American Family Mutual Insurance Company, S.I. and Consolidated Property & Casualty Subsidiaries

Consolidated Property & Casualty Statutory Financial Statements and Supplemental Information
December 31, 2017 and 2016

American Family Mutual Insurance Company, S.I. and Consolidated Property & Casualty Subsidiaries
Contents
December 31, 2017 and 2016

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Report of Independent Auditors

To the Board of Directors of American Family Mutual Insurance Company, S.I.:

We have audited the accompanying consolidated statutory financial statements of American Family Mutual Insurance Company, S.I. and its property & casualty subsidiaries, which comprise the consolidated statutory balance sheets as of December 31, 2017 and 2016, and the related consolidated statutory statements of income, of changes in policyholders' surplus, and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the accounting practices prescribed or permitted by the applicable domiciliary state insurance departments (including the Office of the Commissioner of Insurance of the State of Wisconsin, the Illinois Department of Insurance, the Department of Financial Services of the State of New York, the Texas Department of Insurance, the California Department of Insurance, and the State of Georgia Office of Insurance and Safety Fire Commissioner). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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 consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

As described in Note 1 to the financial statements, the consolidated financial statements are prepared by the Company on the basis of the accounting practices prescribed or permitted by the applicable domiciliary state insurance departments (including the Office of the Commissioner of Insurance of the State of Wisconsin, the Illinois Department of Insurance, the Department of Financial Services of the State of New York, the Texas Department of Insurance, the California Department of Insurance, and the State of Georgia Office of Insurance and Safety Fire Commissioner), which is a basis of accounting other than accounting principles generally accepted in the United States of America.

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The effects on the consolidated financial statements of the variances between the statutory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the consolidated financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2017 and 2016, or the results of its operations or its cash flows for the years then ended.

Opinion on Statutory Basis of Accounting

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and surplus of the Company as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended, in accordance with the accounting practices prescribed or permitted by the applicable domiciliary state insurance departments (including the Office of the Commissioner of Insurance of the State of Wisconsin, the Illinois Department of Insurance, the Department of Financial Services of the State of New York, the Texas Department of Insurance, the California Department of Insurance, and the State of Georgia Office of Insurance and Safety Fire Commissioner) described in Note 1.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2017, the Company made a change in reporting entity by including Permanent General Assurance Corporation, Permanent General Assurance Corporation of Ohio and General Automobile Insurance Company, Inc. within the consolidated financial statements. Our opinion is not modified with respect to this matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual companies.

PricewaterhouseCoopers LLP

February 23, 2018

American Family Mutual Insurance Company, S.I. and Consolidated Property & Casualty Subsidiaries

Consolidated Property & Casualty Statutory Balance Sheets

December 31, 2017 and 2016

(in thousands of dollars, except share amounts)

	2017	2016
Admitted Assets		
Bonds	$ 9,251,942	$ 8,796,923
Common stocks, including investments in unconsolidated subsidiaries	3,759,104	3,809,598
Mortgage loans	49,931	—
Real estate (net of accumulated depreciation of $261,346 and $245,908)	259,602	249,035
Cash, cash equivalents and short-term investments	343,549	437,769
Receivables for securities	16,951	95,682
Other invested assets	1,099,766	941,466
Total cash and invested assets	14,780,845	14,330,473
Property & casualty premiums receivable and agents' balances	1,768,345	1,389,317
Accrued investment income	94,430	87,515
Deferred tax assets	119,383	321,032
Income taxes receivable	162,332	—
Electronic data processing equipment and software (net)	13,431	15,399
Other assets	84,836	64,661
Total admitted assets	17,023,602	16,208,397
Liabilities		
Property & casualty loss and loss adjustment expense reserve	4,321,565	3,830,886
Property & casualty unearned premiums	3,491,334	3,076,547
Drafts outstanding	4,986	72,933
Agent contract termination payments	762,347	697,175
Employee pension and other benefits	336,491	355,331
Income taxes payable	—	25,339
Debt	632,331	502,204
Payable for securities	169,428	209,074
Accrued expenses and other liabilities	673,756	571,933
Total liabilities	10,392,238	9,341,422
Capital and Surplus		
Common stock ($1 par value; 3,000,000 shares authorized, issued and outstanding)	3,000	—
Special surplus funds	1,250	1,250
Unassigned surplus	6,627,114	6,865,725
Total capital and surplus	6,631,364	6,866,975
Total liabilities, capital and surplus	$ 17,023,602	$ 16,208,397

The accompanying notes are an integral part of these consolidated property & casualty statutory financial statements.

American Family Mutual Insurance Company, S.I. and Consolidated Property & Casualty Subsidiaries
Consolidated Property & Casualty Statutory Statements of Income
Years Ended December 31, 2017 and 2016
(in thousands of dollars)

	2017	2016
Premiums and other income		
Property & casualty premiums earned	$ 8,202,636	$ 7,069,017
Net investment income	323,166	287,396
Net realized investment gains (losses)	263,962	72,260
Other income (expenses)	63,983	(12,637)
Total premiums and other income	8,853,747	7,416,036
Losses and expenses		
Property & casualty losses and loss adjustment expenses incurred	6,331,392	4,816,739
Underwriting expenses	2,529,494	2,275,977
Dividends to policyholders	2,284	1,763
Total losses and expenses	8,863,170	7,094,479
Income (loss) before income tax expense (benefit)	(9,423)	321,557
Income tax expense (benefit)	(148,803)	97,358
Net income (loss)	$ 139,380	$ 224,199

The accompanying notes are an integral part of these consolidated property & casualty statutory financial statements.

American Family Mutual Insurance Company, S.I. and Consolidated Property & Casualty Subsidiaries

Consolidated Property & Casualty
Statutory Statements of Changes in Capital and Surplus
Years Ended December 31, 2017 and 2016

(in thousands of dollars)

	2017	2016
Common Stock		
Beginning balance	$ —	$ —
Common stock issuance through reorganization (see Note 1)	3,000	—
Ending balance	3,000	—
Special surplus funds	1,250	1,250
Unassigned surplus		
Beginning balance	6,865,725	6,501,840
Net income (loss)	139,380	224,199
Net change in unrealized capital gains (losses) of investments, net of deferred income tax	291,779	121,414
Change in nonadmitted assets	(9,795)	1,652
Change in net deferred income tax	(337,465)	22,861
Pension and contract termination payment adjustments	(50,037)	(9,151)
Distributions	(257,716)	—
Other	(14,757)	2,910
Ending balance	6,627,114	6,865,725
Total capital and surplus	$ 6,631,364	$ 6,866,975

American Family Mutual Insurance Company, S.I. and Consolidated Property & Casualty Subsidiaries
Consolidated Property & Casualty Statutory Statements of Cash Flows
Years Ended December 31, 2017 and 2016
(in thousands of dollars)

	2017	2016
Cash from Operations		
Premiums collected net of reinsurance	$ 7,941,330	$ 7,142,413
Net investment income	423,547	386,723
Miscellaneous income (expenses)	46,622	(14,441)
Benefit and loss related payments	(4,842,836)	(3,834,742)
Commissions, expenses paid and aggregate write-ins for deductions	(3,377,576)	(2,916,657)
Dividends paid to policyholders	(2,383)	(1,397)
Federal income taxes (paid) recovered, net of tax on capital gains (losses)	(28,025)	(81,776)
Net cash provided by (used in) operations	160,679	680,123
Cash from Investments		
Proceeds from investments sold, matured, or repaid		
Bonds	10,059,920	9,790,790
Stocks	1,374,665	457,972
Real estate	482	2,061
Other invested assets	90,642	58,375
Net gains or (losses) on cash and short-term investments	(36)	(13)
Miscellaneous proceeds	80,611	73,283
Total investment proceeds	11,606,284	10,382,468
Cost of investments acquired (long-term only)		
Bonds	10,200,860	10,477,895
Stocks	1,201,025	507,947
Mortgage loans	49,931	—
Capital contribution to affiliate	62,328	82,849
Real estate	26,132	18,074
Other invested assets	213,591	145,260
Miscellaneous applications	39,840	21,606
Total investments acquired	11,793,707	11,253,631
Net cash provided by (used in) investments	(187,423)	(871,163)
Cash from Financing and Miscellaneous sources		
Capital and paid in surplus	—	10,000
Borrowed funds	130,000	—
Dividends to stockholders	(147,672)	—
Other cash provided (applied)	(80,058)	28,205
Net cash provided by (used in) financing and miscellaneous sources	(97,730)	38,205
Reconciliation of Cash, Cash Equivalents and Short-Term Investments		
New reporting entity included in the consolidation	30,254	—
Net change in cash, cash equivalents and short-term investments	(94,220)	(152,835)
Cash, cash equivalents and short-term investments		
Beginning of year	437,769	590,604
End of year	$ 343,549	$ 437,769
Income taxes (paid) recovered	$ 27,945	$ (97,717)

The accompanying notes are an integral part of these consolidated property & casualty statutory financial statements.

1. Nature of Operations and Significant Statutory Accounting Policies

American Family Mutual Insurance Company, S.I. (AFMICSI) and its wholly-owned subsidiaries (collectively referred to as the "Companies" or the "Company") are engaged principally in the writing of property & casualty and life insurance policies within the United States and distribute products through agency and direct sales models, depending on the product and the state of business. American Family Insurance Mutual Holding Company (AFI MHC), through its wholly-owned non-insurance holding company, AmFam Holdings, Inc. (Holdings), owns 100% of the equity interest in AFMICSI. On January 1, 2017, American Family Mutual Insurance Company (AFMIC) was converted to AFMICSI through the issuance of common stock to Holdings and both AFI MHC and Holdings were created as part of a corporate reorganization.

Effective January 1, 2017, AFMICSI executed a loss portfolio transfer and prospective 100% quota share reinsurance agreement with Permanent General Assurance Corporation (PGAC) as described in Note 1(f). As a result, as of January 1, 2017 the Company elected to make a change in reporting entity and consolidate the results of PGAC, Permanent General Assurance Corporation of Ohio (PGACOH), and General Automobile Insurance Company, Inc. (GAIC) in addition to the other property and casualty underwriting entities described in Note 1(a). The change in reporting entity had no impact on the Company's surplus.

The Company's agency sales distribution channel primarily sells personal lines and commercial products predominantly through an exclusive agency force in a nineteen state operating territory.

Agents also sell life insurance products, which are underwritten by American Family Life Insurance Company (AFLIC), including term, whole and universal life insurance policies. AFLIC is licensed to sell policies in 49 states and the District of Columbia.

Personal lines policies are also sold predominately through a direct sales distribution channel by PGC Holdings Corp. and its subsidiaries (PGC), and Homesite Group, Inc. and its subsidiaries (Homesite). Both PGC and Homesite are licensed to sell policies in all 50 states and the District of Columbia.

The Company prepares its statutory financial statements in accordance with accounting practices prescribed or permitted by various domiciliary state insurance departments. Prescribed statutory accounting practices (STAT) include the National Association of Insurance Commissioners' (NAIC) "Accounting Practices and Procedures Manual", as well as state laws, regulations, and general administrative rules applicable to all insurance enterprises domiciled in a particular state. In addition, the respective domiciliary state insurance departments have a right to permit other specific practices that may deviate from prescribed practices. No permitted differences in STAT between applicable state insurance departments and the NAIC are used in the preparation of these statutory financial statements.

The preparation of financial statements in conformity with STAT requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accompanying consolidated property & casualty statutory financial statements vary materially from financial statements prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) primarily because on a statutory basis: (a) bonds are generally carried at amortized cost rather than fair value; (b) policy acquisition costs, such as commissions and other costs directly related to acquiring business, are charged to operations as incurred and not deferred; (c) deferred tax assets (DTAs) are generally limited to those temporary differences which reverse in the following three years and offset deferred tax liabilities (DTLs); (d) reinsurance recoverables on unpaid losses are offset against the liability for property & casualty losses and loss adjustment expenses; (e) money market funds are reported as short-term investments rather than cash equivalents for 2016 only; (f) non-property & casualty insurance companies are excluded from this consolidation; (g) the purchase method of accounting relies on carryover basis of accounting and the resulting goodwill will be amortized over a period of ten years; (h) certain assets are considered nonadmitted and therefore excluded from surplus; see Note 1(k) below for a description of these items; (i) the consolidated property & casualty statutory statements cash flows are presented in the required statutory format, in which cash, cash equivalents and short-term investments include cash on deposits and short-term, highly liquid investments that are readily convertible to cash; and (j) debt related to the Federal Home Loan Bank of Chicago (FHLBC) long-term advance is recorded on a cost basis rather than at fair value through a GAAP-specific election of the fair value option (see Note 14).

The effect of the foregoing differences in the accompanying consolidated property & casualty statutory financial statements is material.

The significant accounting policies used in the preparation of these consolidated property & casualty statutory financial statements include:

a. Principles of Consolidation

The accompanying consolidated property & casualty statutory financial statements include the accounts of AFMICSI and its wholly-owned property & casualty subsidiaries which includes, after elimination of all significant intercompany balances and activity, American Standard Insurance Company of Wisconsin (ASIC), American Family Insurance Company (AFIC), American Standard Insurance Company of Ohio (ASICO), Midvale Indemnity Company (MIC), Homesite Insurance Company of the Midwest (HMW), Homesite Insurance Company (HCT), Homesite Insurance Company of California (HCA), Homesite Indemnity Company (HIC), Homesite Insurance Company of New York (HNY), Homesite Insurance Company of Illinois (HIL), Homesite Insurance Company of Georgia (HGA), Homesite Lloyds of Texas (HLTX), Homesite Insurance Company of Florida (HFL), PGAC, PGACOH, and GAIC. AFLIC is not consolidated within this report and is presented on an equity basis of accounting (see Note 2(c)). For purposes of 2016 financial statements, the Company consolidated only ASIC, AFIC, ASICO, MIC, HMW, HCT, HCA, HIC, HNY, HIL, HGA, HLTX and HFL.

One or several of the consolidated Companies are domiciled in Wisconsin, Illinois, California, New York, Georgia, or Texas. Annual approval is obtained from these respective state insurance departments to file consolidated audited financial statements in lieu of separate audited financial statements for each insurer based upon the 100% quota share reinsurance agreements described in Note 1(f).

b. Cash and Invested Assets

Cash and cash equivalents represent cash and securities that have maturities of three months or less at purchase, and are carried at amortized cost, which approximates fair value. Short-term investments represent securities that have maturities of one year or less at purchase. Consistent with NAIC guidance, money market mutual funds were classified as cash equivalents as of and for the year ended December 31, 2017 and as short-term investments as of and for the year ended December 31, 2016.

Investments in bonds rated "1" (highest quality) or "2" (high quality) by the Securities Valuation Office (SVO) of the NAIC are reported in the consolidated property & casualty statutory financial statements at amortized cost. Bonds rated "3" (medium quality), “4” (low quality), “5” (lower quality) or “6” (lowest quality) by the SVO are reported at the lower of amortized cost or fair value. The interest method is used to amortize any purchase premium or discount, including estimates of future prepayments obtained from independent sources. Valuations for loan-backed securities include anticipated prepayments at the date of purchase and are adjusted for updated prepayment information using the retrospective method.

Investments in commercial mortgage-backed securities (CMBS) and non-agency residential mortgage-backed securities (RMBS) utilize a two-step process to obtain a valuation and rating in accordance with SSAP 43R, Loan-Backed and Structured Securities. The first step derives a rating for valuation by comparing the current amortized cost to the modeled range of values assigned to the six NAIC designations for each security. This determines whether the securities are stated at the lower of amortized cost or fair value per the above rules. The second step utilizes the same modeled range of values to derive a rating for reporting using the current carrying value as determined in the first step.

Ratings and valuations for investments in asset-backed (ABS) and other structured securities (other than equipment trust certificates and credit tenant leases) that are otherwise rated by a credit rating provider (CRP) are calculated using a two-step process. The first step derives a rating for valuation based on the CRP rating and the NAIC model valuation table. The second step utilizes the model valuation table to derive a rating for reporting using the current carrying value as determined in the first step. Securities whose initial rating is NAIC 1 or NAIC 6 in step one are not further modified by step two.

Mortgage loans are generally carried at their aggregate unpaid principal balances, net of a valuation allowance for estimated uncollectible amounts.

The Company also invests in to-be-announced securities (TBAs), which are investments in forward-dated mortgage-backed securities. Each TBA position is disposed of before the trade settlement date as part of an income generation strategy. All TBA purchase and sale activities are recorded on the trade date and all cash is settled on a gross basis.

TBA positions outstanding as of the end of the year that were initiated through purchase and sale activities are presented net as bonds in the consolidated property & casualty statutory balance sheets. All purchase and sale activities of TBAs are included within cost of investments acquired - bonds and proceeds from investments sold, matured, or repaid - bonds in the consolidated property & casualty statutory statements of cash flows.

Common stocks are generally reported in the consolidated property & casualty statutory financial statements at fair value, which is based primarily on values published by independent pricing sources and quoted market prices.

Other invested assets consist primarily of investments in limited partnerships. The limited partnerships are carried at the Companies’ pro rata share of the limited partnerships’ GAAP equity, which approximates fair value. Unlike GAAP, changes in the carrying amounts of limited partnerships are recorded as unrealized gains or losses in unassigned surplus. These investments typically reflect a reporting lag of up to three months, dependent upon receipt of the limited partnership’s financial statements. The Company also holds low income housing tax credits that are recorded at amortized cost.

Derivative instruments are accounted for on a fair value basis and are included within other assets or accrued expenses and other liabilities (as applicable) on the consolidated property & casualty statutory balance sheets. When certain derivatives meet specific criteria, they may be designated as accounting hedges and accounted for as fair value, cash flow, or foreign currency hedges. The Company did not elect to apply hedge accounting for the derivative instruments that were utilized during the reporting period. As a result, unrealized gains and losses on open derivative positions are recognized within unassigned surplus, with an adjustment to the carrying value of the derivative instrument. Interim settlements involving the receipt or payment of cash are included as a component of net investment income. The gain or loss recognized upon exiting a derivative position is recognized within net realized investment gains (losses). Cash flows from the derivatives are reported in cash from investments within the consolidated property & casualty statutory statements of cash flows.

Real estate assets consist of land, buildings and building improvements. Land is reported at cost. Buildings and improvements are carried at cost, less accumulated depreciation computed on the straight-line method over estimated useful lives ranging from twenty to forty-five years.

Investment income is recorded when earned. Dividend income is recorded on the ex-dividend date. Realized gains and losses on sales of investments are determined on a specific identification basis and are recorded directly in the accompanying consolidated property & casualty statutory statements of income. Unrealized gains and losses resulting from changes in the fair value of common stocks, those bonds rated 3-6, and limited partnerships are credited or charged to net change in unrealized capital gains (losses) of investments, a component of the Companies' unassigned surplus, net of deferred taxes. If there is a decline in an investment's net realizable value that is other-than-temporary, the decline is recorded as a realized loss and the cost of the investment is reduced to either its present value of expected future cash flows or its fair value depending on security type.

For all subsidiaries on the equity basis of accounting, those subsidiaries which are insurance companies are accounted for using statutory equity.

