY

The Association continues to provide coverage of policy benefits for two other insolvencies, National States Insurance Company and Universal Life Insurance Company.

In 2017, the Association paid a total of $99,468 in life and health claims for the two insolvencies.

LITIGATION

It remains the belief of the Association's Board of Directors that litigation is a remedy of last resort. Since 1992, the Association has either settled claims or litigation on terms favorable to the Association or prevailed in the courts in all cases.

During 2017, no new lawsuits were brought against the Association by any person covered by the Association and no adverse judgments were entered against the Association at the trial level. Other claims litigation involving the Association are either dormant or not being prosecuted by the plaintiffs.

On August 17, 2017, the 8th Circuit Court of Appeals in Missouri issued its opinion in Jo Ann Howard and Associates, P.C. et al v. James Douglas Cassity, et al. The court affirmed the judgment of the district court in part, reversed in part and remanded the case to the district court for additional proceedings consistent with the 8th Circuit's opinion. The initial case was brought by the Association along with six other guaranty associations, the National Organization of Life and Health Insurance Guaranty Associations representing the other affected guaranty associations and the Special Deputy Receiver of Lincoln Memorial Life Insurance Company, Memorial Service Life Insurance Company and National Prearranged Services, Inc., to recover assets in connection with the insolvency of Lincoln Memorial Life Insurance Company, Memorial Service Life Insurance Company and National Prearranged Services, Inc. The Association and other plaintiffs prevailed in the district court and received a judgment just shy of $391 million. The 8th Circuit held that the case should have been tried to the court as a breach of trust case, rather than to a jury as a negligence case, and set aside the judgment. The case is back before the district court and set for trial in November 2018 as a breach of trust case. In the fall of 2013, the trial of a companion criminal case against six persons who were also defendants in the above-described civil suit ended with five guilty pleas and one jury conviction, plus restitution and forfeiture orders in favor of the plaintiffs in the civil suit. The criminal defendants are either in prison or have served their sentences.

Claims Litigation

The Association continues to be involved as a defendant in two claims related lawsuits as of December 31, 2017. Both of these lawsuits are inactive.

ASSESSMENTS AND REFUNDS

Assessments

The Association is authorized to assess its member insurance companies for the purpose of providing the funds necessary to meet its obligations. The governing statute provides for two classes of assessments, Class A and Class B.

Class A assessments may be authorized and called to pay administrative and general expenses not related to a particular insolvent insurance company. The Association's Class A assessments, since it was created in 1973, total approximately $7.44 million. In 2017, the Association's Board of Directors did not authorize a Class A assessment. Investment earnings, allocation of expenses attributable to receivership estates and retention of certain amounts from closed receivership estates have been sufficient to eliminate the need for Class A assessments until recently. The low-interest environment and small recoveries from estates have not been sufficient to cover the Association's operating expenses. The last Class A assessment was levied in 2016.

Class B assessments may be authorized and called to obtain the funds needed to fulfill the Association's statutory administrative expenses and obligations for insurance policies for a specific insolvent insurance company. The Assessment/Investment Committee of the Board of Directors meets periodically to review the financial position and projected cash flow for each insolvent company to determine whether a Class B assessment will be recommended to be authorized and called. During 2017, the Board of Directors authorized and called a $130 million Class B assessment for two insolvent member companies.

Member companies may protest assessments levied by the Association in accordance with the Association's governing statute. In 2017, the Association received five protests of the 2017 Class B assessment, representing 28 member insurance companies. These 28 member insurance companies' assessments amounted to $48.8 million. The Association continues to be in discussion with the companies and does not expect any material adverse effect on the Association's financial position.

The total Class B assessments since the formation of the Association is approximately $924.3 million. The chart below reflects the amounts assessed since inception, in five-year groupings.

Refunds

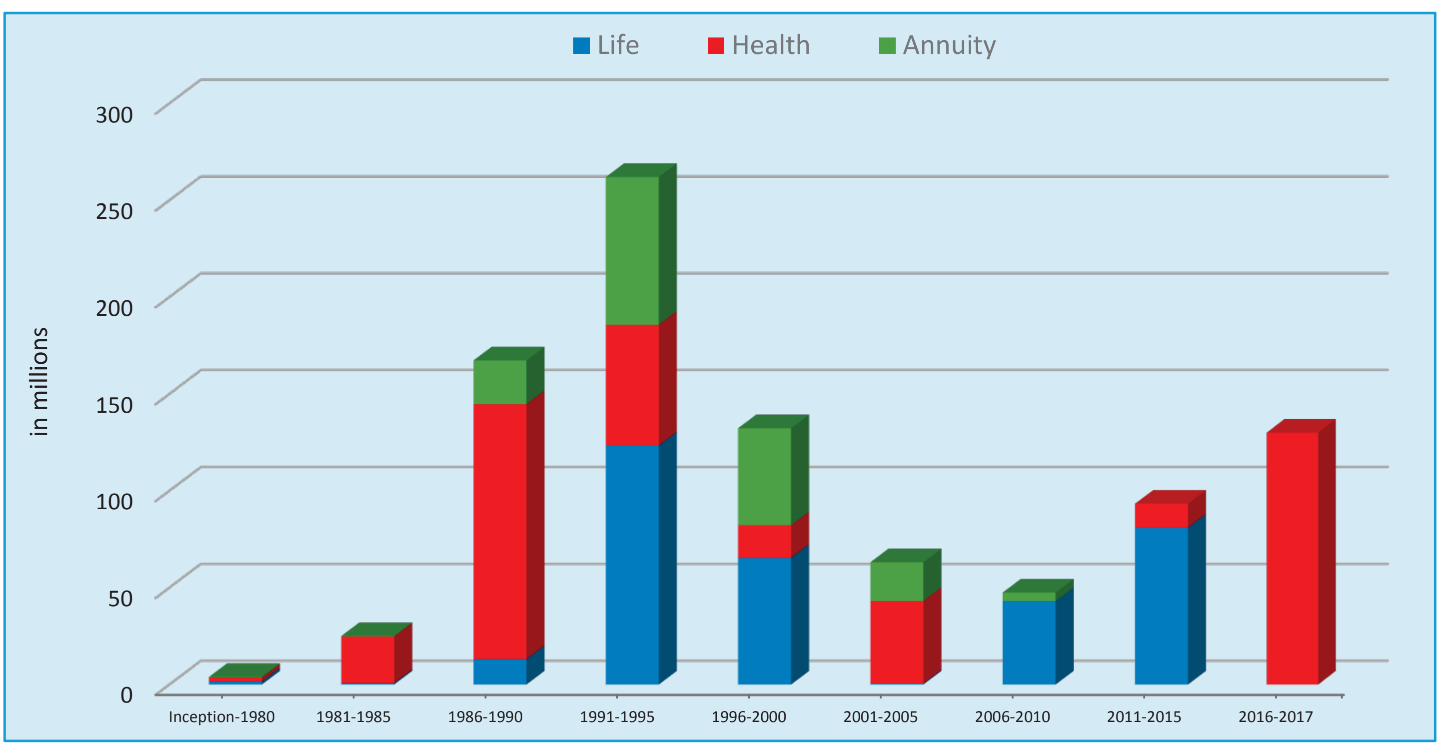
On occasion, the total funds received from premium collections, distributions from receivership estates, investment earnings, recoveries from other third-party sources and Class B assessments exceed the Association's total expenses related to a specific insolvency. These excess funds result from timing in the cash flow of the expenses and recoveries. In the normal course of an insolvency, Class B assessments are levied early in the insolvency process to provide the funding for the payment of insurance contractual obligations and related administrative costs. Estate distributions and recoveries from third parties often are received much later near the closing of the insolvent company's receivership.