AmFam, Inc., a subsidiary of AFMICSI, is valued and recorded using GAAP equity adjusted for unamortized statutory goodwill. All other subsidiaries are recorded on a GAAP equity basis. For statutory purposes, American Family Brokerage, Inc. (AFBI) and The AssureStart Insurance Agency, LLC (AIA), subsidiaries of AFMICSI, are nonadmitted assets because these companies do not prepare separately audited financial statements. The accounting treatment of the aforementioned subsidiaries is consistent with the accounting treatment used in preparing the Company's Annual Statement filed with state insurance departments for AFMICSI and its property & casualty subsidiaries. Dividends received and interest earned from these companies is recorded as net investment income.

c. Fair Value Measurements

Financial assets and financial liabilities recorded on the consolidated property & casualty statutory balance sheets at fair value are categorized based on the reliability of inputs to the valuation techniques as follows:

Level 1 Financial assets and financial liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Company can access.

Level 2 Financial assets and financial liabilities whose values are based on the following: Quoted prices for similar assets or liabilities in active markets;

Quoted prices for identical or similar assets or liabilities in non-active markets; or Valuation models whose inputs are observable, directly or indirectly, for substantially the full term of the asset or liability.

Level 3 Financial assets and financial liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs may reflect the Company's estimates of the assumptions that market participants would use in valuing the financial assets and financial liabilities.

The availability of observable inputs varies by instrument. In situations where fair value is based on internally developed pricing models or inputs that are unobservable in the market, the determination of fair value requires more judgment. In many instances, inputs used to measure fair value fall into different levels of the fair value hierarchy. In those instances, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement is categorized is determined based on the lowest level of input that is significant to the fair value measurement in its entirety.

d. Premiums

Premiums written are recorded on the effective date of the contract and earned on a pro rata basis over the terms of the policies. Premiums earned include premiums assumed and are presented net of premiums ceded under various reinsurance contracts. Unearned premium represents the portion of written premium applicable to the unexpired portion of insurance in-force. Advance premium represents amounts received prior to policy effective dates.

Premiums receivable consists of accounts receivable for uncollected premium balances, bills receivable for premiums, and amounts due from agents and brokers. AFMICSI routinely assesses the collectability of these receivables. Any premiums receivable which are greater than 90 days past due are nonadmitted. As of December 31, 2017 and 2016, nonadmitted amounts are $2,470 and $2,894, respectively. Based upon the Companies' experience, premiums receivable of $11,496 and $8,036 as of December 31, 2017 and 2016, respectively, are estimated to be uncollectible in excess of nonadmitted amounts; therefore, a corresponding additional provision for uncollectible amounts has been recorded in 2017 and 2016.

AFMICSI considers an account delinquent if payment is not received according to the contractual terms of the related insurance policy. Typically, accounts are charged off after attempts to collect the funds are exhausted by internal and external sources. AFMICSI generally does not charge interest on delinquent accounts.

The Companies annually evaluate whether a premium deficiency exists relating to short-duration contracts. Anticipated investment income is considered as part of this evaluation. The Company reported no net premium deficiency reserves as of December 31, 2017 and 2016 after taking into account reinsurance cessions.

e. Property & Casualty Loss and Loss Adjustment Expense Reserve

The property & casualty loss and loss adjustment expense reserve includes amounts determined on the basis of claim evaluation and other estimates for reported losses, and includes estimates for losses incurred but not reported and anticipated salvage and subrogation recoveries. These estimates are continually reviewed and updated and any adjustments are charged to income as incurred.

Reinsurance recoveries are recorded as a reduction of losses and loss adjustment expenses in accordance with contract terms. The liabilities for property & casualty losses and unearned premiums are determined after deducting a share of reinsurance placed with other reinsurers.

Due to the reasonably complex and dynamic process of establishing these reserves, which can be influenced by a variety of factors and assumptions, the actual ultimate losses and loss adjustment expenses which may emerge in future years may vary from the amounts recorded in these consolidated property & casualty statutory financial statements.

f. Reinsurance

In the normal course of business, the Companies seek to limit exposure to loss on any single insured and to certain aggregate loss limits. This is accomplished by ceding insurance to other insurance companies or reinsurers under quota share, excess of loss and coinsurance contracts. Liabilities related to insurance contracts are reported after the effects of reinsurance. Estimated reinsurance recoverables are recognized in a manner consistent with the liabilities related to the underlying reinsured contracts. After reinsurance cessions to external parties, ASIC, AFIC, ASICO, MIC, and, with the exception of HNY, Homesite cede the remaining insurance business to AFMICSI under 100% quota share reinsurance contracts. HNY ultimately cedes 80% of all underwriting activity to the Company in respect to all policies issued or renewed on or after January 1, 2016.

Effective January 1, 2017, AFMICSI executed a loss portfolio transfer and prospective 100% quota share reinsurance agreement with PGAC. Per the agreement, 100% of the net consolidated underwriting activity of PGAC, including all outstanding and subsequent losses, is reinsured from PGAC to AFMICSI. PGAC is the assuming party to similar loss portfolio transfer and 100% quota share reinsurance agreements with each of the other underwriting entities making up the PGC group of companies. As such, the amounts ceded from PGAC to AFMICSI consist of the consolidated underwriting activity of the PGC group of companies after ceding externally to third-party reinsurers.

AFMICSI is party to an affiliated reinsurance agreement with AFLIC under which AFMICSI cedes long-term care business to AFLIC by way of a 100% quota share reinsurance agreement. AFMICSI ceded reinsurance premiums of $4,321 and $4,492 during 2017 and 2016, respectively, and $121,375 and $115,784 of reserves at December 31, 2017 and 2016, respectively, under this agreement.

The Companies assume property reinsurance mainly outside the Companies' existing geographic operating territory in order to diversify the Companies' risk. Property & casualty earned premiums assumed under reinsurance contracts under this program during 2017 and 2016 were $186,820 and $143,178, respectively. Written premiums assumed during 2017 and 2016 were $198,790 and $163,926, respectively.

The Company does not enter into finite reinsurance contracts; all reinsurance contracts involve a significant transfer of risk. Ceded reinsurance transactions do not relieve the Company of its primary obligation to the policyholder.

g. Income Taxes

The Company files a consolidated federal income tax return with AFMICSI and affiliated companies.

The consolidated federal income tax is allocated to each member company in the following manner: Companies having tax profits on a separate return basis will incur federal tax expense based on separate return taxable incomes. Companies with tax losses on a separate return basis will be compensated (at the current federal tax rate) for the reduction in the consolidated tax liability resulting from losses. Such compensation shall come directly from profitable companies that utilize those tax losses to reduce taxable incomes. A loss company may have to repay this current year compensation back to the profitable company if the profitable company later incurs losses that, on a separate return basis, may be carried back to offset its current year income. The reduction of the consolidated tax liability due to tax credits shall be allocated to the individual Companies producing such credits. Special additional taxes are similarly allocated to each member company.

The reporting of federal and foreign income taxes under STAT is similar to the reporting requirements under GAAP except for the following differences. Under STAT, the calculation of state income taxes incurred is limited to taxes due on the current year's taxable income and any adjustments due to changes in prior year returns. Therefore, deferred state income taxes are not recorded. Under GAAP, there is a requirement to reduce the amount of DTAs by a valuation allowance if it is more likely than not that some portion of the DTA will not be realized. STAT requires that the gross DTAs be subject to an admissibility test which also includes the more likely than not valuation allowance. Under STAT, any changes in DTAs and DTLs are to be recognized as a separate component of the change in unassigned surplus. Therefore, changes in the DTAs and DTLs will not be included in current year income. This differs from GAAP, which reports the change in deferred taxes (deferred tax provision) as a component of the total tax provision (sum of federal current and deferred) rather than as a direct adjustment to unassigned surplus. The gross change in the DTA/DTL related to unrealized capital gains and losses is charged directly to surplus by netting against the unrealized capital gains and losses. The effect on deferred taxes of a change in tax rates is recognized as a component of the change in unassigned surplus in the period enacted for STAT purposes and is recognized in income as a component of income tax expense from continuing operations in the period of enactment for GAAP. Under STAT, state current income taxes are included as an underwriting expense while under GAAP they are part of income tax expense.

h. Real Estate

The Company reviews real estate for impairment when conditions indicate that the net realizable value of the property has declined and is other-than-temporary. The decline is recorded as a realized loss and net book value is reduced to a value more indicative of expected selling price. There are no receivables on land held for sale, and the Company has no obligations for improvements.

i. Furniture and Equipment, and Electronic Data Processing Equipment and Software

Furniture and equipment and electronic data processing equipment and software (EDP) are carried at cost less accumulated depreciation. Furniture and equipment includes vehicles, furniture and equipment, leasehold improvements and telephonic equipment. EDP includes electronic data processing equipment and purchased and internally-developed software. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, ranging from three to forty-five years.

The Company reviews fixed assets for impairment when there is reason to believe that a fixed asset's carrying value might not be recoverable, and charges any impairments as an operating expense in the consolidated property & casualty statutory statements of income.

(in thousands of dollars)

The gross cost, accumulated depreciation, net cost, nonadmitted assets, and net admitted assets of major fixed asset classes as of December 31 are as follows:

	2017					
	Gross Cost	Accumulated Depreciation	Net Cost	Nonadmitted Asset	Net Admitted Asset	Depreciation Expense
Furniture and equipment	$ 197,868	$ (132,746)	$ 65,122	$ 65,122	$ —	$ 12,748
EDP equipment and software	914,688	(644,840)	269,848	256,417	13,431	83,381
	$ 1,112,556	$ (777,586)	$ 334,970	$ 321,539	$ 13,431	$ 96,129

	2016					
	Gross Cost	Accumulated Depreciation	Net Cost	Nonadmitted Asset	Net Admitted Asset	Depreciation Expense
Furniture and equipment	$ 205,872	$ (140,126)	$ 65,746	$ 65,746	$ —	$ 12,117
EDP equipment and software	857,828	(589,352)	268,476	253,077	15,399	59,657
	$ 1,063,700	$ (729,478)	$ 334,222	$ 318,823	$ 15,399	$ 71,774

j. Leases

The Company leases various office equipment and real estate under various noncancelable operating lease agreements with various expiration dates through 2022 and thereafter. Lease expense for 2017 and 2016 was $28,679 and $30,250, respectively.

As of December 31, 2017, the minimum aggregate lease commitments, prior to allocations to unconsolidated affiliates, were as follows:

Year ending December 31	Operating Leases
2018	$ 21,019
2019	12,379
2020	5,070
2021	3,416
2022 and thereafter	4,693
Total	$ 46,577

Certain lease commitments have renewal options extending through the year 2030. Some of these renewals are subject to adjustments in future periods.

The Company does not have any significant activity from acting as a lessor.

(in thousands of dollars)

k. Nonadmitted Assets

Certain assets designated as “nonadmitted assets”, primarily consisting of DTAs, premium receivables greater than 90 days past due, State of Missouri guaranty funds receivable, non-operating software, furniture and equipment, and common stock of certain affiliated companies, have been excluded from the consolidated property & casualty statutory balance sheets through a direct charge against unassigned surplus. Changes in nonadmitted assets are reported as a direct adjustment to surplus in the consolidated property & casualty statutory statements of changes in capital and surplus.

The nonadmitted assets as of December 31 are as follows:

	2017	2016
Common stocks	$ 1,794	$ 376
Other invested assets	8,961	4,246
Uncollected premiums and EBUB	2,646	3,066
Net deferred tax assets	721	—
Software	256,417	253,077
Furniture and equipment	65,122	65,746
All other	33,621	30,144
Total nonadmitted assets	$ 369,282	$ 356,655

l. Statements of Cash Flows

Non-cash investing activities include $33,799 and $28,248 of both acquisitions and disposals of common stock in 2017 and 2016, respectively, and $529,609 of acquisitions and $529,473 of disposals of bonds for 2017 and $112,480 of acquisitions and $112,370 of disposals of bonds for 2016. See Note 8 for non-cash financing activities relating to an in-kind distribution of an unconsolidated subsidiary in 2017. See Note 2(b) for non-cash investing activities relating to charitable contributions of common stock in 2016.

m. Reclassifications

Certain reclassifications have been made to prior year amounts in the accompanying consolidated property & casualty statutory financial statements to conform to current year presentation and allow for consistent financial reporting.

n. Subsequent Events

The Company has evaluated events subsequent to December 31, 2017 through February 23, 2018, the date these consolidated property & casualty statutory financial statements were available to be issued. Based on this evaluation, no Type I or Type II events have occurred subsequent to December 31, 2017 that require disclosure or adjustment to the consolidated property & casualty statutory financial statements at that date or for the year then ended.

2. Financial Instruments

a. Fair Value of Financial Instruments

The fair value guidance establishes a hierarchy for inputs used in determining fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available.

Fair value is a market-based measure considered from the perspective of a market participant who owns an asset or owes a liability. Accordingly, when market observable data is not readily available, the Company's own assumptions are set to reflect those that market participants would be presumed to use in pricing the asset or liability at the measurement date. The Company uses prices and inputs that are current as of the measurement date, including during periods of market disruption. In periods of market disruption, the ability to observe prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from one level of the hierarchy to another.

When available, the Company uses the market approach to estimate the fair value of its financial instruments, which is based on quoted prices that are readily and regularly available in active markets. Generally, these are the most liquid of the Company's holdings and valuation of these securities does not involve management judgment. Matrix pricing and other similar techniques are other examples of the market approach. Matrix pricing values a particular security by utilizing the prices of securities with similar ratings, maturities, industry classifications, and/or coupons and interpolating among known values of these similar instruments to derive a price.

When quoted prices in active markets are not available, the Company uses the income approach, or a combination of the market and income approaches, to estimate the fair value of its financial instruments. The income approach involves using discounted cash flow and other standard valuation methodologies. The inputs in applying these market standard valuation methodologies include, but are not limited to, interest rates, benchmark yields, bid/ask spreads, dealer quotes, liquidity, term to maturity, estimated future cash flows, credit risk and default projections, collateral performance, deal and tranche attributes, and general market data.

The following valuation techniques and inputs were used to estimate the fair value of each class of significant financial instruments:

Level 1 Measurements

Bonds: Comprised of U.S. Treasuries valued based on unadjusted quoted prices for identical assets in active markets.

Common Stocks: Comprised of actively traded, exchange listed U.S. and international equity securities. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Company can access.

Cash Equivalents: Comprised of U.S. Treasuries valued based on unadjusted quoted prices for identical assets in active markets. Additionally, actively traded money market funds that have daily quoted net asset values for identical assets that the Company can access are classified as cash equivalents as of December 31, 2017.

Short-term Investments: Comprised of actively traded money market funds that have daily quoted net asset values for identical assets that the Company can access and U.S. Treasuries valued based on unadjusted quoted prices for identical assets in active markets as of December 31, 2016. Money market funds are classified as cash equivalents as of December 31, 2017.

Level 2 Measurements

Bonds: The majority of the Company's Level 2 fixed income securities are priced by leading, nationally recognized providers of market data and analytics. These securities are principally valued using the market and income approaches. When available, recent trades of identical or similar assets are used to price these securities. However, because many fixed income securities do not actively trade on a daily basis, pricing models are often used to determine security prices. The pricing models discount future cash flows at estimated market interest rates. These rates are derived by calculating the appropriate spreads over comparable U.S. Treasury securities based on credit quality, industry, and structure of the asset. Observable inputs used by the models include benchmark yields, bid/ask spreads, dealer quotes, liquidity, term-to-maturity, credit risk and default projections, collateral performance, deal and tranche attributes, and general market data. Inputs may vary depending on the type of security.

A small segment of Level 2 and Level 3 securities are priced internally using matrix pricing, broker quotes, and benchmark and spread analysis, or through third party vendors that specialize in difficult-to-price securities. Pricing for specific security types is as follows:

Special Revenue and Special Assessment: Valued based on inputs including quoted prices for identical or similar assets in markets that are not active, benchmark yield curves, bid/ask spreads, and credit quality.

Industrial and Miscellaneous Unaffiliated: Valued based on inputs including quoted prices for identical or similar assets in markets that are not active, benchmark yield curves, bid/ask spreads, and credit quality.

Common Stocks: Comprised of shares in FHLBC stock as discussed in Note 14. While not actively traded, the valuation for the FHLBC investment is perpetually quoted at $100 by the FHLBC.

Short-term Investments: Short-term investments are valued based on quoted prices for identical or similar assets in markets that are not active, benchmark yield curves, bid/ask spreads, and credit quality.

Derivative Instruments: Over-the-counter (OTC) derivatives, including interest rate swaps, are valued using models that rely on inputs such as interest rate yield curves that are observable for substantially the full term of the contract. These models discount cash flows at each coupon date and the valuation of interest rate swaps is the difference between the values of the discounted cash flows of the fixed and floating legs of the swap. Fair value is the estimated amount that the Company would receive (pay) to terminate the derivative contracts at the reporting date. Derivative assets (liabilities) are reported gross of collateral payable (receivable) for purposes of fair value disclosures in Note 2(a).

Mortgage loans: The fair value of mortgage loans is based upon discounted future cash flows using the current rate at which similar loans with comparable maturities would be made to borrowers with similar credit ratings.

Level 3 Measurements

Bonds: The majority of Level 3 bonds are valued externally using pricing vendors that specialize in difficult-to-price securities. The vendors utilize a cash flow model that uses prepayment, default and severity assumptions, as well as benchmark yields, spreads and weighted average lives as inputs. The Company also holds one bond which is backed by property tax payments made by the Company and consistently priced at par as a result. Pricing for specific security types of Level 3 bonds carried at fair value are as follows:

Special Revenue and Special Assessment: Valued internally based on a discounted cash flow model. Also consists of TBAs which are valued using the market and income approaches by leading, nationally recognized providers of market data and analytics. When available, recent trades of identical or similar assets are used to price these securities.

Common stocks: Consists of a delisted security which is valued by an external vendor using unobservable inputs.

Other Invested Assets: Valued using capital account balances as reported by the various limited partnerships, which approximate fair value.

(in thousands of dollars)

The following summarizes the Company's financial assets and financial liabilities carried at fair value on a recurring basis as of December 31. The fixed income securities' fair value does not agree to the amount presented on the consolidated property & casualty statutory balance sheets as the majority of the Company's fixed income securities are carried at amortized cost. The carrying value for these fixed income securities is described in Note 1(b).

2017

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2017
Financial assets				
Bonds				
Special revenue & special assessment	$ —	$ 2,234	$ 111,815	$ 114,049
Industrial and miscellaneous unaffiliated	—	263,262	—	263,262
Common stocks	2,404,628	12,600	2	2,417,230
Cash equivalents	299,226	—	—	299,226
Short-term investments	—	—	—	—
Derivative assets	—	—	—	—
Total fair value financial assets	$ 2,703,854	$ 278,096	$ 111,817	$ 3,093,767
Derivative liabilities	$ —	$ 2,374	$ —	$ 2,374
Total fair value financial liabilities	$ —	$ 2,374	$ —	$ 2,374

2016

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2016
Financial assets				
Bonds				
Special revenue & special assessment	$ —	$ —	$ 83,782	$ 83,782
Industrial and miscellaneous unaffiliated	—	163,274	—	163,274
Common stocks	2,218,122	10,000	—	2,228,122
Cash equivalents	—	—	—	—
Short-term investments	288,928	—	—	288,928
Derivative assets	—	3,513	—	3,513
Total fair value financial assets	$ 2,507,050	$ 176,787	$ 83,782	$ 2,767,619
Derivative liabilities	$ —	$ —	$ —	$ —
Total fair value financial liabilities	$ —	$ —	$ —	$ —

(in thousands of dollars)

The following provides a summary of changes in fair value during the year ended December 31, of Level 3 financial assets and financial liabilities carried at fair value on a recurring basis at December 31:

2017

		Total Realized and Unrealized Gains (Losses) included in							
	Balance as of January 1, 2017	Net Income	Surplus	Purchases	Sales	Settlements	Net Transfers In and/or (Out) of Level 3	Balance as of December 31, 2017	Total Gains (Losses) included in Net Income for Instruments Still Held at December 31, 2017
Financial assets									
Bonds									
Special revenue & special assessment	$ 83,782	$ 297	$ 4	$ 2,467,541	$(2,439,809)	$ —	$ —	$ 111,815	$ —
Common stocks	—	—	(10)	4	—	—	8	2	
Total recurring Level 3 financial assets	$ 83,782	$ 297	$ (6)	$ 2,467,545	$(2,439,809)	$ —	$ 8	$ 111,817	$ —

2016

		Total Realized and Unrealized Gains (Losses) included in							
	Balance as of January 1, 2016	Net Income	Surplus	Purchases	Sales	Settlements	Net Transfers In and/or (Out) of Level 3	Balance as of December 31, 2016	Total Gains (Losses) included in Net Income for Instruments Still Held at December 31, 2016
Financial assets									
Bonds									
Special revenue & special assessment	$ 22,213	$ (374)	$ (21)	$ 3,291,590	$(3,215,669)	$ —	$ (13,957)	$ 83,782	$ —
Common stocks	—	—	—	—	—	—	—	—	—
Total recurring Level 3 financial assets	$ 22,213	$ (374)	$ (21)	$ 3,291,590	$(3,215,669)	$ —	$ (13,957)	$ 83,782	$ —

The following summarizes the fair value of the Company's financial assets and financial liabilities by type as of December 31:

2017

	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3
Bonds	$ 9,316,811	$ 9,251,942	$ 650,556	$ 8,449,048	$ 217,207
Common stocks - unaffiliated	2,417,229	2,417,229	2,404,627	12,600	2
Cash equivalents	308,513	308,513	308,513	—	—
Short-term investments	130,976	131,047	111,685	19,291	—
Derivative assets	—	—	—	—	—
Mortgage loans	49,490	49,931	—	49,490	—
Other invested assets	1,107,266	1,098,305	—	—	1,107,266
Total financial assets	$ 13,330,285	$ 13,256,967	$ 3,475,381	$ 8,530,429	$ 1,324,475
Derivative liabilities	$ 2,374	$ 2,374	$ —	$ 2,374	$ —
Total financial liabilities	$ 2,374	$ 2,374	$ —	$ 2,374	$ —

(in thousands of dollars)

2016	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3
Bonds	$ 8,782,417	$ 8,796,923	$ 1,049,499	$ 7,485,503	$ 247,415
Common stocks - unaffiliated	2,228,122	2,228,122	2,218,122	10,000	—
Cash equivalents	44,035	44,034	43,583	451	—
Short-term investments	392,477	392,512	352,049	40,428	—
Derivative assets	3,513	3,513	—	3,513	—
Mortgage loans	—	—	—	—	—
Other invested assets	943,091	940,303	—	—	943,091
Total financial assets	$ 12,393,655	$ 12,405,407	$ 3,663,253	$ 7,539,895	$ 1,190,506
Derivative liabilities	$ —	$ —	$ —	$ —	$ —
Total financial liabilities	$ —	$ —	$ —	$ —	$ —

As part of its pricing procedures, the Company obtains quotes from leading providers of pricing data, and the Company's internal pricing policy is to use consistent sources for individual securities based on security type in order to maintain the integrity of its valuation process. These primary quotes are validated on a quarterly basis via comparison to a secondary pricing source, which may include quotes received from a different third party pricing data provider or recent trade activity obtained from reputable online trading sites. In addition, investment managers may be consulted to corroborate prices received from outside sources based on their knowledge of market trends and activity. As necessary, the Company utilizes pricing services that specialize in difficult-to-value securities to price esoteric or illiquid securities. Material discrepancies between the primary and secondary sources are investigated, reconciled and updated as warranted. This may involve challenging a price from the primary source if the Company determines the price provided does not meet expectations based on observed market, sector, or security trends and activity.

On an annual basis, the Company reviews quality control measures and data assumptions from its pricing sources to determine if any significant changes have occurred that may indicate issues or concerns regarding their evaluation or market coverage. In addition, an annual analysis is performed on a sample of securities to further validate the inputs, assumptions, and methodologies used by the primary source to price those securities.

During the course of the valuation process, if it is determined the material inputs used to price a security are unobservable, the Company will transfer that security to Level 3.

All transfers into or out of a particular level are recognized as of the beginning of the reporting period. There were no material transfers into or out of Level 3 during 2017. In 2016, the Company transferred $13,957 of municipal bonds from Level 3 as this bond moved from being reported at fair value to being reported at amortized cost. Previously, this security was priced by another vendor using unobservable inputs.

b. Common Stocks - Unaffiliated

The aggregate cost of unaffiliated stocks at December 31, 2017 and 2016 was $1,483,183 and $1,392,056, respectively. Net unrealized appreciation of unaffiliated stocks stated at fair value includes gross unrealized gains of $950,988 and $853,548 and gross unrealized losses of $16,942 and $17,482 at December 31, 2017 and 2016, respectively.

(in thousands of dollars)

The fair value and unrealized losses, categorized by stocks in loss positions for less than 12 months and stocks in loss positions for more than 12 months, at December 31 are as follows:

	2017							
	Less than 12 Months			12 Months or More			Total	
	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses	Fair Value	Unrealized
Description of Securities:								
Common stock - unaffiliated	218	$ 104,692	$ (8,127)	355	$ 17,938	$ (8,815)	$ 122,630	$ (16,942)
Total	218	$ 104,692	$ (8,127)	355	$ 17,938	$ (8,815)	$ 122,630	$ (16,942)

	2016							
	Less than 12 Months			12 Months or More			Total	
	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses	Fair Value	Unrealized
Description of Securities:								
Common stock - unaffiliated	153	$ 100,929	$ (8,635)	444	$ 31,921	$ (8,847)	$ 132,850	$ (17,482)
Total	153	$ 100,929	$ (8,635)	444	$ 31,921	$ (8,847)	$ 132,850	$ (17,482)

The Company believes that declines in fair value related to these stocks are temporary. In determining whether these declines in fair value are temporary, the Company considers severity of impairment, duration of impairment, forecasted market price recovery, and the intent and ability of the Company to hold the investment until the market price has recovered.

During 2017 and 2016, the Company recorded other-than-temporary impairments (OTTI) in its stock portfolio, resulting in a total realized loss of $11,176 and $18,929, respectively.

Proceeds from sales of stocks during 2017 and 2016 were $1,372,591 and $444,814, respectively. These amounts exclude spin-offs, tax-free exchanges, taxable exchanges and returns of capital. Gross gains of $315,356 and $80,655, and gross losses of $41,899 and $33,276 were realized on those sales during 2017 and 2016, respectively. The basis of the securities sold was determined using specific identification.

During 2016, the Company made charitable contributions of common stock with a fair value of $10,026, and realized gains on the transactions of $7,338. No such contributions were made during 2017.

The Company's common stock portfolios are primarily invested in large-, mid-, and small-cap stocks which are managed to their respective indices. Further separation of equity securities by geography or industry concentration is not deemed relevant.

(in thousands of dollars)

c. **Financial Information for Unconsolidated Subsidiaries**
Condensed financial information regarding AFMICSI's indirect wholly-owned subsidiary, AFLIC, which has not been consolidated is shown as follows:

	December 31, 2017	December 31, 2016
Balance Sheets		
Assets	$ 5,676,127	$ 5,497,453
Liabilities	4,616,378	4,496,092
Statutory surplus	1,059,749	1,001,361
Liabilities, capital, and surplus	$ 5,676,127	$ 5,497,453
	Year Ended December 31, 2017	**Year Ended December 31, 2016**
Results of Operations		
Revenues	$ 592,326	$ 579,938
Realized gains (losses), net of tax	2,379	(2,153)
Expenses	499,153	497,145
Income (loss) before income tax expense (benefit)	95,552	80,640
Income tax expense (benefit)	26,178	28,489
Net income (loss)	$ 69,374	$ 52,151

Condensed financial information regarding other subsidiaries which are also wholly-owned (directly or indirectly) operating subsidiaries of AFMICSI are not included in the above tables for purposes of this disclosure due to total admitted assets of these entities representing less than 10% of the Company's total admitted assets.

The Company submitted to the NAIC SUB-2 filings which presented support for the valuation of two directly held subsidiaries as of December 31, 2016. The NAIC approved the filings and affirmed the Company's valuation of these subsidiaries. The following summarizes the valuations approved by the NAIC:

Description of SCA Investment	Date of Filing	Gross Amount	Nonadmitted Asset Amount	Admitted Asset Amount	NAIC Valuation Amount
AmFam, Inc.	6/19/2017	$ 2,312,868 *	$ —	$ 2,312,868	$ 2,312,868
AFBI	6/19/2017	376	(376)	—	—
Total:		$ 2,313,244	$ (376)	$ 2,312,868	$ 2,312,868

* Includes $1,533,488 related to unconsolidated subsidiaries as of December 31, 2016

(in thousands of dollars)

d. Bonds

The carrying value and fair value of long-term bonds at December 31 are as follows:

	2017			
	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Description of Securities:				
U.S. governments	$ 720,682	$ 969	$ (4,292)	$ 717,359
States, territories and possessions	745,970	11,781	(2,445)	755,306
Political subdivisions of states, territories and possessions	915,806	9,640	(5,316)	920,130
Special revenue & special assessment	3,876,167	56,292	(15,828)	3,916,631
Industrial and miscellaneous unaffiliated	2,993,317	26,039	(11,971)	3,007,385
Totals	$ 9,251,942	$ 104,721	$ (39,852)	$ 9,316,811

	2016			
	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Description of Securities:				
U.S. governments	$ 1,174,791	$ 520	$ (19,125)	$ 1,156,186
States, territories and possessions	610,159	8,178	(7,814)	610,523
Political subdivisions of states, territories and possessions	892,181	6,135	(10,616)	887,700
Special revenue & special assessment	3,566,849	45,999	(39,938)	3,572,910
Industrial and miscellaneous unaffiliated	2,552,943	25,301	(23,146)	2,555,098
Totals	$ 8,796,923	$ 86,133	$ (100,639)	$ 8,782,417

The fair value and unrealized losses, categorized by bonds in loss positions for less than 12 months and bonds in loss positions for more than 12 months, at December 31 are as follows:

	2017							
	Less Than 12 Months			12 Months or More			Total	
	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities:								
U.S. governments	39	$ 241,443	$ (1,532)	38	$ 231,564	$ (2,760)	$ 473,007	$ (4,292)
States, territories and possessions	46	205,002	(1,232)	23	72,390	(1,213)	277,392	(2,445)
Political subdivisions of states, territories and possessions	107	269,703	(1,590)	71	188,033	(3,726)	457,736	(5,316)
Special revenue & special assessment	344	971,956	(6,039)	252	648,492	(9,789)	1,620,448	(15,828)
Industrial and miscellaneous unaffiliated	276	991,135	(5,371)	124	330,309	(6,600)	1,321,444	(11,971)
Totals	812	$ 2,679,239	$ (15,764)	508	$ 1,470,788	$ (24,088)	$ 4,150,027	$ (39,852)

	2016							
	Less Than 12 Months			12 Months or More			Total	
	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities:								
U.S. governments	63	$ 1,036,287	$ (18,037)	5	$ 34,091	$ (1,088)	$ 1,070,378	$ (19,125)
States, territories and possessions	76	313,448	(6,438)	3	42,095	(1,376)	355,543	(7,814)
Political subdivisions of states, territories and possessions	174	487,168	(10,375)	10	19,557	(241)	506,725	(10,616)
Special revenue & special assessment	600	1,872,065	(39,551)	13	40,951	(387)	1,913,016	(39,938)
Industrial and miscellaneous unaffiliated	372	1,188,562	(21,186)	28	61,969	(1,960)	1,250,531	(23,146)
Totals	1,285	$ 4,897,530	$ (95,587)	59	$ 198,663	$ (5,052)	$ 5,096,193	$ (100,639)

If the Company has the intent to sell or will more likely-than-not be required to sell a structured fixed income security prior to full recovery, the Company writes down the security to its current fair value with the entire write-down recorded as a realized investment loss in the consolidated property & casualty statutory statements of income. If the Company does not have the intent to sell but the security is in an unrealized loss position, the Company determines if any of the decline in value is due to a credit-related loss (the present value of the expected future cash flows (PVCF) is less than amortized cost). Other-than-temporary, credit-related impairments are recorded as a realized investment loss in the consolidated property & casualty statutory statements of income when the PVCF is less than the amortized cost.

The Company recognized no OTTI in realized investment loss due to the intent to sell structured securities in 2017 and 2016. There were no credit-related impairments recorded on structured securities in 2017 and 2016, and the Company does not hold any structured securities with a previously recognized other-than-temporary, credit-related impairment.

In determining whether losses on non-structured securities are expected to be temporary, the Company considers severity of impairment, duration of impairment, forecasted market price recovery and the intent and ability of the Company to hold the investment until the market price recovers or the investment matures to assist in determining if a potential credit loss exists. Additionally, the Company may rely on the details of settlements reached in bankruptcy proceedings or other restructurings to determine ultimate collectability of these investments.

Credit-related OTTI losses recorded on non-structured securities were $0 and $8,472 during 2017 and 2016, respectively. The Company recognized $0 and $2,015 of OTTI due to the intent to sell non-structured securities in 2017 and 2016, respectively.

During 2017 and 2016, for its bond portfolio, the Company recorded total OTTI in realized investment losses in the consolidated property & casualty statutory statements of income of $0 and $10,487, respectively. These amounts include both credit-related impairments as well as impairments taken due to the intent to sell securities. The Company believes that all other declines in fair value related to bonds are temporary.

(in thousands of dollars)

The carrying value and fair value of bonds, including short-term and cash equivalent bonds, at December 31, 2017, are shown below by contractual maturity. Expected maturities may differ from contractual maturities because borrowers may exercise the right to call or prepay obligations with or without penalties. Because most mortgage-backed and asset-backed securities provide for periodic payments throughout their lives, they are listed in a separate category as follows:

	December 31, 2017	
	Carrying Value	Fair Value
Due in one year or less	$ 598,039	$ 598,162
Due after one year through five years	3,702,051	3,723,004
Due after five years through ten years	3,210,064	3,241,197
Due after ten years	375,665	386,556
Subtotal	7,885,819	7,948,919
Mortgage-backed securities	712,797	713,766
Asset-backed securities	793,658	794,390
Total	$ 9,392,274	$ 9,457,075

Proceeds from sales of long-term bonds during 2017 and 2016 were $9,189,355 and $9,101,271, respectively. Gross gains of $40,881 and $94,139 and gross losses of $45,771 and $31,398 were realized on those sales during 2017 and 2016, respectively. The basis of the securities sold was determined using specific identification.

At December 31, 2017 and 2016, investments with an amortized cost of $53,354 and $44,463, respectively, were on deposit with various regulatory authorities to comply with insurance laws.

The Company invests in structured notes, which are characterized by non-fixed coupon payments, with the exception of securities tied to a non-leveraged typical interest rate index (such as LIBOR and T-Bill rates). Loan-backed securities are excluded from this category. The following table details the securities that the Company has determined meet this definition at December 31, 2017. None of these positions are classified as mortgage-referenced securities.

(in thousands of dollars)

	December 31, 2017		
CUSIP Identification	Actual Cost	Fair Value	Book/Adjusted Carrying Value
01728VFV7	$ 20,647	$ 21,419	$ 20,944
03938LAP9	473	480	473
03938LAS3	816	886	815
040507HN8	8,916	9,136	9,122
06051GGS2	5,065	5,051	5,065
12508EAD3	649	675	649
12768XAA2	769	767	766
172967LP4	1,810	1,837	1,810
20772JHL9	4,006	4,028	4,001
2201473	5,060	5,015	5,059
226373AL2	190	208	191
249002BA3	4,105	4,015	4,096
251237W66	3,438	3,977	3,610
29271LAD6	192	173	173
29379VBM4	1,004	1,003	1,004
30161NAW1	2,378	2,415	2,377
311450FL9	504	498	503
3130A2CT1	8,410	8,358	8,399
3135G0T52	43,829	43,556	43,840
346843LP8	5,007	4,990	5,007
38141GWQ3	2,765	2,754	2,765
388640S54	4,536	4,507	4,535
398905AK5	1,000	1,030	1,000
404280BJ7	1,640	1,663	1,640
42824CAN9	3,205	3,206	3,188
454798TG4	1,880	1,858	1,880
46613PSY3	1,765	2,019	1,921
46647PAE6	5,221	5,219	5,221
46647PAF3	2,685	2,706	2,684
491189EE2	7,948	8,513	8,186
539439AP4	2,000	1,983	2,000
57582PBS8	2,323	2,613	2,503
57582PDM9	34,554	34,889	34,682
576004FR1	4,130	4,446	4,215
59259Y6G9	11,637	11,587	11,636
59261AHV2	12,830	12,047	12,226
607167DX8	3,500	3,486	3,500
60855RAG5	1,100	1,147	1,100
626717AG7	289	293	289
659155FN0	13,715	13,580	13,703
665859AS3	1,345	1,340	1,345
708692AJ7	256	257	254
708692BF4	1,166	1,160	1,165
7092236U0	304	306	302

(in thousands of dollars)

	December 31, 2017		
CUSIP Identification	Actual Cost	Fair Value	Book/Adjusted Carrying Value
744320AW2	1,585	1,605	1,585
786134PG5	17,441	20,064	18,066
80281LAG0	1,006	1,002	1,006
808194AB0	850	884	850
88283LJZ0	5,617	5,381	5,548
89356BAB4	1,090	1,083	1,087
89602NZ72	11,322	11,350	11,350
912828PP9	3,282	3,868	3,737
913366BU3	3,500	4,530	3,745
95000U2A0	4,804	4,832	4,803
96634RAQ5	4,975	5,011	4,977
969457BM1	1,386	1,386	1,383
G5485FAC6	3,587	3,547	3,572
P09646AD5	5,364	5,494	5,202
Total	$ 304,871	$ 311,133	$ 306,755

The Company also invests in bonds with callable features, which grant the issuer the right to redeem the security in part or in whole at specified dates throughout the life of the contract. There were 106 bonds redeemed as a result of such a callable feature during the year ended December 31, 2017, with $(442) recorded as investment income as a result of prepayment penalties and/or acceleration fees.