Texas law authorizes the Association's Board of Directors to retain a reasonable amount of these excess accumulated funds for future expenses or to refund, if practical. The refunds to member insurers are made by credit against assessments called by the Association.

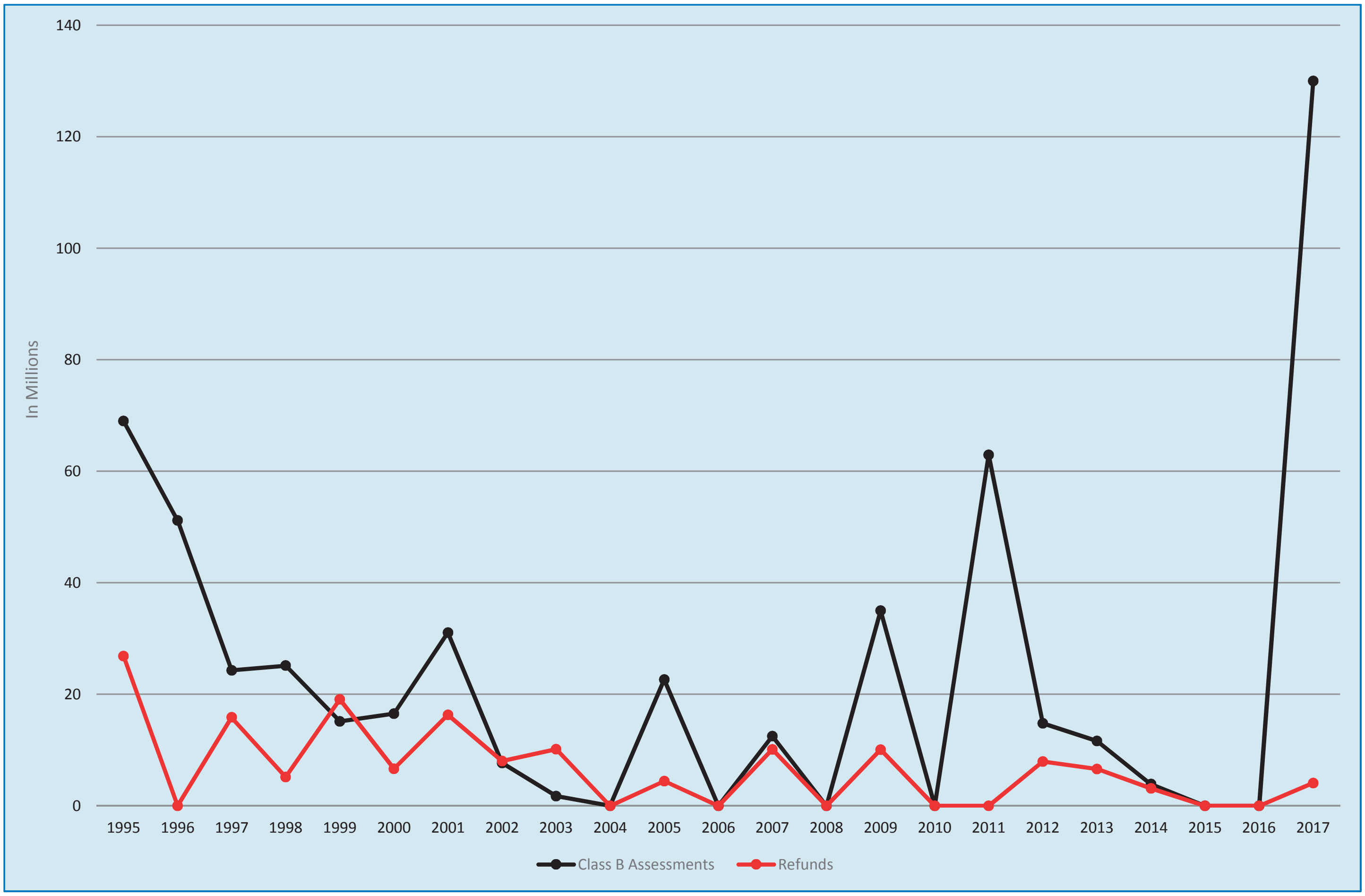
For 15 of the last 21 years beginning in 1995, the Association refunded excess funds related to specific insolvent insurers to member insurers after determination there was no reasonable expectation of additional expenses or recoveries related to those insolvent insurers. In 2017, the Board of Directors authorized a credit refund of $4.1 million. The Association's refunds since its inception have totaled approximately $154.7 million.

The chart on the following page reflects the Class B assessments and refunds since 1995.

TLHIGA CLASS B ASSESSMENTS



ASSOCIATION CLASS B ASSESSMENTS AND REFUNDS



FINANCIAL REPORTING AND AUDIT

The Association is considered a governmental organization for accounting, financial reporting and auditing purposes. As such, the Association is subject to the authoritative literature promulgated by the Governmental Accounting Standards Board ("GASB"). The Association, as a financial-reporting entity, is considered a primary government entity as defined in GASB Statement 14, as amended, and is reported as a special-purpose government engaged in business-type activities. The significant accounting policies followed by the Association in preparing its financial statements conform to generally accepted accounting principles applicable to government units and accepted in the United States of America.

The Association does not have any component units and is not a component unit of any other entity. The Association is reported as a related entity of the Texas Department of Insurance ("TDI") by the TDI in accordance with GASB Statement No. 14.

The Association's financial records and operations are audited annually. Interim financial reports and transactions are reviewed extensively during the course of the year by the Board of Directors and committees of the Board. The Association's audited financial statements as of and for the year ended December 31, 2017, including a Management Discussion and Analysis, the auditor's report and financial statements with footnote disclosures are show herein on pages 18 through 40.

INDEPENDENT AUDITORS' REPORT AND FINANCIAL STATEMENTS

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CliftonLarsonAllen

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Texas Life and Health Insurance Guaranty Association
Austin, Texas

We have audited the accompanying financial statements of the Texas Life and Health Insurance Guaranty Association (Association), which comprise the statements of net position as of December 31, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

A member of Nexia International

Board of Directors
Texas Life and Health Insurance Guaranty Association

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Texas Life and Health Insurance Guaranty Association as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 19-24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Dallas, Texas
April 12, 2018

TEXAS LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION
Management's Discussion and Analysis
For the Years Ended December 31, 2017 and 2016

The Management's Discussion and Analysis is a narrative overview and analysis of the financial activities of the Texas Life and Health Insurance Guaranty Association (the "Association") as of and for the years ended December 31, 2017 and 2016 and should be read in conjunction with the basic financial statements. The discussion is based on the Association's financial statements which are prepared in accordance with accounting principles generally accepted in the United States of America.