As part of its TBA trading strategy, the Company initiates its positions through both purchases and sales. Any initial sales are referred to as "short sales" and represent obligations to deliver the applicable TBA(s) by the settlement date. Unsettled short sales as of December 31, 2017 represent $4,756 of outstanding proceeds, with a market value of $4,762 and an unrealized gain (loss) of $(6). Short sale proceeds of $582,626 were received during the year ended December 31, 2017. These short sales were settled for $583,461, resulting in a realized gain (loss) of $(835).

e. Other Invested Assets

During 2017 and 2016, the Company recorded OTTI in the other invested assets portfolio of $9,173 and $4,851, respectively. The other-than-temporarily impaired investments were generally mature partnerships that had completed their initial investment period. Some were in the process of liquidating investment holdings. These partnerships may have experienced losses due to poor performance of a specific investment, poor performance of a particular sector, or unfavorable market conditions in general. As there was no clear indication of full recovery of value of these investments, OTTI losses were realized.

The Company believes that no additional other invested assets in the portfolio are other-than-temporarily impaired. In making this determination, the Company considers severity of impairment, age of the partnership, percent of the total commitment funded, performance of the underlying investments, sector of the underlying investments, and the intent and ability of the Company to hold the investment until the value has fully recovered.

(in thousands of dollars)

Low Income Housing Tax Credits (LIHTC)

The schedule of LIHTC unexpired tax credits and the required holding periods as of December 31, 2017 are listed as follows:

Entity Description	Years of Unexpired Tax Credits	Required Holding Period
MAHF XVIII	3	2020
MAHF XIX	3	2020

None of the above LIHTC properties are currently subject to any regulatory reviews or contingent commitments.

Transferable and Non-transferable State Tax Credits

The carrying value of transferable state tax credits and total unused transferable state tax credits were not material to the Company as of December 31, 2017 and 2016. The Company did not hold any non-transferable state tax credits as of December 31, 2017 and 2016.

f. Derivative Instruments

In order to mitigate interest rate risk with respect to the Company's investment portfolio and general operations, the Company has entered into certain interest rate derivatives. All interest rate swap instruments are subject to enforceable master netting agreements and the Company elects to net derivative asset and derivative liability positions with the same counterparty on the consolidated property & casualty statutory balance sheets. Cash collateral payable (receivable) is recorded net within other assets or accrued expenses and other liabilities on the consolidated property & casualty statutory balance sheets.

(in thousands of dollars)

Derivative instruments as of December 31, 2017 and 2016 are as follows:

	2017					
			Balance Sheet		Statement of Changes in Capital and Surplus	
Derivatives designated as:	**Notional (Par) Value**	**Purpose**	**Classification**	**Fair Value**	**Classification**	**Net Amount Realized**
Non-hedging instruments						
Assets:						
Interest rate swaps	$ —	Manage duration	Other invested assets	$ —	Unassigned surplus	$ —
Liabilities:						
Interest rate swaps	1,255,000	Manage duration	Accrued expenses and other liabilities	(2,374)	Unassigned surplus	(4,991)
Total open positions	$ 1,255,000			$ (2,374)		$ (4,991)
Closed:						
Interest rate swaps	$ 316,200	Manage duration	N/A		Realized capital gain (loss)	$ 254
Total closed positions						$ 254
Total						$ (4,737)

	2016					
			Balance Sheet		Statement of Changes in Capital and Surplus	
Derivatives designated as:	**Notional (Par) Value**	**Purpose**	**Classification**	**Fair Value**	**Classification**	**Net Amount Realized**
Non-hedging instruments						
Assets:						
Interest rate swaps	$ 726,200	Manage Duration	Other invested assets	$ 3,513	Unassigned surplus	$ 9,606
Liabilities:						
Interest rate swaps	—	Manage Duration	Accrued expenses and other liabilities	—	Unassigned surplus	—
Total open positions	$ 726,200			$ 3,513		$ 9,606
Closed:						
Interest rate swaps	$ 500,000	Manage Duration	N/A		Realized capital gain (loss)	$ (22,746)
Total closed positions						$ (22,746)
Total						$ (13,140)

(in thousands of dollars)

The following table provides gross and net amounts for the Company's derivative instruments:

	2017											
									Amounts Not Offset on Balance Sheet			
Derivatives Designated as:	Gross Amount		Counterparty Netting		Cash Collateral (Received) Pledged		Net Amount on Balance Sheet		Securities Collateral (Received) Pledged		Net Amount	
Assets	$	6,685	$	(9,059)	$	(138)	$	(2,512)	$	—	$	(2,512)
Liabilities		(9,059)		9,059		—		—		—		—
Total	$	(2,374)	$	—	$	(138)	$	(2,512)	$	—	$	(2,512)

	2016											
									Amounts Not Offset on Balance Sheet			
Derivatives Designated as:	Gross Amount		Counterparty Netting		Cash Collateral (Received) Pledged		Net Amount on Balance Sheet		Securities Collateral (Received) Pledged		Net Amount	
Assets	$	8,601	$	(5,088)	$	(4,507)	$	(994)	$	—	$	(994)
Liabilities		(5,088)		5,088		—		—		—		—
Total	$	3,513	$	—	$	(4,507)	$	(994)	$	—	$	(994)

Collateral pledged as initial margin to the Chicago Mercantile Exchange (CME) is not subject to a master netting agreement and is therefore excluded from collateral pledged (received) in the previous table.

Counterparty credit risk is evaluated closely to ensure that the party or collateral backing the derivative transaction will meet the financial obligations of the contract. For bilateral over-the-counter interest rate swap transactions the amount of counterparty exposure depends on the creditworthiness of and collateral provided by the counterparty. The Company actively monitors and evaluates the financial qualifications of counterparties to its swap agreements and requires these counterparties to provide sufficient collateral security through the execution of a legally enforceable Credit Support Annex (CSA). The CSA requires collateral to be exchanged when predetermined exposure limits are exceeded and permits either party to net collateral transfers due for transactions covered under the agreements. As of December 31, 2017 and 2016, the Company pledged no bonds as collateral to counterparties. Bonds pledged by the Company as collateral are included in bonds on the consolidated property & casualty statutory balance sheets. There were no bonds pledged by counterparties to the Company as of December 31, 2017 and 2016. The Company pledged no cash as collateral to counterparties and counterparties pledged $0 and $680 in cash collateral to the Company as of December 31, 2017 and 2016, respectively. Cash collateral pledged to (by) the Company is recorded net within in other assets or accrued expenses and other liabilities on the consolidated property & casualty statutory balance sheets as previously described.

Certain OTC swap contracts were transacted and cleared through the central clearinghouse at the CME, where the CME serves as the counterparty for both parties to the swap contract. Rather than directly posting collateral to/from a traditional counterparty as in a bilateral agreement, the Company posts initial and variation margin per CME's requirements. Initial margin, which may consist of cash and/or securities, protects against "shock" events and is not used to settle market value variation movements. After initial execution of the swap contract, the CME uses a market-standard model to price (mark to market) accepted trades, and that price serves as the basis for variation margin requirements. Similar to the movement of collateral between counterparties in a bilateral agreement, centrally cleared swap contracts require variation margin to be posted (received) by the Company as the market value of the swap contract moves further out of (into) the money. As of December 31, 2017 and 2016, the Company pledged initial margin of $0 and $1,163 in cash and bonds with a carrying value and fair value of $6,450 and $2,998, respectively, to the CME. The Company pledged no cash as variation margin to the CME at either December 31, 2017 and 2016. The CME posted $138 and $3,827 in cash as variation margin to the Company as of December 31, 2017 and 2016, respectively. Cash pledged as variation margin by (to) the Company is recorded net within other assets or accrued expenses and other liabilities on the consolidated property & casualty statutory balance sheets as previously described. Bonds pledged by the Company as margin are included in bonds on the consolidated property & casualty statutory balance sheets.

(in thousands of dollars)

Counterparty credit exposure by counterparty credit rating as it relates to open derivative positions as of December 31, 2017 and 2016, is as follows:

	2017			
Rating	Number of Counterparties	Notional (Par) Value	Credit Exposure	Exposure, Net of Collateral
Centrally cleared	1	$ 1,255,000	$ (2,374)	$ —
A	—	—	—	—
Total	1	$ 1,255,000	$ (2,374)	$ —

	2016			
Rating	Number of Counterparties	Notional (Par) Value	Credit Exposure	Exposure, Net of Collateral
Centrally cleared	1	$ 706,200	$ 3,091	$ —
A	1	20,000	422	—
Total	2	$ 726,200	$ 3,513	$ —

g. Net Investment Income

Net investment income for the years ended December 31 is summarized as follows:

	2017	2016
Bonds	$ 255,256	$ 227,084
Common stocks	48,288	51,539
Real estate	49,265	45,258
Other invested assets	103,242	86,472
Other	1,605	(844)
Total investment income	457,656	409,509
Investment expenses	(134,490)	(122,113)
Net investment income	$ 323,166	$ 287,396

h. Mortgage Loans

The Company began investing in commercial mortgage loans in 2017. The minimum and maximum lending rates for commercial mortgage loans issued during 2017 ranged from 4.06% to 4.74%. During 2017, the Company did not reduce interest rates on outstanding mortgage loans.

(in thousands of dollars)

Mortgage loans are invested primarily in office, retail and industrial properties and are reported and measured at their outstanding principal amount. Fire and extended coverage insurance is required on all properties. The maximum percentage of any one loan to the value of security at the time of the loan, exclusive of insured or guaranteed or purchase money mortgages did not exceed 61%.

Significant concentrations of mortgage loans amounting to $31,660 exist for properties located in the South region at December 31, 2017. In addition, significant concentrations of mortgage loans by state include the following as of December 31:

	2017
Georgia	$ 19,995

The Company considers any loan that is one or more days delinquent to be past due. At December 31, 2017, the Company had no past due commercial mortgage loans, and there were no recorded investments in impaired loans during 2017. As of December 31, 2017, all loans in the portfolio were in good standing, and no loans had been modified or restructured.

A loan is considered to be in good standing if all payments are current. When reviewing loans for impairment and making the determination to increase the valuation allowance or to charge off a loan, the Company individually monitors and analyzes loans and does not utilize portfolio segments or classes for monitoring purposes. The Company considers delinquency or default of payments, the mortgage loan unpaid principal balance as a percent of the fair value of the mortgage loan collateral, present value of expected payments compared to the current carrying value of the mortgage, current rent rolls of the property, financial condition of major tenants, and local economic conditions that would impact individual loans when reviewing potential loan impairment.

If analysis of any of these factors suggests the ability of the borrower to make future payments may be compromised or if the loan is delinquent in its payments by fewer than 90 days, the loan is added to the Company's watchlist. A watchlist loan has developed negative characteristics or trends in the impairment indicators discussed above, but has not yet met the criteria of a non-performing loan. Specific examples of such watchlist indicators may include loss of a major tenant or delinquency of property tax payments. Watchlist loans are monitored closely by the Company for indications of possible default, and an allowance may be established if ultimate collectability of the full principal amount becomes uncertain. If a loan is 90 days or more past due or is in the process of foreclosure, the loan is reclassified as non-performing. Non-performing loans are reserved to an amount equal to the expected potential principal loss and are reviewed in detail to determine whether an impairment or charge-off is necessary. Charge-offs are recorded when principal loss is imminent and the amount is readily determinable.

The Company had $49,931 of loans outstanding as of December 31, 2017, of which none were on the watchlist. There were no non-performing loans held as of December 31, 2017. There were no charge-offs recorded in the mortgage loan portfolio in 2017.

The Company did not carry a valuation allowance for credit losses on mortgage loans as of December 31, 2017. Changes in the valuation allowance are recorded through net investment income.

(in thousands of dollars)

Commercial mortgage loans are placed on nonaccrual status after a default notice has been issued and the borrower has failed to cure the defect in a reasonable amount of time. Once a loan reaches nonaccrual status any accrued interest income is derecognized and future accrual of interest is suspended until the loan is made current. If the ultimate collectability of principal, either in whole or in part, is in doubt, any payment received on a nonaccrual loan shall first be applied to reduce principal to the extent necessary to eliminate such doubt. There were no loans in nonaccrual status at December 31, 2017, and no loans were restructured during 2017.

3. Goodwill

The Company has recorded goodwill as a result of acquisitions accounted for under the statutory purchase method. The following presents a summary of the Company's goodwill at, and for the year ended, December 31:

			2017		2016	
Acquired Entity	**Cost of Acquired Entity**	**Recorded Goodwill**	Amortization Expense	Goodwill, Net	Amortization Expense	Goodwill, Net
Homesite	$ 666,447	$ 298,935	$ 29,879	$ 179,275	$ 29,879	$ 209,154
PGC	241,636	129,740	12,964	64,822	12,964	77,786
MIC	15,328	3,838	384	1,919	384	2,303
Total	$ 923,411	$ 432,513	$ 43,227	$ 246,016	$ 43,227	$ 289,243

4. Income Taxes

The components of the net deferred tax assets (liabilities), tax-effected at 21% and 35% at December 31, 2017 and 2016, respectively, are as follows:

		2017			2016		
1.		**Ordinary**	**Capital**	**Total**	**Ordinary**	**Capital**	**Total**
(a)	Gross deferred tax assets (DTAs)	$ 464,960	$ 2	$ 464,962	$ 794,707	$ —	$ 794,707
(b)	Statutory valuation allowance adjustment	504	—	504	1,054	—	1,054
(c)	Adjusted gross deferred tax assets ((a) - (b))	464,456	2	464,458	793,653	—	793,653
(d)	Deferred tax assets nonadmitted	721	—	721	—	—	—
(e)	Subtotal (net deferred tax assets) ((c) - (d))	463,735	2	463,737	793,653	—	793,653
(f)	Deferred tax liabilities	92,108	252,246	344,354	106,843	365,778	472,621
(g)	Net admitted deferred tax assets ((e) - (f))	$ 371,627	$ (252,244)	$ 119,383	$ 686,810	$ (365,778)	$ 321,032

(in thousands of dollars)

		2017			2016		
2.		Ordinary	Capital	Total	Ordinary	Capital	Total
Admission calculation components of SSAP No. 101							
(a)	Fed inc tax paid in prior years recov through loss carrybacks	$ 72,565	$ 2	$ 72,567	$ 281,602	$ —	$ 281,602
(b)	Adjusted gross deferred tax assets expected to be realized(Excluding the amount of def tax assets from (a) above after application of the threshold limitation (the lesser of b(1) and b(2) below)	172,884	—	172,884	168,177	—	168,177
	1. Adjusted gross deferred tax assets expected to be realized following the balance sheet date	172,884	—	172,884	168,177	—	168,177
	2. Adjusted gross deferred tax assets allowed per limitation threshold	XXXXX	XXXXX	1,121,102	XXXXX	XXXXX	1,031,394
(c)	Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from (a) and (b) above) offset by existing DTLs gross deferred tax liabilities	218,286	—	218,286	343,873	—	343,873
(d)	Deferred tax assets admitted as the result of application of SSAP 101, Total (a)+(b)=(c)	$ 463,735	$ 2	$ 463,737	$ 793,653	$ —	$ 793,653

		2017	2016
3.			
(a)	Ratio percentage used to determine recovery period and threshold limitation amount	762%	759%
(b)	Amount of adjusted capital and surplus used to determine recovery period and threshold limitation in 2(b)2 above	$6,577,847	$6,610,110

	2017		2016	
	Ordinary	Capital	Ordinary	Capital
4.				
Impact of Tax-Planning Strategies				
(a) Determination of Adjusted Gross Deferred Tax Assets and Admitted				
1. Deferred Tax Assets by Tax Character as a Percentage	$ 464,456	$ 2	$ 793,653	$ —
2. Percentage of Adjusted Gross DTAs by Tax Character Attributable to the impact of Tax Planning Strategies	0%	0%	0%	0%
3. Net Admitted Adjusted Gross DTAs from Note 9A(1)e	$ 463,735	$ 2	$ 793,653	$ —
4. Percentage of Adjusted Gross DTAs by Tax Character Admitted Because of the Impact of Tax Planning Strategies	0%	0%	0%	0%
(b) Does the Company's tax-planning strategies include the use of reinsurance?	[ ] Yes	[X] No	[ ] Yes	[X] No

The components of current income tax expense (benefit) are as follows:

	2017	2016
Current Income Tax		
Federal	$ (250,482)	$ 64,614
Foreign	—	—
Subtotal	(250,482)	64,614
Federal income tax on net capital gains	105,916	51,782
Other	(4,237)	(19,038)
Total	$ (148,803)	$ 97,358

(in thousands of dollars)

The main components of the net DTAs and DTLs as of December 31 are as follows:

	2017	2016
DTAs		
Ordinary		
Discounting of unpaid losses	$ 27,897	$ 47,184
Unearned premiums	153,578	222,598
Investments	2,338	13,405
Compensation and benefits accrual	197,710	321,321
Pension accrual	—	56,830
Nonadmitted assets	77,015	124,698
NOL carryforward	623	1,038
Other (including items <5% of total ordinary assets)	5,799	7,633
Subtotal	464,960	794,707
Statutory valuation allowance adjustment	504	1,054
Nonadmitted DTAs	721	—
Admitted ordinary deferred tax assets	463,735	793,653
Capital		
Other	2	—
Subtotal	2	—
Admitted capital deferred tax assets	2	—
Admitted deferred tax assets	$ 463,737	$ 793,653
DTLs		
Ordinary		
Investments	$ 2,335	$ 4,181
Fixed assets	67,741	97,072
Other (including items <5% of total ordinary liabilities	22,032	5,590
Subtotal	92,108	106,843
Capital		
Investments	252,246	365,778
Subtotal	252,246	365,778
Deferred tax liabilities	344,354	472,621
Net deferred tax assets (liabilities)	$ 119,383	$ 321,032

(in thousands of dollars)

The components of the change in net deferred tax as of December 31 are as follows:

	2017	2016	Change
Adjusted gross DTAs	$ 464,458	$ 793,653	$ (329,195)
Total DTLs	344,354	472,621	(128,267)
Net DTAs (DTLs)	$ 120,104	$ 321,032	(200,928)
Tax effect of investment unrealized gains (losses)			(113,715)
Other			225
Beginning deferred balance - PGC			(23,047)
Change in net deferred income tax			$ (337,465)

The actual federal income tax expense on operations for 2017 and 2016 differed from expected tax expense (benefit) as follows:

	2017			2016		
	Amount	Tax Effect at 35%	Effective Tax Rate	Amount	Tax Effect at 35%	Effective Tax Rate
Income (loss) before tax expense	$ (9,423)	$ (3,298)	35.00 %	$ 321,557	$ 112,545	35.00%
Tax exempt interest	(82,214)	(28,775)	305.37	(76,528)	(26,785)	(8.33)
Dividends received deduction	(35,414)	(12,394)	131.53	(36,444)	(12,755)	(3.97)
Tax-exempt interest and dividend deduction proration	17,493	6,123	(64.98)	16,863	5,902	1.84
Treasury inflation protected securities	75	26	(0.28)	22	8	—
50% meals and entertainment adjustment	2,333	817	(8.67)	2,358	825	0.26
Other current year permanent items	1,827	639	(6.78)	1,443	505	0.16
Change in prior year permanent items	6,674	2,336	(24.79)	(9,565)	(3,348)	(1.04)
Nonadmitted assets	(10,471)	(3,665)	38.89	1,845	646	0.20
Audit interest	—	—	—	724	253	0.08
Excluded gain on stock contribution	—	—	—	(7,332)	(2,566)	(0.80)
Deferred tax balance and audit adjustments	1,227	429	(4.55)	(875)	(306)	(0.10)
Valuation allowance	(1,572)	(550)	5.84	(826)	(289)	(0.09)
Change in additional liability for pension, postretirement, and agent contract termination payment plans	(50,037)	(17,513)	185.85	—	—	—
Tax reform rate change	—	244,979	(2,599.80)	—	—	—
Other	377	132	(1.40)	(3)	(1)	—
Foreign tax credit and penalties	(1,782)	(624)	6.62	(392)	(137)	(0.04)
Taxable income (loss)	$ (160,907)	$ 188,662	(2,002.15)%	$ 212,847	$ 74,497	23.17%
Federal income tax incurred		(148,803)	1,579.15		97,358	30.28
Change in net deferred income tax		337,465	(3,581.30)		(22,861)	(7.11)
Total statutory income taxes (excluding taxes on unrealized gains/losses)		$ 188,662	(2,002.15)%		$ 74,497	23.17%

(in thousands of dollars)

On December 22, 2017, the Tax Cuts and Jobs Act (the Act) was enacted into law. As a result, the Company has recognized a tax expense of $244,979 related to operations and surplus items excluding unrealized gains and losses. In addition, the Company recognized a tax benefit of $164,573 in surplus related to unrealized gains and losses. In total, the Company recognized a net tax expense impact of $80,406 in 2017 due to the remeasurement of deferred tax assets and liabilities at lower enacted tax rates. At December 31, 2017, the U.S. Treasury had not issued applicable discount factors and, therefore, the Company did not have the necessary information available to complete the accounting for the tax effects of enactment of the Act related to the tax basis of unpaid loss reserves under Statement of Statutory Accounting Principles (SSAP) 101, *Income Taxes*. In accordance with INT 18-01, *Updated Tax Estimates under the Tax Cuts and Jobs Act,* a reasonable estimate was not made. The Company believes the inability to estimate the tax unpaid losses in accordance with tax reform would not have had any impact on net admitted assets as of December 31, 2017.