FINANCIAL HIGHLIGHTS

- Insurance contractual obligations decreased by $1.91 million or 33.08% from $5.77 million in 2016 to $3.86 million in 2017.
- There was a $130.00 million Class B assessment authorized and called in 2017 and a $2.00 million Class A assessment authorized and called in 2016. Unbilled assessments decreased by $1.03 million from $1.42 million in 2016 to $387 thousand in 2017.
- Distributions received from receivership estates were $9.36 million in 2017 compared to $3.09 million in 2016.
- The total net position increased by $7.29 million or 21.17% to $41.75 million in 2017 from $34.46 million in 2016, mostly as a result of the Association receiving $130 million in Class B assessments, $9.36 million in estate distributions, refunding $4.02 million and funding $120.57 million in claims and expenses.
- The Association's cash position decreased $884.85 thousand or 24.34% to $2.75 million in 2017 from $3.64 million in 2016, primarily as a result of the purchase of US Treasuries, the receipt of distributions and the payment of claims.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Association is considered a governmental organization for accounting, financial reporting, and auditing purposes pursuant to definitions in Governmental Accounting Standards Board statements. Organizations other than public corporations and bodies corporate and politic are classified as governmental organizations if they have one or more of the following characteristics:

- Popular election of officers or appointment (or approval) of a controlling majority of the members of the organization's governing body by officials of one or more state or local governments;
- The potential for unilateral dissolution by a government with the net assets reverting to the government; or
- The power to enact and enforce a tax levy.

The Association's entire governing body (Board of Directors) is appointed by the Commissioner of Insurance for the State of Texas. Therefore, the Association exhibits one of the characteristics and is considered to be a governmental organization for accounting, financial reporting and auditing purposes.

The Association's financial report consists of three parts – *management's discussion and analysis* (this section), *independent auditors' report,* and *basic financial statements.* The basic financial statements for the Association are presented on the basis of an enterprise fund as defined by the Governmental Accounting Standards Board and as such, funds of the Association are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when the liability is incurred regardless of the timing of the related cash flow. The basic financial statements include:

- Statement of Net Position: This statement includes all of the Association's assets and liabilities. The difference between the Association's assets and liabilities is its net position. The net position is presented in two components – invested in capital assets, net of any debt and unrestricted.

- Statement of Revenues, Expenses and Changes in Net Position: This statement measures the results of the Association's operations and reports all of the Association's revenues and expenses.

- Statement of Cash Flows: This statement supplements the Statement of Net Position and Statements of Revenues, Expenses and Changes in Net Position by providing relevant information about cash receipts and payments of the Association.

- Notes to the Financial Statements: The notes are an integral part of the basic financial statements and present information essential for the fair presentation of the financial statements that is not displayed on the face of the financial statements.

FINANCIAL ANALYSIS OF THE ASSOCIATION

Table 1
Net Position
(In thousands of dollars)

	2017		2016		2015	
	Amount	Percent	Amount	Percent	Amount	Percent
Current assets	$ 50,049	99.2%	$ 45,837	96.9%	$ 43,348	89.9%
Noncurrent assets	425	.8%	1,486	3.1%	4,858	10.1%
Total assets	50,474	100.0%	47,323	100.0%	48,206	100.0%
Current liabilities	5,087	58.3%	7,387	57.4%	8,245	50.5%
Noncurrent liabilities	3,637	41.7%	5,480	42.6%	8,090	49.5%
Total liabilities	8,724	100.0%	12,867	100.0%	16,335	100.0%
Net position						
Unrestricted	41,712	99.9%	34,391	99.8%	31,784	99.7%
Invested in capital assets	38	0.1%	65	0.2%	87	0.3%
Total net position	$ 41,750	100.0%	$ 34,456	100.0%	$ 31,871	100.0%
Unrestricted						
Association's continuing administration expenses	$ 1,019		$ 2,444		$ 1,442	
Insolvent estates	40,693		31,947		30,342	
	$ 41,712		$ 34,391		$ 31,784	

Current assets: Cash and cash equivalents which include cash on deposit, money market funds, and United States Treasury Bills with original maturities of three months or less make up 5%, 8% and 5% of the current assets of the Association in 2017, 2016 and 2015, respectively.

Investments, which include United States Treasury securities with original maturities of greater than three months, at year end were (in millions) $35.3, $42.0, and $40.9 in 2017, 2016, and 2015, respectively.

Proofs of claim are filed by the Association against individual receivership estates to recover claims handling, claims and administrative expenses incurred by the Association. These proofs of claim may be amended and updates are filed periodically as additional costs are incurred and paid by the Association. The proofs of claim are recorded as receivables, net of allowances which serve to estimate the ultimate collectability of the claim from the receivership estate. Proofs of claim, net of collectability allowances, were \$ 867.8 thousand, \$ 0 and \$ 0 at year end 2017, 2016 and 2015 respectively.

Noncurrent assets: The Association has statutory authority to assess its member insurers as necessary to provide funds to meet contractual obligations related to each insolvent company for which the Association has been activated. Unbilled assessments are recorded in the financial statements for each individual insolvent company in an amount sufficient to eliminate any deficit (negative) net position that may arise with the recognition of all assets and liabilities pertaining to the insolvent insurer. Unbilled assessments at year end 2017, 2016 and 2015 were \$387.3 thousand, \$1.4 million and \$4.8 million, respectively.

Capital assets consisting of furniture and equipment reported net of accumulated depreciation make up the remaining balance of noncurrent assets.

Liabilities: 44.2%, 44.8% and 52.3% of the total obligations for the years ending December 31, 2017, 2016 and 2015, respectively, are the estimated contractual obligations for all impaired or court ordered insolvent companies for which the Association was activated. The obligation amounts reflect the estimated amount of future cash payments and are adjusted periodically to reflect more accurate and current projections of cost for existing and new insolvencies. Obligations are included in the liabilities as current and noncurrent. At December 31, 2017, 2016 and 2015 financial statements insurance contractual obligations were recorded as follows:

Table 2
Insurance Contractual Obligations

	2017	2016	2015
Current insurance contractual obligations	\$ 223,524	\$ 287,444	\$ 450,235
Noncurrent insurance contractual obligations	3,636,533	5,480,817	8,090,012
Total contractual obligations	\$ 3,860,057	\$ 5,768,261	\$ 8,540,247

The decrease in obligations in 2017 was primarily due to the assumption of the Lincoln Memorial Life Insurance Company policies. In 2016, the decrease in obligations was primarily a result of claims paid in 2016 and the recalculation of the future obligations estimate of the Executive Life Insurance Company estate. In 2015, the decrease was primarily due to the payment of claim obligations.

The Association has historically credit refunded excess insolvency-specific funds to member insurers. On occasions where the credit refund exceeds the amount of the assessment levied against a member insurer, the remaining credit due to a member insurer, is reflected in the financial statements as a liability ("Assessment Credit Balance"). This excess is either held by the Association to offset future assessments or is refunded to member insurers and/or the State of Texas pursuant to law. As of December 31, 2017, 2016 and 2015, the remaining credit balances were \$4.46 million, \$6.56 million and \$7.12 million, respectively.

The balance of current liabilities consists of accounts payable and accrued expenses incurred in the normal course of operations.