On a consolidated basis there were no carryforwards available for recoupment as of December 31, 2017 and 2016.

The following are income tax expenses incurred in the current and prior years that are available for recoupment in the event of future net losses:

Year	Amount
2017	$ 2,738
2016	65,908
2015	61,064

On a consolidated basis the following is income tax expense for 2017, 2016 and 2015 that is available for recoupment in the event of future net losses:

Year	Amount
2017	$ 4,838
2016	72,818
2015	58,391

The guidance for accounting for uncertainty in income taxes prescribes a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. Interest and penalties on tax uncertainties are classified as a federal tax expense. The total amount of interest accrued was $457 and $831 as of December 31, 2017 and 2016, respectively. The Company does not expect to have a significant change in unrecognized tax benefits in the next twelve months.

The examinations of the Company’s consolidated federal income tax returns for the years 2013 and prior are closed, and the years 2014 through 2017 remain open under the Internal Revenue Service (IRS) statute of limitations. AFMICSI and its subsidiaries are currently under federal audit for tax year 2015.

5. Employee Benefit Plans

The Company has a non-contributory qualified pension plan (herein referred to as the Plan) covering substantially all employees except for those employees of PGC, Homesite or acquired non-insurance companies. For AFMICSI employees hired before January 1, 2009, and Sales District Leaders hired before January 1, 2010, the benefits are based on years of credited service and highest average compensation (as defined in the Plan). For employees hired on or after January 1, 2009, and Sales District Leaders hired on or after January 1, 2010, benefits are determined under a cash balance formula (as defined in the Plan). The asset valuation method used in 2017 for the funding calculation was the Two-Year Smoothed Value method. Benefit restrictions required under the Pension Protection Act of 2006 do not apply in 2017 given the funded status of the Plan.

The Company provides certain health care benefits to substantially all employees and contributes toward eligible employees' postretirement health care using a fixed amount for each year of eligible service. Certain employees may also receive health care benefits upon retirement via conversion of unused sick days earned prior to 2008. In addition, the Company provides most employees with a life insurance benefit, for which the Company absorbs substantially all of the cost. The Company's portion of the costs of these programs is unfunded. The Company sponsors no other significant postretirement benefit plans and uses a measurement date of December 31 for valuing pension and other postretirement benefit plans (herein referred to as the Plans).

(in thousands of dollars)

The following table reflects the Plan's funded status, the Company's accrued postretirement benefits liability, and amounts recognized in the Company's consolidated property & casualty statutory balance sheets at December 31:

Change in benefit obligation

Pension Benefits

	Overfunded		Underfunded	
	2017	**2016**	**2017**	**2016**
Benefit obligation at beginning of year	$ —	$ —	$ 1,141,259	$ 1,086,147
Service cost	—	—	51,079	49,106
Interest cost	—	—	44,620	44,162
Actuarial (gain)/loss	—	—	119,165	30,922
Benefits paid	—	—	(72,765)	(69,078)
Benefit obligation, end of year	$ —	$ —	$ 1,283,358	$ 1,141,259

Postretirement Benefits

	Overfunded		Underfunded	
	2017	**2016**	**2017**	**2016**
Benefit obligation at beginning of year	$ —	$ —	$ 59,508	$ 56,092
Service cost	—	—	3,100	3,049
Interest cost	—	—	2,309	2,238
Actuarial (gain)/loss	—	—	3,929	322
Benefits paid	—	—	(2,348)	(2,193)
Benefit obligation, end of year	$ —	$ —	$ 66,498	$ 59,508

Postemployment & Compensated Absence Benefits

	Overfunded		Underfunded	
	2017	**2016**	**2017**	**2016**
Benefit obligation at beginning of year	$ —	$ —	$ 74,954	$ 69,171
Service cost	—	—	62,378	58,870
Interest cost	—	—	(463)	1,201
Benefits paid	—	—	(64,233)	(54,288)
Benefit obligation, end of year	$ —	$ —	$ 72,636	$ 74,954

(in thousands of dollars)

	Pension Benefits		Postretirement Benefits		Postemployment	
	2017	2016	2017	2016	2017	2016
Change in plan assets						
Fair value of plan assets at beginning of year	$ 845,436	$ 768,569	$ —	$ —	$ —	$ —
Actual return on plan assets	155,350	61,371	—	—	—	—
Reporting entity contribution	85,344	84,574	2,348	2,193	64,233	54,288
Benefits paid	(72,765)	(69,078)	(2,348)	(2,193)	(64,233)	(54,288)
Fair value of plan assets at end of year	$ 1,013,365	$ 845,436	$ —	$ —	$ —	$ —

Funded status

	Pension Benefits		Postretirement Benefits	
	2017	2016	2017	2016
Overfunded				
Assets (non admitted)				
Prepaid benefit costs	$ —	$ —	$ —	$ —
Overfunded plan assets	—	—	—	—
Total assets (non admitted)	$ —	$ —	$ —	$ —
Underfunded				
Liabilities recognized				
Accrued benefit costs	$ (34,778)	$ (9,708)	$ 64,980	$ 61,614
Liability for pension benefits	304,771	305,531	1,518	(2,106)
Total liabilities recognized	$ 269,993	$ 295,823	$ 66,498	$ 59,508
Unrecognized liabilities	$ —	$ —	$ —	$ —

Components of net periodic benefit cost

	Pension Benefits		Postretirement Benefits		Postemployment & Compensated Absence Benefits	
	2017	2016	2017	2016	2017	2016
Service cost	$ 51,079	$ 49,106	$ 3,100	$ 3,049	$ 62,378	$ 58,870
Interest cost	44,620	44,162	2,309	2,238	(463)	1,201
Expected return on plan assets	(51,893)	(50,855)	—	—	—	—
Incremental (asset) / obligation	(3,617)	(3,617)	—	—	—	—
Prior service cost / (credit)	(7,096)	(7,096)	157	157	—	—
Actuarial (gain) / loss	26,365	27,102	148	40	—	—
Gain or loss recognized due to a settlement or curtailment	816	1,028	—	—	—	—
Net periodic cost	$ 60,274	$ 59,830	$ 5,714	$ 5,484	$ 61,915	$ 60,071

The Company recognized additional pension expenses in connection with settlement accounting which resulted from lump sum distributions exceeding service and interest cost during the year of $816 and $1,028 for 2017 and 2016, respectively.

(in thousands of dollars)

Amount in unassigned funds (surplus) recognized as components of net periodic benefit cost:

	Pension Benefits		Postretirement Benefits	
	2017	2016	2017	2016
Items not yet recognized as a component of net periodic cost - prior year	$ 305,531	$ 302,536	$ (2,106)	$ (2,231)
Net transition asset or obligation recognized	3,617	3,617	—	—
Net prior service cost or credit arising during the period	—	—	—	—
Net prior service cost or credit recognized	7,096	7,096	(157)	(157)
Net gain and loss arising during the period	15,708	20,412	3,929	322
Net gain and loss recognized	(27,181)	(28,130)	(148)	(40)
Items not yet recognized as a component of net periodic cost - current year	$ 304,771	$ 305,531	$ 1,518	$ (2,106)

Amounts of unassigned funds (surplus) expected to be recognized in the next fiscal year as components of net periodic costs:

	Pension Benefits		Postretirement Benefits	
	2017	2016	2017	2016
Net transition asset or obligation	$ (3,617)	$ (3,617)	$ —	$ —
Net prior service cost or credit	(7,096)	(7,096)	157	157
Net recognized gains and losses	21,711	24,426	269	145

Amounts in unassigned funds (surplus) that have not yet been recognized as components of net periodic benefit costs:

	Pension Benefits		Postretirement Benefits	
	2017	2016	2017	2016
Net transition asset or obligation	$ (10,850)	$ (14,467)	$ —	$ —
Net prior service cost or credit	(31,804)	(38,899)	(5,614)	(5,457)
Net recognized gains and losses	347,426	358,898	7,132	3,351

(in thousands of dollars)

	2017	2016
Weighted-average assumptions used to determine net periodic benefit cost as of December 31:		
Weighted-average discount rate	3.99%	4.19%
Expected long-term rate of return on plan assets	6.25%	6.75%
Rate of compensation increase	3.50%	3.50%
Weighted-average assumptions used to determine projected benefit obligations as of December 31:		
Weighted-average discount rate	3.54%	3.99%
Rate of compensation increase	3.50%	3.50%

The pension accumulated benefit obligation at December 31, 2017 and 2016 was $1,079,614 and $979,174, respectively.

Assumed health care cost trend rates do not have a significant effect on the amounts reported for the health care plans.

Annual rates of increase in the per capita costs of covered health benefits were assumed to be 7.00% and 7.25% (Pre-65) and 7.50% and 7.75% (Post-65) for 2017 and 2016, respectively. Rates will gradually decrease to 5.00% by 2022.

Expected Cash Flows
Information about the expected cash flows for the Plans follows:

	Pension Benefits	Postretirement Benefits
Employer contributions		
2018 (expected)	$ 303,776	$ 4,074
Expected benefit payments		
2018	89,774	4,074
2019	91,588	4,305
2020	92,605	4,346
2021	96,554	4,544
2022	100,243	4,820
2023-2027	500,532	26,595

The expected long-term rate of return on funded plan assets was 6.25% and 6.75% in 2017 and 2016, respectively. The expected rate of return on plan assets is based upon an analysis of historical returns and long-term capital market assumptions for each asset class. The expected returns by asset class contemplate a risk free interest rate as of the measurement date and then add a risk premium. The risk premium is a range of percentages and is based upon information and other factors such as expected reinvestment returns and asset manager performance. Finally, an underlying inflation assumption is incorporated to determine the overall expected long-term rate of return assumption.

(in thousands of dollars)

The target allocation, asset allocation, and fair value of plan assets for the Company's pension plan at the end of 2017 and 2016, by asset category, follow.

	Target Allocation		Percentage of Plan Assets, Year End		Fair Value of Plan Assets, Year End	
	2017	2016	2017	2016	2017	2016
Asset Category						
Equity	55%	55%	59%	59%	$ 599,426	$ 497,733
Debt	40	40	38	36	381,870	302,656
Private equity	5	5	3	4	25,024	30,479
Cash equivalents	—	—	—	1	3,327	7,791
Total	100%	100%	100%	100%	$ 1,009,647	$ 838,659

The overall investment objective of the Plan is to maximize the risk adjusted return on assets over a long-term period, while ensuring the Plan is able to meet current and future obligations to plan participants. The primary considerations in developing target asset allocations are the Plan's overall investment objective, the investment objectives for the various assets, the necessary level of diversification, and maintaining an acceptable level of risk. The existing allocations are within the Company's tolerance for variation from target allocation.

The Plan's equity allocation seeks to provide long-term returns with a diversified basket of domestic and international equity securities and mutual funds. The Plan invests in actively managed domestic and international mutual funds and equity portfolios that seek to diversify equity risk, generate long-term growth of capital, and outperform benchmark indices. Actively managed equity allocations represent 41% and 38% of Plan assets at December 31, 2017 and 2016, respectively. The Plan also invests in a passively managed domestic large cap equity index portfolio that seeks to mirror the risk characteristics and return performance of the Russell 200 Index. This portfolio comprised approximately 18% and 21% of Plan assets at December 31, 2017 and 2016, respectively.

The pension bond fund seeks to maximize total return by investing in fixed income securities. The fund offers diverse exposure to the fixed income market by investing in a combination of investment grade bonds including corporate debt securities, U.S. Treasury and agency securities, mortgage- and asset-backed securities, and cash equivalents. The objective is to outperform Barclays' U.S. Aggregate Index. This fund comprised 31% of Plan assets at both year-end 2017 and 2016. The Plan's bond allocation also includes an investment in a multi-sector fixed income value fund, representing 7% and 5% of Plan assets at year-end 2017 and 2016, respectively.

The alternative investments objective is to add diversification and produce superior long-term returns when compared to more traditional investment opportunities. These assets comprised 3% and 4% of Plan assets at year-end 2017 and 2016, respectively.

The Company has no significant concentrations of risk within Plan assets.

Plan assets at fair value are categorized in the same manner as Company assets, based on the reliability of inputs to the valuation techniques as described in Note 1(c).

Below is a summary of significant valuation techniques specific to Plan assets:

Level 1 Measurements

Bonds: *U.S. Government Securities:* Comprised of U.S. Treasuries valued based on unadjusted quoted prices for identical assets in active markets.

Equity Securities: *Common Stocks*: Comprised of actively traded, exchange listed U.S. and international equity securities. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Plan can access.

Short-term Investments: Comprised of actively traded money market funds that have daily quoted net asset values for identical assets that the Plan can access.

Level 2 Measurements

Bonds: *Corporate Bonds and Notes, Foreign Bonds, and Municipal Bonds*: Valued using the market and income approaches based on inputs including quoted prices for identical or similar assets in markets that are not active, benchmark yield curves, bid/ask spreads, credit quality, and projected cash flows.

Equity Securities: *Registered Investment Companies and Common/Collective Investment Funds:* Comprised of non-actively traded U.S. and international funds, including the multi-sector fixed income value fund, priced by the fund manager using observable inputs primarily consisting of quoted prices of the underlying investments.

Level 3 Measurements

Limited Partnerships: Valued using capital account valuations as reported by the various limited partnerships, which approximate fair value.

(in thousands of dollars)

The following table summarizes the Plan's financial assets measured at fair value on a recurring basis as of December 31, 2017 and 2016:

	Assets at fair value as December 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Bonds				
U.S. government securities	$ 62,054	$ —	$ —	$ 62,054
Corporate bonds and notes	—	204,768	—	204,768
Municipal bonds	—	865	—	865
Foreign bonds	—	43,677	—	43,677
Equity securities				
Common stocks	275,434	—	—	275,434
Registered investment companies	—	215,666	—	215,666
Common/collective trusts	—	178,832	—	178,832
Short-term investments	3,327	—	—	3,327
Limited partnerships*	—	—	25,024	25,024
Total financial assets at fair value	$ 340,815	$ 643,808	$ 25,024	$ 1,009,647

	Assets at fair value as December 31, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Bonds				
U.S. government securities	$ 48,180	$ —	$ —	$ 48,180
Corporate bonds and notes	—	182,365	—	182,365
Municipal bonds	—	817	—	817
Foreign bonds	—	25,735	—	25,735
Equity securities				
Common stocks	222,857	—	—	222,857
Registered investment companies	—	158,205	—	158,205
Common/collective trusts	—	162,230	—	162,230
Short-term investments	7,791	—	—	7,791
Limited partnerships*	—	—	30,479	30,479
Total financial assets at fair value	$ 278,828	$ 529,352	$ 30,479	$ 838,659

* Limited partnerships were valued using 9/30 capital account valuations provided by the various limited partnerships, adjusted for any capital calls made and distributions received between 9/30 and 12/31.

All transfers into or out of a particular level are recognized as of the beginning of the reporting period. There were no transfers into or out of Level 1, 2, or 3 during 2017 or 2016.

(in thousands of dollars)

The table below sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the year ended December 31, 2017 and 2016.

	Limited Partnerships	
	2017	**2016**
Balance, beginning of year*	$ 30,479	$ 37,303
Purchases, sales, issuance and settlements, net	(5,455)	(6,824)
Balance, end of year*	$ 25,024	$ 30,479

*Based on 9/30 capital account valuations provided by the various limited partnerships, adjusted for any capital calls made and distributions received between 9/30 and 12/31

Other Plans

AFMICSI also sponsors a qualified contributory 401(k) plan (the 401(k) Plan) in which substantially all employees are eligible to participate except for those employees of PGC, Homesite or acquired non-insurance companies. Employees who choose to participate in the 401(k) Plan contribute between 1% and 30% of eligible base compensation, subject to IRS limitations. AFMICSI is required to make contributions each payroll period, as defined, to a trust fund. AFMICSI's contributions are based on a formula with a 100% match on the first 3% of eligible contributions plus 50% on the next 2% of eligible contributions for a maximum annual contribution of 4% of participants' eligible compensation. AFMICSI recognized expense of $21,993 and $19,470 related to the 401(k) Plan in 2017 and 2016, respectively.

PGC sponsors a defined contribution 401(k) plan in which substantially all employees of PGC are eligible to participate (PGC Plan). Under the PGC Plan, PGC's matching contribution is equal to 50% to 100% of each participant's contribution (depending upon years of service) to a maximum of 5% of the participant's eligible compensation. Expenses related to the PGC Plan of $2,464 and $1,924 were incurred during 2017 and 2016, respectively.

Homesite sponsors a defined contribution 401(k) plan in which substantially all Homesite employees 21 or older are eligible to participate (Homesite Plan). Under the Homesite Plan, Homesite's matching contribution is equal to 50% of each participant's contribution, subject to a maximum of 5% of the participant's eligible compensation. Expenses related to the Homesite plan of $7,864 and $5,496 were recognized during 2017 and 2016, respectively.

A liability of $72,154 and $71,856 was accrued for earned but unpaid compensated absences as of December 31, 2017 and 2016, respectively.