Net position: The net position of the Association is separated into two categories: Invested in Capital Assets and Unrestricted, as detailed in Note 10 to the Financial Statements. The unrestricted category is further allocated into the net position for: Association's continuing administrative expenses and insolvent companies. Excess insolvent company specific net assets may be refunded to member insurers or a reasonable amount may be retained to provide funds for the continuing expenses of the Association.

Table 3
Results of Operations – Change in Net Position

	2017	2016	2015
Revenues:			
Billed assessments	$ 130,000,008	$ 1,999,960	$ -
Change in unbilled Assessments	(1,033,453)	(3,351,046)	253,309
Estate recoveries	9,359,808	3,093,981	23,065,336
Change in proofs of claim, net of allowance	867,826	-	-
Premiums	72,120	92,366	93,110
Total operating revenues	139,266,309	1,835,261	23,411,755
Expenses			
Change in insurance contractual obligations	7,444,970	(2,771,986)	146,467
Cost of claims obligations	118,467,659	352,630	401,978
Refund of prior year assessments	4,015,789	-	-
National task forces	693,756	835,837	2,857,290
Administration costs	1,404,867	1,299,937	1,294,671
Total operating expenses	132,027,041	(283,582)	4,700,406
Operating (loss) income	7,239,268	2,118,843	18,711,349
Net nonoperating revenues	54,796	466,084	18,345
Change in net position	7,294,064	2,584,927	18,729,694
Net position, beginning of year	34,455,747	31,870,820	13,141,126
Net position, end of year	$ 41,749,811	$ 34,455,747	$ 31,870,820
% change in net position from prior year	21.17%	8.11%	142.53%

In 2017, the net position increased by $7,294,064 or 21.17%. "Change in net position" was affected by the net results in administration operation, $(1,172,726) and estate operations, $8,466,790 as shown in Table 4**.** Most of the change in net assets is a result of the receipt of $9.4 million in estate distributions and the $4.0 million refund.

The amount by which the net assets of individual estates exceed the amount necessary to carry out the obligations of the Association, including assets accruing from net realized gains and income from investments, may, by an equitable method, be refunded to member insurers. The Association's Board of Directors did approve a $4.0 million refund in 2017 but did not approve one in 2016 or 2015.

Table 4
2017 Change in Net Position by Estates and Administration

	Estates	Administration	Total
Revenues:			
Assessments	$ 130,000,008	-	$ 130,000,008
Estate recoveries	9,359,808	-	9,359,808
Change in proof of claim, net of allowance	867,826	-	867,836
Premiums	72,120	-	72,120
Change in unbilled assessments	(1,033,453)	-	(1,033,453)
Total revenues	139,266,309	-	139,266,309
Expenses:			
Administration	983,103	1,115,520	2,098,623
Refund of prior year assessment	4,015,789	-	4,015,789
Claims cost	118,467,659	-	118,467,659
Change in insurance contractual obligation	7,444,970	-	7,444,970
Total expenses	130,911,521	1,115,520	132,027,041
Operating (loss) income	8,354,788	(1,115,520)	7,239,268
Interest income (net of interest expense)	163,270	63,054	226,324
Unrealized/realized gain on investments	(51,268)	(120,260)	(171,528)
Increase (decrease) in net position	$ 8,466,790	(1,172,726)	$ 7,294,064

CURRENT KNOWN FACTS, DECISIONS OR CONDITIONS

The Association along with six other guaranty associations, the National Organization of Life and Health Insurance Guaranty Associations representing the other affected guaranty associations and the Special Deputy Receiver of Lincoln Memorial Life Insurance Company, Memorial Service Life Insurance Company and National Prearranged Services, Inc., as plaintiffs, filed a civil suit in 2009 to recover assets in connection with the insolvency of Lincoln Memorial Life Insurance Company, Memorial Service Life Insurance Company and National Prearranged Services, Inc. Although most defendants settled before trial, the plaintiffs prevailed in a jury trial in 2015, and the defendant PNC Bank appealed the final judgment of almost $390 million to the 8th Circuit Court of Appeals. The plaintiffs cross-appealed and oral arguments were held in September, 2016.

On August 17, 2017, the 8th Circuit issued its opinion holding that the case should have been tried as a breach of trust case to the court rather than a tort case to the jury, reversing the damage award, and remanding the case to the district court for further proceedings. A trial to the court is set for November 28, 2018.

The future Penn Treaty Network America Insurance Company ("Penn Treaty") and American Network Insurance Company ("American Network") coverage obligations to Texas resident policyholders for which the Association became statutorily obligated to protect was calculated through an actuarial model to be approximately $202.03 million on an aggregate basis. After discounting at a 4.25% interest rate as of March 1, 2017 (the Liquidation Date), the present value of these coverage obligations totaled approximately a $137.01 million. The Association, and forty-three other guaranty associations, participated in the formation of LTC Reinsurance PCC ("LTC Re"), a captive insurance company, and then 100% coinsured their obligations to LTC Re. The coinsurance agreements with LTC Re required payments from each of the ceding guaranty associations equal to 90% of the discounted liability through a 20% cash payment within 90 days after the Liquidation Date, and the remaining 70% through promissory notes with up to five equal annual installments plus interest at 4.25%. In May 2017, the Association made the 20% cash payments for both companies totaling $27,402,654 and executed two promissory notes with LTC Re with face amounts totaling $95,909,289.

The Commonwealth Court of Pennsylvania approved the use of a portion of the Penn Treaty and American Network estate assets to continue funding the guaranty associations' ongoing claims obligations and administration expenses as early access distributions to the guaranty associations. This relieved LTC Re of monthly funding obligations under the Interim Services Agreement with the Receiver for a period of time. LTC Re notified the Association that these early access payments would reduce the principal and interest obligations under the notes the Association issued to LTC Re. The Association paid off both promissory notes with LTC Re on December 15, 2017 with payments totaling approximately $89,646,994. The note payoff amounts reflected the deduction of approximately $9,353,174 of early access funding credits as of the December 15, 2017 pay-off date. There was no penalty for the prepayment of the notes in full. With the payoff of the notes, the Association has no amounts currently owing to LTC Re.

The Association will continue to monitor the multiple decade runoff administration of its Penn Treaty and American Network obligations to determine whether any additional funding will be required for the 10% of the discounted obligations amount that was not required in the initial funding to LTC Re or whether additional funding is otherwise required under the coinsurance agreements. The need for additional funding will be impacted by the actual experience of the block of business when compared to the assumptions in the actuarial model, the Association's share of the investment returns realized by LTC Re, the ultimate allocation and distribution of Penn Treaty and American Network assets, and the financial impact of any premium rate increases that may be approved and implemented. The Association's exposure for additional funding, if any, may not be known for several decades.

As a result of the $130 million Class B Assessment that was distributed on October 13, 2017, the Association received six protests, representing twenty-eight member insurance companies. These twenty-eight member insurance companies' assessments amounted to $48,812,701. All the involved companies paid their assessments as required by statute. Agreements have been executed with respect to five of the six protests in which the Association and the protesting member insurance company mutually requested the Commissioner of Insurance stay taking any action while the parties discussed the basis of the protests. The Association continues to be in discussion with the companies. While the outcome of the protests cannot be predicted with certainty, management believes that any liabilities that may result from these proceedings will not have a material adverse effect on the Association's liquidity, financial position or results of operations.