6. Agent Contract Termination Payments

Exclusive agents of the Company are eligible to receive payments upon termination after a period of covered service. Years of service exclude time under an advance compensation plan, not to exceed two years. For agents appointed prior to January 1, 2009 that have more than 10 years of covered service, payments are based on a percentage of service fees during the period of up to 12 months prior to termination (as defined in the agreement). For agents appointed on or after January 1, 2009 that have eight or more years of covered service, payments are based on a cash balance formula that utilizes sales and service fees (as defined in the agreement).

The Company uses a measurement date of December 31 for agent contract termination payments plan.

(in thousands of dollars)

The following sets forth the status of the agent contract termination payments plan's obligation reconciled with amounts reported in the Company's consolidated property & casualty statutory balance sheets at December 31:

	2017	2016
Change in benefit obligation		
Benefit obligation at beginning of year	$ 697,175	$ 660,007
Service cost	27,555	26,051
Interest cost	27,718	27,212
Actuarial (gain)/loss	48,305	21,999
Benefits paid	(38,406)	(38,094)
Benefit obligation, end of year	$ 762,347	$ 697,175
Change in plan assets		
Reporting entity contribution	$ 38,406	$ 38,094
Benefits paid	(38,406)	(38,094)
Fair value of plan assets at end of year	$ —	$ —
Funded status		
Overfunded		
Assets		
Prepaid benefit costs	$ —	$ —
Overfunded plan assets	—	—
Total assets	$ —	$ —
Underfunded		
Liabilities recognized		
Accrued benefit costs	$ 758,005	$ 740,005
Liability for pension benefits	4,342	(42,830)
Total liabilities recognized	$ 762,347	$ 697,175
Unrecognized liabilities	$ —	$ —

	2017	2016
Components of net periodic benefit cost		
Service cost	$ 27,555	$ 26,051
Interest cost	27,718	27,212
Amount of recognized (gains)/losses	(202)	(1,095)
Amount of prior service cost recognized	1,335	12,135
Net periodic cost	$ 56,406	$ 64,303

(in thousands of dollars)

Amounts in unassigned funds (surplus) recognized as components of net periodic benefit cost:

	2017	2016
Items not yet recognized as a component of net periodic cost - prior year	$ (42,830)	$ (53,789)
Net prior service cost or credit recognized	(1,335)	(12,135)
Net gain and loss arising during the period	48,305	21,999
Net gain and loss recognized	202	1,095
Items not yet recognized as a component of net periodic cost - current year	$ 4,342	$ (42,830)

Amounts in unassigned funds (surplus) expected to be recognized in the next fiscal year components of net periodic benefit costs:

	2017	2016
Net transition asset or obligation	$ —	$ —
Net prior service cost or credit	—	1,335
Net recognized gains and losses	(162)	(127)

Amounts in unassigned funds (surplus) that have not yet been recognized as components of net periodic benefit cost:

	2017	2016
Net transition asset or obligation	$ —	$ —
Net prior service cost or credit	—	1,335
Net recognized gains and losses	4,342	(44,165)

(in thousands of dollars)

	2017	2016
Assumptions used to determine projected benefit obligation as of December 31:		
Discount rate	3.55%	4.00%
Service fees increase		
AFMIC		
First 8 years after appointment	21.00	21.00
After first 8 years of appointment	3.25	3.25
ASIC		
First 6 years after appointment	8.00	8.00
After first 6 years of appointment	(4.00)	(4.00)
Expected return rate on plan assets	N/A	N/A
Assumptions used to determine net periodic benefit cost as of December 31:		
Discount rate	4.00	4.30
Service fees increase		
AFMIC		
First 8 years after appointment	21.00	21.00
After first 8 years of appointment	3.25	3.25
ASIC		
First 6 years after appointment	8.00	8.00
After first 6 years of appointment	(4.00)	(4.00)
Expected return on plan assets	N/A	N/A

The accumulated benefit obligation at December 31, 2017 and 2016 was $673,635 and $611,121, respectively.

Expected Cash Flows

Information about the expected cash flows for the agent contract termination payments plan follows:

Expected contract termination payments		
2018	$	41,758
2019		43,760
2020		46,636
2021		50,142
2022		51,696
2023-2027		281,022

The above table reflects vested benefits expected to be paid from the Companies' assets.

(in thousands of dollars)

7. Property & Casualty Loss and Loss Adjustment Expense Reserve

Activity in the loss and loss adjustment expense reserve for property & casualty insurance, including health insurance, is summarized as follows:

	2017	2016
Net balance as of January 1	$ 3,830,886	$ 3,584,759
Adjustment due to change in reporting entity (see Note 1)	210,043	—
Net balance as of January 1, revised	4,040,929	3,584,759
Incurred losses and loss adjustment expenses related to		
Current year	6,311,710	4,986,131
Prior years	19,682	(169,392)
Total incurred	6,331,392	4,816,739
Paid losses and loss adjustment expenses related to		
Current year	4,069,385	3,054,405
Prior years	1,981,371	1,516,207
Total paid	6,050,756	4,570,612
Net balance as of December 31	$ 4,321,565	$ 3,830,886

Property & casualty loss and loss adjustment expenses incurred were increased by $19,682 and decreased by $169,392 during 2017 and 2016, respectively, attributable to re-estimation of unpaid losses and loss adjustment expenses from insured events of prior years. The lines of business primarily affected were Private Passenger Auto Liability, Commercial Multiple Peril and Other Liability in 2017, and Private Passenger Auto Liability in 2016.

Increases or decreases of this nature occur as the result of claim settlements during the current year, and as additional information is received regarding individual claims, causing changes from the original estimates of individual claims. Recent loss development trends are also taken into account in evaluating the overall adequacy of unpaid losses and loss adjustment expenses.

8. Related Party Transactions

As of December 31, 2017 and 2016, on a consolidated basis, the Companies reported $15,847 and $37,583, respectively, due from affiliates and $100,449 and $92,607, respectively, due to affiliates. Terms of the settlement require that these amounts be settled within 90 days.

AFMICSI has agreed to provide certain management and information systems services to its wholly-owned subsidiaries. AFMICSI shares certain administrative, occupancy, marketing and tax expenses with other affiliated companies. Such expenses are allocated by AFMICSI at cost in proportion to estimated utilization. Allocation methods are refined periodically to reflect current operations and resources utilized by the Company. In addition AFMICSI is allocated expenses from its wholly-owned subsidiaries as a result of certain information systems and administrative services provided to the Company. These expenses are allocated to AFMICSI at cost either in proportion to estimated utilization or via specific identification.

In 2017, the Company made $147,672 in cash distributions to Holdings to support its non-insurance business developments and acquisitions, $130,000 of which was provided through the execution of a short-term advance from the FHLBC (see Note 14). Also in 2017, as part of the corporate reorganization discussed in Note 1, the Company distributed, in kind, its investment in New Ventures, LLC, an unconsolidated, non-insurance subsidiary, which had a book value at the time of distribution of $110,044, to Holdings.

In 2017, the Company contributed $12,327 to AmFam, Inc., of which the majority was used to support capital investment activities. In 2016, the Company contributed $78,849 to AmFam, Inc. of which the majority was used to provide capital support to PGC and support the Companies' non-insurance business developments.

9. Commitments and Contingencies

The Company has various leases for property and equipment used in the normal course of business. These lease commitments are summarized in Note 1(j).

The Companies are contingently liable for cessions to reinsurers to the extent that any reinsurer might be unable to meet its obligations assumed under the various reinsurance contracts.

AFMICSI enters into contractual agreements that require capital contributions to limited partnerships. These contributions are recorded on the consolidated property & casualty statutory financial statements as other invested assets. Capital is typically contributed to the partnerships over multiple years. At any time, AFMICSI will have commitments to the partnerships that have not yet been funded. As of December 31, 2017 and 2016, AFMICSI was obligated to contribute $638,399 and $581,012, respectively, in additional capital to various limited partnerships. These contributions are callable under the commitments to the partnerships over the lives of the partnerships.

The Companies are at times involved in lawsuits which are related to operations. In most cases, such lawsuits involve claims under insurance policies and other contracts of the Companies. Such lawsuits, either individually or in the aggregate, are not expected to have a material effect on the Companies' consolidated property & casualty statutory financial statements.

The Company is the defendant in ongoing worker classification class action litigation related to a segment of the Company's past and current exclusive agent population. In the event of a decision in favor of the plaintiffs, the Company estimates losses ranging between $0 and $75,000 would be incurred. In the Company's judgment, a loss is not probable and, as such, no accrual has been recorded as of December 31, 2017.

From time to time, mandatory assessments are levied on AFMICSI and its insurance subsidiaries by the property & casualty guaranty fund associations of states in which the Companies are licensed. These assessments are to cover losses to policyholders of insolvent or rehabilitated insurance companies. Guaranty fund assessment liabilities, as of December 31, 2017 and 2016, were $15,674 and $20,979, respectively. Guaranty fund assets related to future premium tax credits were $20,111 and $13,623 for the years ended December 31, 2017 and 2016, respectively. Such estimates are subject to change as the associations determine more precisely the losses that have occurred and how such losses will be allocated to insurance companies.

(in thousands of dollars)

10. Structured Settlements

AFMICSI has purchased annuities of which the claimant is the payee, but for which AFMICSI is contingently liable. At December 31, 2017 and 2016, the present values of all such annuities were $104,857 and $107,636, of which $56,794 and $55,042 were from nonaffiliated life insurers, respectively.

11. Capital and Surplus and Dividend Restrictions

The Companies' surplus may be available for distribution to its policyholders. Such distributions as dividends may be subject to prior regulatory approval. AFMICSI paid $257,716 and $0 of ordinary dividends to affiliates in 2017 and 2016, respectively. See Note 8 for distributions relating to affiliates in 2017. There were no restrictions placed on the Companies' surplus, including for whom the surplus is being held.

The portion of unassigned funds (surplus) represented or (reduced) by cumulative gross unrealized gains (losses) was $2,405,555 and $2,213,016 at December 31, 2017 and 2016, respectively.

12. Reinsurance

The following table summarizes assumed and ceded unearned premiums and the related commission equity at December 31:

	2017					
	Assumed		Ceded		Assumed Less Ceded	
	Unearned premiums	Commission Equity	Unearned Premiums	Commission Equity	Unearned Premiums	Commission Equity
	$ 100,631	$ 15,481	$ 205,664	$ 3,582	$ (105,033)	$ 11,899
Totals	$ 100,631	$ 15,481	$ 205,664	$ 3,582	$ (105,033)	$ 11,899
Direct unearned premium reserve	$ 3,596,367					

	2016					
	Assumed		Ceded		Assumed Less Ceded	
	Unearned Premiums	Commission Equity	Unearned Premiums	Commission Equity	Unearned Premiums	Commission Equity
	$ 105,167	$ 19,892	$ 142,435	$ 2,938	$ (37,268)	$ 16,954
Totals	$ 105,167	$ 19,892	$ 142,435	$ 2,938	$ (37,268)	$ 16,954
Direct unearned premium reserve	$ 3,113,816					

Earned premiums ceded under reinsurance contracts during 2017 and 2016 were $158,129 and $147,311, respectively. Written premiums ceded under reinsurance contracts during 2017 and 2016 were $220,848 and $138,319, respectively. Unearned premiums ceded under reinsurance contracts were $205,666 and $142,444 at December 31, 2017 and 2016, respectively. Loss and loss adjustment expenses ceded under reinsurance contracts were $462,728 and $48,512 for the years ended December 31, 2017 and 2016, respectively.

These ceded reinsurance transactions do not relieve the Company of its primary obligation to the policyholder.

(in thousands of dollars)

13. Environmental Reserves

AFMICSI has environmental exposure from its business owners, other commercial multiple peril and general liability policies. Since the Company wrote very little commercial lines business prior to the introduction of the absolute pollution exclusion, its exposure to Superfund claims is immaterial to the Company.

AFMICSI's methodology for reserving for reported losses is to establish a liability based on what AFMICSI estimates it will ultimately pay. For bulk and incurred but not reported (IBNR) reserves, AFMICSI has established a loss adjustment expense reserve for its anticipated defense of such claims. This reserve was based on 1) an assessment of its amount of exposure (yearly writings), 2) the types of business written, and 3) loss and loss expense experience to date.

The following are AFMICSI's environmental reserves reported net of reinsurance at December 31:

Environmental	2017	2016
Beginning reserves	$ 3,158	$ 3,648
Incurred losses and loss adjustment expenses	464	(437)
Calendar year payments for losses and loss adjustment expenses	(79)	(53)
Ending reserves	$ 3,543	$ 3,158

Of the environmental reserves reported above, $3,250 and $3,050 relate to IBNR loss and IBNR loss adjustment expense reserves as of December 31, 2017 and 2016, respectively.

14. Debt

The Company is a member of the FHLBC. The general nature of the FHLBC agreement is to provide a platform which provides the Company with the ability to receive advances from the FHLBC as a member of the bank. Through its membership, the Company has a 30-year fixed rate advance of $500,000 which was issued in 2013. The Company pays monthly interest to FHLBC at a fixed annual interest rate of 5.12%, and principal is due in a balloon payment at the end of the advance's 30-year term. The Company paid $25,956 and $26,027 in interest on the advance during 2017 and 2016, respectively, and recorded accrued interest of $2,204 at both December 31, 2017 and 2016.

In 2017, the Company executed a 1-year advance of $130,000, the proceeds of which were distributed to Holdings (see Note 8). The Company pays monthly interest to the FHLBC at a fixed annual interest rate of 1.95%, and principal is due in a balloon payment at the end of the advance's 1-year term. The Company paid $0 in interest on the advance during 2017 and recorded accrued interest of $127 as of December 31, 2017.

Both advances are fully collateralized with stock and qualified securities. The shares in FHLBC stock are considered Class B shares not eligible for redemption, and are recorded as common stocks in the consolidated property & casualty statutory balance sheet.

The following summarizes general account FHLBC capital stock balances as of December 31:

(in thousands of dollars, except share amounts)	**2017**	**2016**
Shares outstanding	126,000	100,000
Membership stock - Class B	$ 1,229	$ 1,068
Activity stock	11,371	8,932
Aggregate total - carrying value	12,600	10,000
Actual or estimated borrowing capacity	630,000	500,000
Collateral pledged - fair value	757,831	687,354
Collateral pledged - carrying value	742,475	671,415
Total borrowing	630,000	500,000

Borrowing capacity is calculated as the carrying value of FHLBC stock multiplied by 50, less any outstanding advances. The Company has no borrowing capacity as of December 31, 2017 and 2016.

American Family Mutual Insurance Company, S.I. and Consolidated Property & Casualty Subsidiaries

Supplemental Schedule of Consolidation
Consolidated Property & Casualty Statutory Balance Sheet
December 31, 2017

(in thousands of dollars)

	ASIC	ASICO	AFIC	MIC	PGC Consolidated	Homesite Consolidated	AFMICSI	Eliminations	Ref No.	AFMICSI Consolidated
Admitted Assets										
Bonds	$ 305,005	$ 6,864	$ 25,809	$ 7,684	$ 176,442	$ 296,258	$ 8,433,880	$ —		$ 9,251,942
Common stocks, including investments in unconsolidated subsidiaries	—	—	—	—	—	—	4,729,637	(970,533)	(1)	3,759,104
Mortgage loans	—	—	—	—	—	—	49,931	—		49,931
Real estate	—	—	—	—	—	—	259,602	—		259,602
Cash, cash equivalents and short-term investments	22,119	2,169	14,527	3,015	62,295	29,508	209,916	—		343,549
Receivables for securities	4,026	—	1	—	—	—	12,924	—		16,951
Other invested assets	—	—	—	—	37	—	1,099,729	—		1,099,766
Total cash and invested assets	331,150	9,033	40,337	10,699	238,774	325,766	14,795,619	(970,533)		14,780,845
Property & casualty premiums receivable and agents' balances	42,357	—	156	—	266,487	202,352	1,886,444	(629,451)	(3)	1,768,345
Accrued investment income	2,640	163	394	53	1,512	1,603	88,065	—		94,430
Deferred tax assets	215	—	—	70	—	281	118,865	(48)	(4)	119,383
Income taxes receivable	156	226	142	—	12,527	557	132,543	16,181	(2),(4)	162,332
Electronic data processing equipment and software (net)	—	—	—	—	—	—	13,431	—		13,431
Other assets	24,397	3,535	23,744	3,697	119,211	232,978	122,431	(445,157)	(2),(3)	84,836
Total admitted assets	400,915	12,957	64,773	14,519	638,511	763,537	17,157,398	(2,029,008)		17,023,602
Liabilities										
Property & casualty loss and loss adjustment expense reserve	331	—	30	—	—	2,743	4,611,543	(293,082)	(3)	4,321,565
Property & casualty unearned premiums	—	—	—	—	—	6,390	3,484,944	—		3,491,334
Drafts outstanding	26	26	475	—	—	—	4,459	—		4,986
Agent contract termination payments	—	—	—	—	—	—	762,347	—		762,347
Employee pension and other benefits	—	—	—	—	—	—	336,491	—		336,491
Income taxes payable	—	—	—	46	—	—	—	(46)	(2)	—
Deferred tax liability	—	—	4	—	—	45	—	(49)	(4)	—
Debt	—	—	—	—	—	—	632,331	—		632,331
Payable for securities	14,682	—	—	—	96	—	154,650	—		169,428
Accrued expenses and other liabilities	38,242	4,193	40,057	1,156	407,838	408,297	539,269	(765,296)	(3)	673,756
Total liabilities	53,281	4,219	40,566	1,202	407,934	417,475	10,526,034	(1,058,473)		10,392,238
Capital and Surplus										
Common stock	3,000	1,000	3,000	3,500	9,500	17,890	3,000	(37,890)	(1)	3,000
Special surplus funds	—	—	—	—	—	—	1,250	—		1,250
Unassigned surplus	344,634	7,738	21,207	9,817	221,077	328,172	6,627,114	(932,645)	(1)	6,627,114
Total capital and surplus	347,634	8,738	24,207	13,317	230,577	346,062	6,631,364	(970,535)		6,631,364
Total liabilities, capital and surplus	$ 400,915	$ 12,957	$ 64,773	$ 14,519	$ 638,511	$ 763,537	$ 17,157,398	$ (2,029,008)		$ 17,023,602

References

(1) Elimination of affiliated common stock of property & casualty subsidiaries.
(2) Elimination of intercompany payables/receivables and intercompany balances related to underwriting expenses reinsured.
(3) Elimination of affiliated reinsurance premium.
(4) Net income taxes deferred taxes.