CONTACTING THE ASSOCIATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Association's finances. If you have questions about this report or need additional financial information, please contact the Association's Executive Director at 515 Congress Ave., Suite 1875, Austin, Texas 78701 or call (512) 476-5101.

TEXAS LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION

Statements of Net Position

December 31, 2017 and 2016

		2017	2016
Assets			
Current assets:			
Cash and cash equivalents	$	2,750,901	3,635,749
Investments		35,262,207	41,960,205
Receivables:			
Billed assessments, net of allowance of $1,384,169 and $701,903 at December 31, 2017 and 2016		11,036,418	70,663
Other receivables		12,210	12,271
Accrued interest		119,196	158,117
Proofs of claim, net of allowance of $594,119,690 and $485,572,663 at December 31, 2017 and 2016		867,826	0
Total current assets		50,048,758	45,837,005
Noncurrent assets:			
Unbilled assessments		387,309	1,420,762
Capital assets, net		37,677	65,296
Total noncurrent assets		424,986	1,486,058
Total assets	$	50,473,744	47,323,063
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$	6,027	8,748
Accrued expenses		398,972	535,218
Assessment credit balance		4,458,877	6,555,089
Insurance contractual obligations, current portion		223,524	287,444
Total current liabilities		5,087,400	7,386,499
Noncurrent liabilities:			
Insurance contractual obligations, less current portion		3,636,533	5,480,817
Total liabilities		8,723,933	12,867,316
Net position:			
Unrestricted		41,712,134	34,390,451
Invested in capital assets		37,677	65,296
Total net position		41,749,811	34,455,747
Total liabilities and net position	$	50,473,744	47,323,063

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

TEXAS LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION

Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2017 and 2016

		2017	2016
Operating revenues:			
Membership assessments:			
Billed assessments	$	130,000,008	1,999,960
Change in unbilled assessments		(1,033,453)	(3,351,046)
Net membership assessments		128,966,555	(1,351,086)
Estate recoveries		9,359,808	3,093,981
Change in proofs of claim, net of allowance		867,826	-
Premiums		72,120	92,366
Total operating revenues		139,266,309	1,835,261
Operating expenses:			
Claims:			
Claims paid		301,883	228,224
Claims refund		-	-
Net Claims		301,883	228,224
Change in insurance contractual obligations		7,444,970	(2,771,986)
Refund of prior years' assessments		4,015,789	-
Reinsurance agreements		118,145,619	103,093
Third-party administrators		20,157	21,313
National task forces		693,756	835,837
Total claims		130,622,174	(1,583,519)
Administrative costs:			
Legal and professional		184,005	160,116
Salaries and benefit costs		568,219	569,067
Building and equipment lease costs		270,377	194,804
Depreciation		29,395	37,241
National organization dues and meetings		115,400	121,851
Other		237,471	216,833
Total administrative costs		1,404,867	1,299,912
Total operating expenses		132,027,041	(283,607)
Operating income (loss)		7,239,268	2,118,868
Nonoperating revenues:			
Interest income (net of interest expense)		226,324	524,135
Unrealized gain / loss investments		(173,711)	(58,076)
Gain/Loss on disposal of asset		2,183	-
Net nonoperating revenues		54,796	466,059
Change in net position		7,294,064	2,584,927
Net position, beginning of year		34,455,747	31,870,820
Net position, end of year	$	41,749,811	34,455,747

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

TEXAS LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION
Statements of Cash Flow
For the Years Ended December 31, 2017 and 2016

		2017	2016
Cash flows from operating activities:			
Receipts from assessments	$	112,921,504	1,448,271
Receipts from estate recoveries		6,634	3,093,981
Receipts from premiums		72,120	92,366
Receipts from other sources		-	25
Payments for reinsurance agreements		(118,145,619)	(103,093)
Payments for direct claims		(301,883)	(226,067)
Payments to suppliers for goods and services		(1,655,625)	(1,699,406)
Payments to employees		(571,917)	(567,481)
Net cash (used in) provided by operating activities		(7,674,786)	2,038,596
Cash flows from capital and related financing activities:			
Purchase of capital assets		(1,776)	(15,888)
Net cash used in capital and related financing activities		(1,776)	(15,888)
Cash flows from investing activities:			
Purchase of US Treasuries		(20,021,712)	(5,427,026)
Receipt of US Treasuries		26,548,188	4,350,000
Receipt of interest on investments		265,238	419,840
Net cash (used in) provided by investing activities		6,791,714	(657,186)
Net increase (decrease) in cash and cash equivalents		(884,848)	1,365,522
Cash and cash equivalents, beginning of year		3,635,749	2,270,227
Cash and cash equivalents, end of year	$	2,750,901	3,635,749

Reconciliation of operating income (loss) to net cash used by operating activities:

		2017	2016
Operating income (loss)	$	7,239,268	2,118,868
Adjustment to reconcile operating income (loss) to net cash (used in) provided by operating activities:			
Depreciation expense		29,395	37,241
Unbilled assessments		1,033,453	3,351,046
Effect of Change in assets and liabilities:			
Billed assessments receivable, net of allowance		(10,965,755)	(749)
Other receivables		61	280
Proofs of claim, net of allowance		(867,826)	-
Accounts payable		(2,721)	4,087
Accrued expenses		(136,246)	(149,251)
Assessment credit balance		(2,096,212)	(550,940)
Insurance contractual obligations		(1,908,204)	(2,771,986)
Net cash (used in) provided by operating activities	$	(7,674,786)	2,038,596

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

1. Nature of Operations and Reporting Entity

The Texas Life and Health Insurance Guaranty Association ("Association") was created by the Texas legislature with the adoption of the Texas Life, Accident, Health and Hospital Service Insurance Guaranty Act ("Act") in 1973. The Association's operations were privatized by the Texas Legislature in 1992. The Association was created as a not-for-profit legal entity to protect, subject to certain limitations, persons specified in the Act against failure in the performance of contractual obligations under life insurance policies, accident and health insurance policies and annuity contracts, because of the impairment or insolvency of the member insurer who issued the policies or contracts. To provide this protection, this association of insurers was created to pay benefits and to continue coverage as limited in the Act.

Membership in the Association is mandatory for any insurance company authorized in Texas to transact any kind of insurance business to which the Act applies. Membership assessments are made by the Board of Directors of the Association based on estimates of amounts necessary to provide funds to carry out the purposes of the Act with respect to impaired insurers. Any amount in excess of the amounts necessary to carry out the statutory obligations and continuing expenses of the Association may be refunded by an equitable method at the discretion of the Board of Directors or retained to provide funds for the continuing expenses of the Association.

Pursuant to the Act, the Association is governed by a nine-member Board of Directors appointed by the Texas Commissioner of Insurance. Five Directors must be chosen from member companies, three from the fifty member companies having the largest total direct premium income and two from other member companies. Four of the Directors must be representatives of the general public. Board members serve six-year terms and are eligible to succeed themselves in office through reappointment.

The Association is considered to be a primary government entity according to the definition in Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity,* as amended. No component units were identified for which the Association is considered financially accountable under GASB Statement No. 14, as amended.

The Association is reported as a special-purpose government entity engaged in business-type activities. The significant accounting policies followed by the Association in preparing these financial statements basically conform to generally accepted accounting principles applicable to government units. The Association has adopted all applicable GASB pronouncements.

2. Summary of Significant Accounting Policies

(a) Basis of Accounting

The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting, except for premium income, which is recognized when collected because of the immaterial amount of premiums to be accrued. Consequently, revenue is recognized when earned and expenses are recognized when the obligations are incurred. Operating revenues and expenses generally result from providing services in connection with the Association's principal ongoing operations, as described in Note 1. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Assessment revenue (billed and unbilled) is recognized when insurance contractual obligations are incurred. Claim liabilities are recognized using estimates of contractual obligations for each impaired insurer at the date of impairment or issuance of an order of liquidation based on a finding of insolvency by a court of competent jurisdiction. Projected claim liabilities are reviewed and revised periodically as information related to the obligations of the individual insolvent member companies is obtained.

(b) Tax Exempt Status

The Association is exempt from federal income taxes under Section 501(c)(6) of the Internal Revenue Code. The Association is also exempt from payment of all fees and taxes levied by the state of Texas or any of its subdivisions, except taxes levied on real and personal property.

(c) Cash Equivalents

For purposes of the statements of cash flows, the Association considers all highly liquid investments with original maturities, at the time of acquisition, of three months or less to be cash equivalents.

(d) Investments

All investments of the Association shall meet the following objectives: (1) maximum safety of funds invested and preservation of principal, (2) maintain sufficient liquidity to meet the Association's anticipated cash flow needs, and (3) achieve the highest possible yield. Funds of the Association may be invested in bonds, notes or securities or other evidences of indebtedness of the United States that are supported by the full faith and credit of the United States or that are guaranteed as to principal and interest by the United States. With unanimous Board approval, funds may be invested and reinvested in the following: letters of credit of the United States; the Certificate of Deposit Account Registry Service ("CDARS") program if the full amount of each certificate of deposit is guaranteed or insured by the FDIC or its successor; obligations, including letters of credit, of agencies or instrumentalities of the United States; other obligations if the principal and interest are unconditionally guaranteed or insured by, or backed by the full faith and credit of the United States or its agencies or instrumentalities; and certificates of deposit and share certificates if each certificate is issued by a depository institution that is located in the State of Texas, is guaranteed or insured by the Federal Deposit Insurance Corporation (or its successor) or the National Credit Union Share Insurance Fund (or its successor), and is secured by the obligations permitted in the Association's investment policy. Permitted investments may be made directly or through mutual funds, so long as all assets of the mutual fund meet the requirements for a permitted investment. Purchases of investment securities are made with the intent to hold such securities to maturity. Investments are recorded at fair value and marked to market at the end of each reporting period.

(e) Fair Value Measurement and Application

The Association has adopted GASB No. 72, Fair Value Measurement and Application as of January 1, 2016. GASB No. 72 applies to all assets and liabilities that are measured and reported on a fair value basis. It establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosure about fair value measurements. GASB No. 72 enables the reader to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values and requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market based inputs or unobservable inputs corroborated by market data

Level 3: Unobservable inputs that are not corroborated by market data

The impact of adopting GASB No. 72 is reflected in Note 4 of the financial statements.

(f) Allowances for Uncollectible Proofs of Claim Receivable

Allowances for uncollectible proofs of claim are estate specific. The allowance for each estate is based on evaluations of estate financial statements and records, reports from estate receivers and information from other third parties.

Uncollected proofs of claim are closed by the Board of Directors only after an estate is closed in both the domestic and ancillary state and there is no reasonable expectation that any additional funds will be recovered from the estate or other third parties.

(g) Furniture and Equipment

Furniture and equipment are stated at cost. The Association capitalizes furniture and equipment with estimated useful lives greater than one year and an acquisition cost greater than $500. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which is generally five years.

(h) Premium Revenue

Premiums received from a policyholder for coverage after an order of receivership is entered belong to the Association. Premiums revenue is recognized as the premiums are received by the Association, both for direct bill and premiums collected by third party agents.

(i) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

(j) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Association did not have any items that qualified for reporting in this category as of December 31, 2017. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Association did not have any items that were required to be reported in this category as of December 31, 2017.

(k) Net Position

The government-wide statements utilize a net position presentation categorized as follows:

- Net investment in capital assets — This category reflects the portion of net position that is associated with capital assets less depreciation and outstanding capital asset related debt.

- Restricted net position — Net position is reported as restricted when constraints placed on net position used are imposed by law through constitutional provisions or enabling legislation.

- Unrestricted net position — This category reflects net position of the Association not restricted for any project or other purpose. The net position reflected in the financial statements of the Association are deemed to be unrestricted. Any estate-specific net position may be refunded to member insurers or a reasonable amount may be retained to provide funds for the continuing expenses of the Association.

3. Deposits and Investments

The Association's deposits and investments as of December 31, 2017 and 2016 are as follows:

	Fair value 2017	Fair value 2016
Cash and cash equivalents		
Cash on deposit	$ (123,791)	$ 191,963
Money market mutual funds	2,874,692	3,443,786
Total cash and cash equivalents	$ 2,750,901	$ 3,635,749
Investments		
Bonds – US Treasury Debt	$ 35,262,207	$ 41,960,205

Custodial Risk. Cash and cash equivalents consist of bank demand deposits and money market investment accounts. The Association's amount of bank demand deposits accounts at December 31, 2017 and 2016, respectively, was $204,089 and $196,861. The Association manages its cash and cash equivalent balances to not exceed the $250,000 FDIC protection.

Credit Risk. Money market investments at December 31, 2017 and 2016 were $2,874,692 and $3,443,786, respectively. These mutual fund portfolios are comprised of U.S. government obligations backed by the full faith and credit of the United States. These mutual fund investments are not insured by the Federal Deposit Insurance Corporation nor are they a deposit of, other obligation of or guaranteed by a bank or other depository institution. The Association has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Interest rate risk. The Association invested $35,604,514 in US Treasury debt, with a maturity value of $35,469,000. These securities had a market value of $35,262,207 as of December 31, 2017 and $41,960,205 as of December 31, 2016. The Association, upon the direction of its Board of Directors, adopted a laddered maturity schedule with all its investments. Each quarter, approximately $2,000,000 of US Treasuries will mature to either fund the Associations obligations or be reinvested. Due to this schedule, the Association purchased some longer-term interest paying US Treasuries rather than solely zero-coupon US T-bills. The Association recognizes the accrued interest on this debt as an asset.

As of December 31, 2017, the Association had the following US Treasury maturity schedule:

Maturity	Fair value 2017
2018	$ 7,968,594
2019	8,313,207
2020	7,971,237
2021	7,951,880
2022 and after	$ 3,057,289
Total	$ 35,262,207

4. Investments and Fair Value Measurements

The estimated fair values of the Association's short-term financial instruments, including receivables and payables arising in the ordinary course of operations, approximate their individual carrying amounts due to the relatively short period between their origination and expected realization.