American Family Mutual Insurance Company, S.I. and Consolidated Property & Casualty Subsidiaries

Supplemental Schedule of Consolidation

Consolidated Property & Casualty Statutory Balance Sheet

December 31, 2017

(in thousands of dollars)

	Homesite California	Homesite Insurance	Homesite Indemnity	Homesite Illinois	Homesite Midwest	Homesite New York	Homesite Georgia	Homesite Lloyds (TX)	Homesite Florida	Eliminations	Ref No.	Homesite Consolidated
Admitted Assets												
Bonds	$ 31,106	$ 72,204	$ 32,960	$ 6,449	$ 106,536	$ 13,108	$ 18,410	$ 8,827	$ 6,658	$ —		$ 296,258
Common stocks, including investments in unconsolidated subsidiaries	—	—	—	—	—	—	—	—	—	—		—
Mortgage loans	—	—	—	—	—	—	—	—	—	—		—
Real Estate	—	—	—	—	—	—	—	—	—	—		—
Cash, cash equivalents and short-term investments	423	1,239	1,613	1,972	1,340	13,132	2,209	1,630	5,950	—		29,508
Receivables for securities	—	—	—	—	—	—	—	—	—	—		—
Other invested assets	—	—	—	—	—	—	—	—	—	—		—
Total cash and invested assets	31,529	73,443	34,573	8,421	107,876	26,240	20,619	10,457	12,608	—		325,766
Property & casualty premiums receivable and agents' balances	19,240	64,628	14,624	2,822	108,049	9,816	6,170	17,562	3,035	(43,594)	(2)	202,352
Accrued investment income	159	358	171	24	513	66	240	33	39	—		1,603
Deferred tax assets	—	—	—	—	—	281	—	—	—	—		281
Income taxes receivable	55	138	47	28	262	12	—	22	7	(14)	(3)	557
Electronic data processing equipment and software (net)	—	—	—	—	—	—	—	—	—	—		—
Other assets	13,294	17,228	2,463	602	232,971	1,336	323	3,096	1,108	(39,443)	(1)	232,978
Total admitted assets	64,277	155,795	51,878	11,897	449,671	37,751	27,352	31,170	16,797	(83,051)		763,537
Liabilities												
Property & casualty loss and loss adjustment expense reserve	—	—	—	—	39,443	2,743	—	—	—	(39,443)	(1)	2,743
Property & casualty unearned premiums	—	—	—	—	—	6,390	—	—	—	—		6,390
Drafts outstanding	—	—	—	—	—	—	—	—	—	—		—
Agent contract termination payments	—	—	—	—	—	—	—	—	—	—		—
Employee pension and other benefits	—	—	—	—	—	—	—	—	—	—		—
Income taxes payable	—	—	—	—	—	—	14	—	—	(14)	(3)	—
Deferred tax liability	3	6	3	1	29	—	1	1	1	—		45
Debt	—	—	—	—	—	—	—	—	—	—		—
Payable for securities	—	—	—	—	—	—	—	—	—	—		—
Accrued expenses and other liabilities	27,063	67,830	11,496	2,351	307,261	9,964	5,192	15,044	5,690	(43,594)	(2)	408,297
Total liabilities	27,066	67,836	11,499	2,352	346,733	19,097	5,207	15,045	5,691	(83,051)		417,475
Capital and Surplus												
Common Stock	2,600	4,540	3,250	1,000	3,500	1,000	1,000	—	1,000	—		17,890
Special surplus funds	—	—	—	—	—	—	—	—	—	—		—
Unassigned surplus	34,611	83,419	37,129	8,545	99,438	17,654	21,145	16,125	10,106	—		328,172
Total capital and surplus	37,211	87,959	40,379	9,545	102,938	18,654	22,145	16,125	11,106	—		346,062
Total liabilities, capital and surplus	$ 64,277	$ 155,795	$ 51,878	$ 11,897	$ 449,671	$ 37,751	$ 27,352	$ 31,170	$ 16,797	$ (83,051)		$ 763,537

References

(1) Elimination of intercompany payables/receivables and intercompany balances related to underwriting expenses reinsured.
(2) Elimination of affiliated reinsurance premium.
(3) Net income taxes.

American Family Mutual Insurance Company, S.I. and Consolidated Property & Casualty Subsidiaries
Supplemental Schedule of Consolidation
Consolidated Property & Casualty Statutory Balance Sheet
December 31, 2017
(in thousands of dollars)

	PGAC	PGAC Ohio	GAIC	Eliminations	Ref No.	PGC Consolidated
Admitted Assets						
Bonds	$ 106,274	$ 24,211	$ 45,957	$ —		$ 176,442
Common stocks, including investments in unconsolidated subsidiaries	—	37,379	—	(37,379)	(4)	—
Mortgage loans	—	—	—	—		—
Real Estate	—	—	—	—		—
Cash, cash equivalents and short-term investments	20,013	41,346	936	—		62,295
Receivables for securities	—	—	—	—		—
Other invested assets	10	4	23	—		37
Total cash and invested assets	126,297	102,940	46,916	(37,379)		238,774
Property & casualty premiums receivable and agents' balances	315,844	85,722	29,166	(164,245)	(2)	266,487
Accrued investment income	982	284	246	—		1,512
Deferred tax assets	—	—	—	—		—
Income taxes receivable	10,655	—	3,506	(1,634)	(3)	12,527
Electronic data processing equipment and software (net)	—	—	—	—		—
Other assets	128,455	37,212	18,908	(65,364)	(1), (2)	119,211
Total admitted assets	582,233	226,158	98,742	(268,622)		638,511
Liabilities						
Property & casualty loss and loss adjustment expense reserve	53,441	—	—	(53,441)	(1)	—
Property & casualty unearned premiums	—	—	—	—		—
Drafts outstanding	—	—	—	—		—
Agent contract termination payments	—	—	—	—		—
Employee pension and other benefits	—	—	—	—		—
Income taxes payable	—	1,614	—	(1,614)	(3)	—
Deferred tax liability	—	—	—	—		—
Debt	—	—	—	—		—
Payable for securities	96	—	—	—		96
Accrued expenses and other liabilities	392,931	129,712	61,363	(176,168)	(1), (2)	407,838
Total liabilities	446,468	131,326	61,363	(231,223)		407,934
Capital and Surplus						
Common Stock	5,000	3,000	3,000	(1,500)	(4)	9,500
Special surplus funds	—	—	—	—		—
Unassigned surplus	130,765	91,832	34,379	(35,899)	(4)	221,077
Total capital and surplus	135,765	94,832	37,379	(37,399)		230,577
Total liabilities, capital and surplus	$ 582,233	$ 226,158	$ 98,742	$ (268,622)		$ 638,511

References
(1) Elimination of intercompany payables/receivables and intercompany balances related to underwriting expenses reinsured.
(2) Elimination of affiliated reinsurance premium.
(3) Net income taxes.
(4) Elimination of affiliated common stock of property & casualty subsidiaries.

American Family Mutual Insurance Company, S.I. and Consolidated Property & Casualty Subsidiaries
Supplemental Schedule of Consolidation
Consolidated Property & Casualty Statutory Balance Sheet
December 31, 2016
(in thousands of dollars)

	ASIC	ASICO	AFIC	MIC	Homesite Consolidated	AFMIC	Eliminations	Ref No.	AFMIC Consolidated
Admitted Assets									
Bonds	$ 300,022	$ 7,165	$ 28,062	$ 5,330	$ 289,039	$ 8,167,305	$ —		$ 8,796,923
Common stocks, including investments in unconsolidated subsidiaries	—	—	—	—	—	4,540,990	(731,392)	(1)	3,809,598
Mortgage loans	—	—	—	—	—	—	—		—
Real estate	—	—	—	—	—	249,035	—		249,035
Cash, cash equivalents and short-term investments	32,630	3,290	8,647	4,123	59,429	329,650	—		437,769
Receivables for securities	8,976	2	2	2	—	86,700	—		95,682
Other invested assets	—	—	—	—	—	941,466	—		941,466
Total cash and invested assets	341,628	10,457	36,711	9,455	348,468	14,315,146	(731,392)		14,330,473
Property & casualty premiums receivable and agents' balances	33,587	—	49	53	182,951	1,380,956	(208,279)	(3)	1,389,317
Accrued investment income	2,547	164	371	30	1,646	82,757	—		87,515
Deferred tax assets	450	—	—	—	177	320,669	(264)	(4)	321,032
Income taxes receivable	87	—	96	263	—	—	(446)	(2),(4)	—
Electronic data processing equipment and software (net)	—	—	—	—	—	15,399	—		15,399
Other assets	23,443	753	1,489	2,302	172,610	78,813	(214,749)	(2),(3)	64,661
Total admitted assets	401,742	11,374	38,716	12,103	705,852	16,193,740	(1,155,130)		16,208,397
Liabilities									
Property & casualty loss and loss adjustment expense reserve	83	—	23	—	(7,015)	3,980,529	(142,734)	(3)	3,830,886
Property & casualty unearned premiums	—	—	—	—	5,998	3,070,549	—		3,076,547
Drafts outstanding	7,039	872	6,390	3	—	58,629	—		72,933
Agent contract termination payments	—	—	—	—	—	697,175	—		697,175
Employee pension and other benefits	—	—	—	—	—	355,331	—		355,331
Income taxes payable	—	1	—	—	637	42,455	(17,754)	(2)	25,339
Deferred tax liability	—	—	7	—	257	—	(264)	(4)	—
Debt	—	—	—	—	—	502,204	—		502,204
Payable for securities	14,156	—	—	—	—	194,918	—		209,074
Accrued expenses and other liabilities	37,328	2,239	8,679	(1,020)	362,715	424,976	(262,984)	(3)	571,933
Total liabilities	58,606	3,112	15,099	(1,017)	362,592	9,326,766	(423,736)		9,341,422
Capital and Surplus									
Common stock	3,000	1,000	3,000	3,500	17,890	—	(28,390)	(1)	—
Special surplus funds	—	—	—	—	—	1,250	—		1,250
Unassigned surplus	340,136	7,262	20,617	9,620	325,370	6,865,724	(703,004)	(1)	6,865,725
Total capital and surplus	343,136	8,262	23,617	13,120	343,260	6,866,974	(731,394)		6,866,975
Total liabilities, capital and surplus	$ 401,742	$ 11,374	$ 38,716	$ 12,103	$ 705,852	$ 16,193,740	$ (1,155,130)		$ 16,208,397

References
(1) Elimination of affiliated common stock of property & casualty subsidiaries.
(2) Elimination of intercompany payables/receivables and intercompany balances related to underwriting expenses reinsured.
(3) Elimination of affiliated reinsurance premium.
(4) Net income taxes and deferred taxes.

American Family Mutual Insurance Company, S.I. and Consolidated Property & Casualty Subsidiaries
Supplemental Schedule of Consolidation
Consolidated Property & Casualty Statutory Balance Sheet
December 31, 2016
(in thousands of dollars)

	Homesite California	Homesite Insurance	Homesite Indemnity	Homesite Illinois	Homesite Midwest	Homesite New York	Homesite Georgia	Homesite Lloyds (TX)	Homesite Florida	Eliminations	Ref No.	Homesite Consolidated
Admitted Assets												
Bonds	$ 29,019	$ 70,636	$ 31,265	$ 5,939	$ 105,571	$ 11,755	$ 17,126	$ 9,987	$ 7,741	$ —		$ 289,039
Common stocks, including investments in unconsolidated subsidiaries	—	—	—	—	—	—	—	—	—	—		—
Real Estate	—	—	—	—	—	—	—	—	—	—		—
Cash, cash equivalents and short-term investments	2,710	2,818	3,471	2,280	29,771	11,014	2,735	1,672	2,958	—		59,429
Receivables for securities	—	—	—	—	—	—	—	—	—	—		—
Derivatives	—	—	—	—	—	—	—	—	—	—		—
Other invested assets	—	—	—	—	—	—	—	—	—	—		—
Total cash and invested assets	31,729	73,454	34,736	8,219	135,342	22,769	19,861	11,659	10,699	—		348,468
Property & casualty premiums receivable and agents' balances	16,650	58,215	14,194	2,931	94,033	9,189	6,620	14,802	2,638	(36,321)	(2)	182,951
Accrued investment income	159	386	141	27	569	64	228	43	29	—		1,646
Deferred tax assets	—	35	—	69	—	27	—	17	29	—		177
Income taxes receivable	—	—	—	—	—	—	13	20	—	(33)	(3)	—
Electronic data processing equipment and software (net)	—	—	—	—	—	—	—	—	—	—		—
Other assets	5,223	15,365	2,505	686	172,603	1,786	74	2,354	728	(28,714)	(1)	172,610
Total admitted assets	53,761	147,455	51,576	11,932	402,547	33,835	26,796	28,895	14,123	(65,068)		705,852
Liabilities												
Property & casualty loss and loss adjustment expense reserve	—	—	—	—	28,714	592	—	—	—	(36,321)	(1)	(7,015)
Property & casualty unearned premiums	—	—	—	—	—	5,998	—	—	—	—		5,998
Drafts outstanding	—	—	—	—	—	—	—	—	—	—		—
Agent contract termination payments	—	—	—	—	—	—	—	—	—	—		—
Employee pension and other benefits	—	—	—	—	—	—	—	—	—	—		—
Income taxes payable	51	118	38	80	64	315	—	—	4	(33)	(3)	637
Deferred tax liability	17	—	10	—	217	—	13	—	—	—		257
Debt	—	—	—	—	—	—	—	—	—	—		—
Payable for securities	—	—	—	—	—	—	—	—	—	—		—
Derivatives	—	—	—	—	—	—	—	—	—	—		—
Accrued expenses and other liabilities	16,645	60,290	11,327	2,384	270,959	8,763	5,029	12,970	3,062	(28,714)	(2)	362,715
Total liabilities	16,713	60,408	11,375	2,464	299,954	15,668	5,042	12,970	3,066	(65,068)		362,592
Capital and Surplus												
Common Stock	2,600	4,540	3,250	1,000	3,500	1,000	1,000	—	1,000	—		17,890
Special surplus funds	—	—	—	—	—	—	—	—	—	—		—
Unassigned surplus	34,448	82,507	36,951	8,468	99,093	17,167	20,754	15,925	10,057	—		325,370
Total capital and surplus	37,048	87,047	40,201	9,468	102,593	18,167	21,754	15,925	11,057	—		343,260
Total liabilities, capital and surplus	$ 53,761	$ 147,455	$ 51,576	$ 11,932	$ 402,547	$ 33,835	$ 26,796	$ 28,895	$ 14,123	$ (65,068)		$ 705,852

References
(1) Elimination of intercompany payables/receivables and intercompany balances related to underwriting expenses reinsured.
(2) Elimination of affiliated reinsurance premium.
(3) Net income taxes.

American Family Mutual Insurance Company, S.I. and Consolidated Property & Casualty Subsidiaries

Supplemental Schedule of Consolidation

Consolidated Property & Casualty Statement of Income

Year Ended December 31, 2017

(in thousands of dollars)

	ASIC	ASICO	AFIC	MIC	PGC Consolidated	Homesite Consolidated	AFMICSI	Eliminations	Ref No.	AFMICSI Consolidated
Premiums and other income										
Property & casualty premiums earned	$ —	$ —	$ —	$ —	$ —	$ 11,835	$ 8,190,801	$ —		$ 8,202,636
Net investment income	6,396	258	454	135	8,514	4,299	303,110	—		323,166
Net realized investment gains (losses)	(518)	—	—	—	(133)	(3,205)	267,818	—		263,962
Other income (expenses)	(32)	—	—	—	57,035	191	63,938	(57,149)	(3)	63,983
Total premiums and other income	5,846	258	454	135	65,416	13,120	8,825,667	(57,149)		8,853,747
Losses and expenses										
Property & casualty losses and loss adjustment expenses incurred	—	—	—	—	—	7,270	6,324,122	—		6,331,392
Underwriting expenses	—	—	—	—	57,035	1,201	2,528,259	(57,001)	(3)	2,529,494
Dividends to policyholders	—	—	—	—	—	—	2,284	—		2,284
Total losses and expenses	—	—	—	—	57,035	8,471	8,854,665	(57,001)		8,863,170
Income (loss) before income tax expense (benefit)	5,846	258	454	135	8,381	4,649	(28,998)	(148)	(3)	(9,423)
Income tax expense (benefit)	1,365	(218)	(134)	47	(19,572)	2,043	(132,334)	—		(148,803)
Net income (loss)	$ 4,481	$ 476	$ 588	$ 88	$ 27,953	$ 2,606	$ 103,336	$ (148)		$ 139,380
Common Stock										
Beginning balance	$ 3,000	$ 1,000	$ 3,000	$ 3,500	$ —	$ 17,890	$ —	$ (28,390)	(1)	$ —
Common stock issuance through reorganization (see Note 1)	—	—	—	—	9,500	—	3,000	(9,500)	(1)	3,000
Ending balance	3,000	1,000	3,000	3,500	9,500	17,890	3,000	(37,890)		3,000
Special surplus funds	—	—	—	—	—	—	1,250	—		1,250
Unassigned surplus										
Beginning balance	340,136	7,262	20,617	9,620	215,287	325,370	6,865,724	(918,291)	(1)	6,865,725
Net income (loss)	4,481	476	588	88	27,953	2,606	103,336	(148)	(3)	139,380
Net change in unrealized capital gains (losses) of investments, net of deferred income tax	46	—	—	—	(208)	—	306,295	(14,354)	(2)	291,779
Change in nonadmitted assets	(1)	—	(1)	(11)	339	—	(10,121)	—		(9,795)
Change in net deferred income tax	4	—	3	120	(22,349)	316	(315,559)	—		(337,465)
Pension and contract termination payment adjustments	—	—	—	—	—	—	(50,037)	—		(50,037)
Distributions	—	—	—	—	—	—	(257,716)	—		(257,716)
Other	(32)	—	—	—	55	(120)	(14,808)	148	(3)	(14,757)
Ending balance	344,634	7,738	21,207	9,817	221,077	328,172	6,627,114	(932,645)		6,627,114
Total capital and surplus	$ 347,634	$ 8,738	$ 24,207	$ 13,317	$ 230,577	$ 346,062	$ 6,631,364	$ (970,535)		$ 6,631,364

References:

(1) Elimination of property & casualty subsidiaries' surplus.
(2) Elimination of unrealized gain to related affiliated common stock of property & casualty subsidiaries.
(3) Net intercompany reinsurance.