The Association has the following recurring fair value measurements as of December 31, 2017 and 2016:

- US Treasury securities of $35.26 million and $41.96 million, respectively, are valued using quoted market prices (Level 1 inputs)

The tables below present the assets and liabilities measured at fair value on a recurring basis by level within the hierarchy:

		As of December 31, 2017			
Assets:		**Total**	**Level 1**	**Level 2**	**Level 3**
Investments:					
US Treasury Securities	$	35,262,207	35,262,207	-	-
Total Investments at Fair Value	$	35,262,207	35,262,207	-	-

		As of December 31, 2016			
Assets:		**Total**	**Level 1**	**Level 2**	**Level 3**
Investments:					
US Treasury Securities	$	41,960,205	41,960,205	-	-
Total Investments at Fair Value	$	41,960,205	41,960,205	-	-

5. Membership Assessments

The Association is authorized by the Texas Insurance Code, Annotated, Chapter 463.151 to assess member insurers in amounts necessary to pay both contractual claim obligations and administrative expenses of the Association. There are two classes of assessments: Class A, which may be levied to meet administrative general expenses not related to a specific insolvency, and Class B, which may be levied to meet the administrative expenses and contractual obligations associated with specific insolvent or impaired insurers.

The amount of Class A assessments is prorated to individual member insurers, taking into consideration annual premium receipts reflected in the annual statements for the year preceding the assessment year for individual member insurers. The Association levied its first Class A assessment since 1992 in 2016 for $2,000,000.

The amount of each Class B assessment allocated to a member insurer is its pro-rata share based on the proportion of its line-of-business premiums received (life, accident and health, and annuity) for the three most recent calendar years for which information is available preceding the year in which the insolvent insurer necessitating the assessment was designated as impaired or insolvent to the total premiums received on that same line of business by all member insurers in the same three year period.

The total of all assessments on a member insurer in a calendar year may not exceed two percent of the average annual premiums for the preceding three years.

Class B assessment revenue for 2017 and 2016 was $130,000,008 and $0 respectively. The Association authorized and called a $130,000,008 Class B assessment for Penn Treaty Network America and American Network Insurance Companies in 2017. There was no Class B assessment authorized or called in 2016.

The Association may refund to member insurers, in proportion to the contribution of each member insurer, the amount by which accumulated assets exceed the amount necessary to meet its obligations with regard to a particular insolvent insurance company. The Board of Directors did authorize a credit refund in the amount of $4,100,000 in 2017 but did not authorize a credit refund in 2016.

Billed assessments receivable as of December 31, 2017 and 2016 was $12,420,587 and $772,566, respectively. These unpaid assessments were levied in years 1991 through 2017. An allowance for uncollectible billed assessments has been recorded for $1,384,169 and $701,903 as of December 31, 2017 and December 31, 2016, respectively.

Unbilled assessments receivable of $387,309 and $1,420,762 at December 31, 2017 and 2016, respectively, represent the statutory ability of the Association to assess member insurers as required to meet its statutory obligations. This amount may be assessed in future periods as necessary to fund liabilities for insolvent member insurers.

6. Proofs of Claim

The Association files proofs of claim against individual receivership estates to recover claims, claims handling expenses and administrative expenses incurred by the Association related to the specific insolvent company. These proofs of claim may be amended as updates are filed periodically and additional costs are incurred and paid by the Association. At December 31, 2017 and 2016, proofs of claim receivable on open estates (before an allowance) were $594,987,516 and $485,572,663, respectively.

An allowance related to the collectability of proofs of claim is recorded based on management's estate specific evaluations of net assets held by the receiver and other potential recoveries. The amounts to be received by the Association in early access distributions or final distributions are often not readily determinable; therefore, recoveries due to the Association are necessarily estimates and subject to change as the estates are closed. Based on the Association's estate-specific review, the allowances for uncollectible proofs of claim as of December 31, 2017 and 2016 were $594,119,690 and $485,572,663, respectively.

7. Capital Assets

Capital asset activity for the years ended December 31, 2017 and 2016 was as follows:

	Beginning of Year	Additions	Retirements	End of Year
2017:				
Capital assets, being depreciated:				
Furniture and equipment	$ 333,585	1,776	-	$ 335,361
Less: accumulated depreciation	268,289	29,395	-	297,684
	$ 65,296			$ 37,677
2016:				
Capital assets, being depreciated:				
Furniture and equipment	$ 317,697	15,888	-	$ 333,585
Less: accumulated depreciation	231,048	37,241	-	268,289
	$ 86,649			$ 65,296

Depreciation expense for 2017 and 2016 was $29,395 and $37,241, respectively.

8. Interaccount Loans and Borrowings

The Board of Directors of the Association adopted a resolution that allows for short-term loans from one insolvency to another insolvency. Interest is paid by the borrowing insolvency to the insolvency making the short-term loan at a rate which approximates that earned on short-term government securities. For the years ended December 31, 2017 and 2016, the following transactions occurred, which are not reflected in the financial statements since they do not relate to activities of the Association:

	Beginning of Year	Additions	Repayments	End of Year
2017:				
Interaccount loans	$ 265,676	27,402,654	(27,402,654)	$ 265,676
Interaccount borrowings	$ (265,676)	(27,402,654)	27,402,654	$ (265,676)
2016:				
Interaccount loans	$ 1,175,676	-	910,000	$ 265,676
Interaccount borrowings	$ (1,175,676)	-	(910,000)	$ (265,676)

Interest of $147,799 and $3,773 was charged on these loans for the years ended December 31, 2017 and 2016, respectively. The interest expense was charged to the individual borrowing insolvencies and is netted against interest income on the Association's financial statements.

9. Insurance Contractual Obligations

The liability for insurance contractual obligations is management's estimated amount of future cash payments for all impaired or insolvent companies. The amounts are necessarily based on estimates and the ultimate liability may vary significantly from the estimate. In addition, the liability is based on information supplied principally by third parties such as receivers, third-party administrators and insolvency task force consultants. As of December 31, 2017, and 2016, activity in the insurance contractual obligations was as follows:

	Beginning of Year	Net Change	End of Year	Current Portion
Year ended December 31, 2017	$5,768,261	(1,908,204)	$3,860,057	$223,524
Year ended December 31, 2016	$8,540,247	(2,771,986)	$5,768,261	$287,444

Four open estates comprised approximately 99.49% and 99.66% of the insurance contractual obligations at December 31, 2017 and December 31, 2016, respectively. The obligations related to the Executive Life estate are based on the estimated amount the Association will pay for obligations to provide additional benefits under certain contracts not included in the defeasance payment the Association made in May 2012. The obligations of Lincoln Memorial Life Insurance Company is based on the estimated remaining death claims attributable to Texas. The obligations of National States Insurance Company and Universal Life Insurance Company are based on reserve calculations.

Revisions to estimates of the insurance contractual obligations are reflected in the statements of revenues, expenses and changes in net assets as "changes in insurance contractual obligations."

10. Net Position

As of December 31, 2017, and 2016, the net position reflected in the financial statements of the Association consisted of the following:

	2017	2016
Unrestricted net position:		
Insolvent estate assets allocated to pay the ongoing claims and expenses of specific insolvencies	$ 40,692,610	$ 31,946,476
Association operational assets	1,019,524	2,443,975
	41,712,134	34,390,451
Invested in capital assets	37,677	65,296
Total net position	$ 41,749,811	$ 34,455,747

11. Operating Leases

The Association leases its office facility under a non-cancelable operating lease that expires in May 2021. The Association also has two noncancelable operating leases for equipment and machinery that expires during the next three years. Lease expense charged to operations for the year ended December 31, 2017 and 2016 amounted to $270,377 and $194,804, respectively.

Future annual minimum lease payments under noncancelable operating leases for each of the next four years subsequent to December 31, 2017 are as follows:

2018	$	271,940
2019		274,979
2020		274,087
2021		116,479
Totals	$	937,485

12. Employee Benefit Plan

The Association sponsors a safe harbor defined contribution retirement plan, TLHIGA 401(k) Plan ("the Plan"), covering substantially all of its employees. Employees are generally eligible to participate in the Plan after completing six months of service and attaining the age of 21. Employees may contribute to the Plan through elective deferrals of salary up to an annual maximum as set by law. Further, the Association contributes 3% of each employee's salary irrespective of the employee's participation, and may make a safe harbor matching contribution equal to 50% of employee-elective deferrals of salary that do not exceed 6% of annual compensation, in order to maintain safe harbor status. The Association may also make additional employer matching contributions and discretionary profit-sharing contributions as determined annually.

Employees become fully vested in the Plan after completing five years of service. Provisions of the Plan and contribution requirements may be amended at any time by the Plan administrator.

Contributions to the Plan for 2017 by the Association totaled $29,931. Contributions to the Plan for 2016 by the Association totaled $29,622.

13. Related Party Transactions

The Association will, from time to time, enter into transactions with an entity of which a Director may have an interest. These transactions are conducted at arms-length, typically through brokers or agents and the affected Director is recused from any decision concerning the transaction. Management reviews each transaction and has determined no conflicts were present in 2017.

14. Risk Management

The Association carries commercial insurance as protection from exposure to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. There were no significant reductions in insurance and no insurance claims were filed during 2017 or2016 or 2015.

15. Commitments and Contingencies

The future Penn Treaty Network America Insurance Company ("Penn Treaty") and American Network Insurance Company ("American Network") coverage obligations to Texas resident policyholders for which the Association became statutorily obligated to protect was calculated through an actuarial model to be approximately $202.03 million on an aggregate basis. After discounting at a 4.25% interest rate as of March 1, 2017 (the Liquidation Date), the present value of these coverage obligations totaled approximately a $137.01 million. The Association, and forty-three other guaranty associations, participated in the formation of LTC Reinsurance PCC ("LTC Re"), a captive insurance company, and then 100% coinsured their obligations to LTC Re. The coinsurance agreements with LTC Re required payments from each of the ceding guaranty associations equal to 90% of the discounted liability through a 20% cash payment within 90 days after the Liquidation Date, and the remaining 70% through promissory notes with up to five equal annual installments plus interest at 4.25%. In May 2017, the Association made the 20% cash payments for both companies totaling $27,402,654 and executed two promissory notes with LTC Re with face amounts totaling $95,909,289.

The Commonwealth Court of Pennsylvania approved the use of a portion of the Penn Treaty and American Network estate assets to continue funding the guaranty associations' ongoing claims obligations and administration expenses as early access distributions to the guaranty associations. This relieved LTC Re of monthly funding obligations under the Interim Services Agreement with the Receiver for a period of time. LTC Re notified the Association that these early access payments would reduce the principal and interest obligations under the notes the Association issued to LTC Re. The Association paid off both promissory notes with LTC Re on December 15, 2017 with payments totaling approximately $89,646,994. The note payoff amounts reflected the deduction of approximately $9,353,174 of early access funding credits as of the December 15, 2017 pay-off date. There was no penalty for the prepayment of the notes in full. With the payoff of the notes, the Association has no amounts currently owing to LTC Re.

The Association will continue to monitor the multiple decade runoff administration of its Penn Treaty and American Network obligations to determine whether any additional funding will be required for the 10% of the discounted obligations amount that was not required in the initial funding to LTC Re or whether additional funding is otherwise required under the coinsurance agreements. The need for additional funding will be impacted by the actual experience of the block of business when compared to the assumptions in the actuarial model, the Association's share of the investment returns realized by LTC Re, the ultimate allocation and distribution of Penn Treaty and American Network assets, and the financial impact of any premium rate increases that may be approved and implemented. The Association's exposure for additional funding, if any, may not be known for several decades.

As a result of the $130 million Class B Assessment that was distributed on October 13, 2017, the Association received six protests, representing twenty-eight member insurance companies. These twenty-eight member insurance companies' assessments amounted to $48,812,701. All the involved companies paid their assessments as required by statute. Agreements have been executed with respect to five of the six protests in which the Association and the protesting member insurance company mutually requested the Commissioner of Insurance stay taking any action while the parties discussed the basis of the protests. The Association continues to be in discussion with the companies. While the outcome of the protests cannot be predicted with certainty, management believes that any liabilities that may result from these proceedings will not have a material adverse effect on the Association's liquidity, financial position or results of operations.

The Association along with six other guaranty associations, the National Organization of Life and Health Insurance Guaranty Associations representing the other affected guaranty associations, the Special Deputy Receiver of Lincoln Memorial Life Insurance Company, Memorial Service Life Insurance Company and National Prearranged Services, Inc., as plaintiffs, filed a civil suit in 2009 to recover assets in connection with the insolvency of Lincoln Memorial Life Insurance Company, Memorial Service Life Insurance Company and National Prearranged Services, Inc. Although most defendants settled before trial, the plaintiffs prevailed in a jury trial in 2015, and the defendant PNC Bank appealed the final judgment of almost $390 million to the 8th Circuit Court of Appeals. The plaintiffs cross-appealed and oral arguments were held in September, 2016.

On August 17, 2017, the 8th Circuit issued its opinion holding that the case should have been tried as a breach of trust case to the court rather than a tort case to the jury, reversing the damage award, and remanding the case to the district court for further proceedings. A trial to the court is set for November 28, 2018.

A liquidator or special deputy receiver for the estate of an insolvent insurer may, as assets become available, make disbursements out of marshaled assets to a guaranty association(s) having claims against the estate of the insolvent insurer prior to a distribution to other creditors or the closing of the estate. The liquidator or special deputy receiver prior to such disbursement shall also secure from each guaranty association entitled to disbursements an agreement to return to the liquidator upon request and with court approval such assets, together with income on assets previously disbursed as may be required. As of December 31, 2017, the Association has received approximately $210.3 million, since its inception, that remain subject to such agreements.

The Association, by its nature, is subject to various ongoing claims by insurance companies, policyholders, receiverships and creditors of the receiverships. Some of these claims are in the form of litigation against the Association. It is the opinion of management that any losses which may be sustained would not be material to the Association and, in all foreseeable instances, the Association would have the statutory authority to assess member insurance companies for any losses sustained.

16. Subsequent Events

Subsequent to the year-end, the Association entered into an Executive Employment and Deferred Compensation Contract (Contract) with the Executive Director. This agreement is effective January 1, 2018 and covers nine years. The Contract defines the annual base salary as well as annual increases. In addition, the Contract provides for the establishment of a 457(b) plan and Longevity Incentive Payments for the Executive Director and the related Association contribution based on certain milestones being met.

NOTES

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