American Family Mutual Insurance Company, S.I. and Consolidated Property & Casualty Subsidiaries

Supplemental Schedule of Consolidation
Consolidated Property & Casualty Statement of Income
Year Ended December 31, 2017

(in thousands of dollars)

	Homesite California	Homesite Insurance	Homesite Indemnity	Homesite Illinois	Homesite Midwest	Homesite New York	Homesite Georgia	Homesite Lloyds (TX)	Homesite Florida	Eliminations	Ref No.	Homesite Consolidated
Premiums and other income												
Property & casualty premiums earned	$ —	$ —	$ —	$ —	$ —	$ 11,835	$ —	$ —	$ —	$ —		$ 11,835
Net investment income	440	1,015	480	88	1,529	176	328	128	115	—		4,299
Net realized investment gains (losses)	(324)	(732)	(307)	(52)	(1,520)	(124)	33	(118)	(61)	—		(3,205)
Other income (expenses)	—	122	—	—	—	69	—	—	—	—		191
Total premiums and other income	116	405	173	36	9	11,956	361	10	54	—		13,120
Losses and expenses												
Property & casualty losses and loss adjustment expenses incurred	—	—	—	—	—	7,270	—	—	—	—		7,270
Underwriting expenses	(131)	(1,004)	(94)	(83)	(395)	3,299	(71)	(299)	(21)	—		1,201
Dividends to policyholders	—	—	—	—	—	—	—	—	—	—		—
Total losses and expenses	(131)	(1,004)	(94)	(83)	(395)	10,569	(71)	(299)	(21)	—		8,471
Income (loss) before income tax expense (benefit)	247	1,409	267	119	404	1,387	432	309	75	—		4,649
Income tax expense (benefit)	99	456	96	(28)	275	1,006	52	90	(3)	—		2,043
Net income (loss)	$ 148	$ 953	$ 171	$ 147	$ 129	$ 381	$ 380	$ 219	$ 78	$ —		$ 2,606
Common Stock												
Beginning balance	$ 2,600	$ 4,540	$ 3,250	$ 1,000	$ 3,500	$ 1,000	$ 1,000	$ —	$ 1,000	$ —		$ 17,890
Common Stock	—	—	—	—	—	—	—	—	—	—		—
Ending balance	2,600	4,540	3,250	1,000	3,500	1,000	1,000	—	1,000	—		17,890
Special surplus funds	—	—	—	—	—	—	—	—	—	—		—
Unassigned surplus												
Beginning balance	34,448	82,507	36,951	8,468	99,093	17,167	20,754	15,925	10,057	—		325,370
Net income (loss)	148	953	171	147	129	381	380	219	78	—		2,606
Net change in unrealized capital gains (losses) of investments, net of deferred income tax	—	—	—	—	—	—	—	—	—	—		—
Change in nonadmitted assets	—	—	—	—	—	—	—	—	—	—		—
Change in net deferred income tax	15	(41)	7	(70)	188	254	11	(19)	(29)	—		316
Pension and contract termination payment adjustments	—	—	—	—	—	—	—	—	—	—		—
Distributions	—	—	—	—	—	—	—	—	—	—		—
Other	—	—	—	—	28	(148)	—	—	—	—		(120)
Ending balance	34,611	83,419	37,129	8,545	99,438	17,654	21,145	16,125	10,106	—		328,172
Total capital and surplus	$ 37,211	$ 87,959	$ 40,379	$ 9,545	$ 102,938	$ 18,654	$ 22,145	$ 16,125	$ 11,106	$ —		$ 346,062

American Family Mutual Insurance Company, S.I. and
Consolidated Property & Casualty Subsidiaries
Supplemental Schedule of Consolidation
Consolidated Property & Casualty Statement of Income
Year Ended December 31, 2017
(in thousands of dollars)

	PGAC	PGAC Ohio	GAIC	Eliminations	Ref No.	PGC Consolidated
Premiums and other income						
Property & casualty premiums earned	$ —	$ —	$ —	$ —		$ —
Net investment income	5,802	1,501	1,211	—		8,514
Net realized investment gains (losses)	17	(74)	(134)	58	(1)	(133)
Other income (expenses)	31,773	18,256	7,006	—		57,035
Total premiums and other income	37,592	19,683	8,083	58		65,416
Losses and expenses						
Property & casualty losses and loss adjustment expenses incurred	—	—	—	—		—
Underwriting expenses	31,773	18,256	7,006	—		57,035
Dividends to policyholders	—	—	—	—		—
Total losses and expenses	31,773	18,256	7,006	—		57,035
Income (loss) before income tax expense (benefit)	5,819	1,427	1,077	58		8,381
Income tax expense (benefit)	(10,683)	(5,393)	(3,516)	20	(1)	(19,572)
Net income (loss)	$ 16,502	$ 6,820	$ 4,593	$ 38		$ 27,953
Common Stock						
Beginning balance	$ —	$ —	$ —	$ —		$ —
Common Stock	5,000	3,000	3,000	(1,500)	(3)	9,500
Ending balance	5,000	3,000	3,000	(1,500)		9,500
Special surplus funds	—	—	—	—		—
Unassigned surplus						
Beginning balance	126,975	89,870	33,635	(35,193)	(3)	215,287
Net income (loss)	16,502	6,820	4,593	38	(1)	27,953
Net change in unrealized capital gains (losses) of investments, net of deferred income tax	(208)	744	—	(744)	(2)	(208)
Change in nonadmitted assets	318	25	(4)	—		339
Change in net deferred income tax	(12,850)	(5,654)	(3,845)	—		(22,349)
Pension and contract termination payment adjustments	—	—	—	—		—
Distributions	—	—	—	—		—
Other	28	27	—	—		55
Ending balance	130,765	91,832	34,379	(35,899)		221,077
Total capital and surplus	$ 135,765	$ 94,832	$ 37,379	$ (37,399)		$ 230,577

References:
(1) Record federal income tax provision of the intercompany gains or losses.
(2) Elimination of change in net unrealized gains / (losses).
(3) Elimination of property & casualty subsidiaries' capital and surplus.

American Family Mutual Insurance Company, S.I. and Consolidated Property & Casualty Subsidiaries

Supplemental Schedule of Consolidation
Consolidated Property & Casualty Statement of Income
Year Ended December 31, 2016

(in thousands of dollars)

	ASIC	ASICO	AFIC	MIC	Homesite Consolidated	AFMIC	Eliminations	Ref No.	AFMIC Consolidated
Premiums and other income									
Property & casualty premiums earned	$ —	$ —	$ —	$ —	$ 5,578	$ 7,063,439	$ —		$ 7,069,017
Net investment income	5,890	276	610	111	3,393	277,116	—		287,396
Net realized investment gains (losses)	2,202	—	(121)	—	330	69,849	—		72,260
Other income (expenses)	(226)	—	—	—	91	(12,502)	—		(12,637)
Total premiums and other income	7,866	276	489	111	9,392	7,397,902	—		7,416,036
Losses and expenses									
Property & casualty losses and loss adjustment expenses incurred	—	—	—	—	1,590	4,815,149	—		4,816,739
Underwriting expenses	—	—	—	—	(451)	2,276,428	—		2,275,977
Dividends to policyholders	—	—	—	—	—	1,763	—		1,763
Total losses and expenses	—	—	—	—	1,139	7,093,340	—		7,094,479
Income (loss) before income tax expense (benefit)	7,866	276	489	111	8,253	304,562	—		321,557
Income tax expense (benefit)	2,124	14	(96)	(259)	2,721	92,854	—		97,358
Net income (loss)	$ 5,742	$ 262	$ 585	$ 370	$ 5,532	$ 211,708	$ —		$ 224,199
Common Stock									
Beginning balance	$ 3,000	$ 1,000	$ 3,000	$ 3,500	$ 17,890	$ —	$ (28,390)		$ —
Common stock issuance through reorganization (see Note 1)	—	—	—	—	—	—	—		—
Ending balance	3,000	1,000	3,000	3,500	17,890	—	(28,390)		—
Special surplus funds	—	—	—	—	—	1,250	—		1,250
Unassigned surplus									
Beginning balance	335,336	7,000	20,021	9,288	309,188	6,501,840	(680,833)	(1)	6,501,840
Net income (loss)	5,742	262	585	370	5,532	211,708	—		224,199
Net change in unrealized capital gains (losses) of investments, net of deferred income tax	1	—	—	—	(16)	133,600	(12,171)	(2)	121,414
Change in nonadmitted assets	2	—	20	(38)	39	1,629	—		1,652
Change in net deferred income tax	8	—	(9)	—	(63)	22,925	—		22,861
Pension and contract termination payment adjustments	—	—	—	—	—	(9,151)	—		(9,151)
Distributions	—	—	—	—	—	—	—		—
Other	(953)	—	—	—	10,690	3,173	(10,000)	(2)	2,910
Ending balance	340,136	7,262	20,617	9,620	325,370	6,865,724	(703,004)		6,865,725
Total capital and surplus	$ 343,136	$ 8,262	$ 23,617	$ 13,120	$ 343,260	$ 6,866,974	$ (731,394)		$ 6,866,975

References

(1) Elimination of property & casualty subsidiaries' surplus.

(2) Elimination of unrealized gain related to affiliated common stock of property & casualty subsidiaries.

American Family Mutual Insurance Company, S.I. and Consolidated Property & Casualty Subsidiaries

Supplemental Schedule of Consolidation

Consolidated Property & Casualty Statement of Income

Year Ended December 31, 2016

(in thousands of dollars)

	Homesite California	Homesite Insurance	Homesite Indemnity	Homesite Illinois	Homesite Midwest	Homesite New York	Homesite Georgia	Homesite Lloyds (TX)	Homesite Florida	Eliminations	Ref No.	Homesite Consolidated
Premiums and other income												
Property & casualty premiums earned	$ —	$ —	$ —	$ —	$ —	$ 5,578	$ —	$ —	$ —	$ —		$ 5,578
Net investment income	353	846	381	74	1,266	144	108	136	85	—		3,393
Net realized investment gains (losses)	17	35	31	13	259	11	(73)	21	16	—		330
Other income (expenses)	—	91	—	—	—	—	—	—	—	—		91
Total premiums and other income	370	972	412	87	1,525	5,733	35	157	101	—		9,392
Losses and expenses												
Property & casualty losses and loss adjustment expenses incurred	—	—	—	—	—	1,590	—	—	—	—		1,590
Underwriting expenses	(109)	(907)	(90)	(266)	(327)	1,474	(52)	(179)	5	—		(451)
Dividends to policyholders	—	—	—	—	—	—	—	—	—	—		—
Total losses and expenses	(109)	(907)	(90)	(266)	(327)	3,064	(52)	(179)	5	—		1,139
Income (loss) before income tax expense (benefit)	479	1,879	502	353	1,852	2,669	87	336	96	—		8,253
Income tax expense (benefit)	140	491	140	80	720	953	42	118	37	—		2,721
Net income (loss)	$ 339	$ 1,388	$ 362	$ 273	$ 1,132	$ 1,716	$ 45	$ 218	$ 59	$ —		$ 5,532
Common Stock												
Beginning balance	$ 2,600	$ 4,540	$ 3,250	$ 1,000	$ 3,500	$ 1,000	$ 1,000	$ —	$ 1,000	$ —		$ 17,890
Common stock issuance through reorganization (see Note 1)	—	—	—	—	—	—	—	—	—	—		—
Ending balance	2,600	4,540	3,250	1,000	3,500	1,000	1,000	—	1,000	—		17,890
Special surplus funds	—	—	—	—	—	—	—	—	—	—		—
Unassigned surplus												
Beginning balance	34,116	81,230	36,614	8,177	97,216	15,432	10,702	15,706	9,995	—		309,188
Net income (loss)	339	1,388	362	273	1,132	1,716	45	218	59	—		5,532
Net change in unrealized capital gains (losses) of investments, net of deferred income tax	(1)	(5)	(2)	—	(7)	(1)	—	—	—	—		(16)
Change in nonadmitted assets	—	—	—	39	—	—	—	—	—	—		39
Change in net deferred income tax	(6)	(106)	(23)	(21)	62	20	7	1	3	—		(63)
Pension and contract termination payment adjustments	—	—	—	—	—	—	—	—	—	—		—
Distributions	—	—	—	—	—	—	—	—	—	—		—
Other	—	—	—	—	690	—	10,000	—	—	—		10,690
Ending balance	34,448	82,507	36,951	8,468	99,093	17,167	20,754	15,925	10,057	—		325,370
Total capital and surplus	$ 37,048	$ 87,047	$ 40,201	$ 9,468	$ 102,593	$ 18,167	$ 21,754	$ 15,925	$ 11,057	$ —		$ 343,260

American Family Mutual Insurance Company, S.I. and Consolidated Property & Casualty Subsidiaries

Supplemental Schedule of Consolidation

Consolidated Property & Casualty Statement of Cash Flows

Year Ended December 31, 2017

(in thousands of dollars)

	ASIC	ASICO	AFIC	MIC	PGC Consolidated	Homesite Consolidated	AFMICSI	Eliminations	Ref No.	AFMICSI Consolidated
Cash from Operations										
Premiums collected net of reinsurance	$ (14,828)	$ 2,974	$ 22,735	$ (7,667)	$ 171,378	$ 29,492	$ 8,090,949	$ (353,703)	(1)	$ 7,941,330
Net investment income	9,243	292	532	113	9,325	5,399	398,643	—		423,547
Miscellaneous income (expenses)	(17,541)	—	—	—	57,035	191	63,938	(57,001)	(3)	46,622
Benefit and loss related payments	17,296	(231)	17,658	(643)	(94,446)	(70,658)	(5,072,203)	360,391	(2)	(4,842,836)
Commissions, expenses paid and aggregate write-ins for deductions	829	—	11,650	181	(80,647)	893	(3,367,483)	57,001	(3)	(3,377,576)
Dividends paid to policyholders	—	—	—	—	—	—	(2,383)	—		(2,383)
Federal income taxes (paid) recovered, net of tax on capital gains (losses)	(1,434)	(9)	88	263	18,967	(3,236)	(42,664)	—		(28,025)
Net cash provided by (used in) operations	(6,435)	3,026	52,663	(7,753)	81,612	(37,919)	68,797	6,688		160,679
Cash from Investments										
Proceeds from investments sold, matured, or repaid										
Bonds	496,694	350	2,235	525	287,940	502,253	8,769,923	—		10,059,920
Stocks	—	—	—	—	—	—	1,374,665	—		1,374,665
Mortgage loans	—	—	—	—	—	—	—	—		—
Real estate	—	—	—	—	—	—	482	—		482
Other invested assets	—	—	—	—	—	—	90,642	—		90,642
Net gains or (losses) on cash and short-term investments	—	—	—	—	—	1	(37)	—		(36)
Miscellaneous proceeds	5,667	2	1	2	—	—	74,939	—		80,611
Total investment proceeds	502,361	352	2,236	527	287,940	502,254	10,310,614	—		11,606,284
Cost of investments acquired (long-term only)										
Bonds	505,251	83	83	2,882	335,177	513,908	8,843,476	—		10,200,860
Stocks	—	—	—	—	—	—	1,201,025	—		1,201,025
Mortgage loans	—	—	—	—	—	—	49,931	—		49,931
Capital contribution to affiliate	—	—	—	—	—	—	62,328	—		62,328
Real estate	—	—	—	—	—	—	26,132	—		26,132
Other invested assets	—	—	—	—	—	—	213,591	—		213,591
Miscellaneous applications	—	—	—	—	9,379	—	30,461	—		39,840
Total investments acquired	505,251	83	83	2,882	344,556	513,908	10,426,944	—		11,793,707
Net cash provided by (used in) investments	(2,890)	269	2,153	(2,355)	(56,616)	(11,654)	(116,330)	—		(187,423)
Cash from Financing and Miscellaneous sources										
Capital and paid in surplus	—	—	—	—	—	—	—	—		—
Borrowed funds	—	—	—	—	—	—	130,000	—		130,000
Dividends to stockholders	—	—	—	—	—	—	(147,672)	—		(147,672)
Other cash provided (applied)	(1,186)	(4,416)	(48,936)	9,000	7,045	19,652	(54,529)	(6,688)	(1),(2)	(80,058)
Net cash provided by (used in) financing and miscellaneous sources	(1,186)	(4,416)	(48,936)	9,000	7,045	19,652	(72,201)	(6,688)		(97,730)
Reconciliation of Cash, Cash Equivalents and Short-Term Investments										
New reporting entity included in the consolidation	—	—	—	—	30,254	—	—	—		30,254
Net change in cash, cash equivalents and short-term investments	(10,511)	(1,121)	5,880	(1,108)	62,295	(29,921)	(119,734)	—		(94,220)
Cash, cash equivalents and short-term investments										
Beginning of year	32,630	3,290	8,647	4,123	—	59,429	329,650	—		437,769
End of year	$ 22,119	$ 2,169	$ 14,527	$ 3,015	$ 62,295	$ 29,508	$ 209,916	$ —		$ 343,549

References: (1) Elimination of the change in intercompany reinsurance premium. (2) Elimination of the change in intercompany loss and LAE reinsurance. (3) Net intercompany reinsurance.

American Family Mutual Insurance Company, S.I. and Consolidated Property & Casualty Subsidiaries

Supplemental Schedule of Consolidation

Consolidated Property & Casualty Statement of Cash Flows

Year Ended December 31, 2017

(in thousands of dollars)

	Homesite California	Homesite Insurance	Homesite Indemnity	Homesite Illinois	Homesite Midwest	Homesite New York	Homesite Georgia	Homesite Lloyds (TX)	Homesite Florida	Eliminations	Ref No.	Homesite Consolidated
Cash from Operations												
Premiums collected net of reinsurance	$ (406)	$ (2,765)	$ (509)	$ (16)	$ 20,449	$ 12,462	$ 10	$ (1,576)	$ 1,843	$ —		$ 29,492
Net investment income	535	1,226	494	91	1,852	214	749	130	108	—		5,399
Miscellaneous income (expenses)	—	122	—	—	—	69	—	—	—	—		191
Benefit and loss related payments	(8,070)	(1,862)	42	84	(54,938)	(4,072)	(251)	(743)	(381)	(467)	(1)	(70,658)
Commissions, expenses paid and aggregate write-ins for deductions	12	1,173	276	243	2,717	(4,041)	146	(199)	99	467	(1)	893
Dividends paid to policyholders	—	—	—	—	—	—	—	—	—	—		—
Federal income taxes (paid) recovered, net of tax on capital gains (losses)	(206)	(712)	(181)	(80)	(600)	(1,332)	(26)	(92)	(7)	—		(3,236)
Net cash provided by (used in) operations	(8,135)	(2,818)	122	322	(30,520)	3,300	628	(2,480)	1,662	—		(37,919)
Cash from Investments												
Proceeds from investments sold, matured, or repaid												
Bonds	61,546	121,144	57,984	11,426	196,338	23,800	3,837	10,390	15,788	—		502,253
Stocks	—	—	—	—	—	—	—	—	—	—		—
Mortgage loans	—	—	—	—	—	—	—	—	—	—		—
Real estate	—	—	—	—	—	—	—	—	—	—		—
Other invested assets	—	—	—	—	—	—	—	—	—	—		—
Net gains or (losses) on cash and short-term investments	—	—	—	—	1	—	—	—	—	—		1
Miscellaneous proceeds	—	—	—	—	—	—	—	—	—	—		—
Total investment proceeds	61,546	121,144	57,984	11,426	196,339	23,800	3,837	10,390	15,788	—		502,254
Cost of investments acquired (long-term only)												
Bonds	64,071	123,671	60,050	11,991	199,155	25,327	5,526	9,343	14,774	—		513,908
Stocks	—	—	—	—	—	—	—	—	—	—		—
Mortgage loans	—	—	—	—	—	—	—	—	—	—		—
Capital contribution to affiliate	—	—	—	—	—	—	—	—	—	—		—
Real estate	—	—	—	—	—	—	—	—	—	—		—
Other invested assets	—	—	—	—	—	—	—	—	—	—		—
Miscellaneous applications	—	—	—	—	—	—	—	—	—	—		—
Total investments acquired	64,071	123,671	60,050	11,991	199,155	25,327	5,526	9,343	14,774	—		513,908
Net cash provided by (used in) investments	(2,525)	(2,527)	(2,066)	(565)	(2,816)	(1,527)	(1,689)	1,047	1,014	—		(11,654)
Cash from Financing and Miscellaneous sources												
Capital and paid in surplus	—	—	—	—	—	—	—	—	—	—		—
Borrowed funds	—	—	—	—	—	—	—	—	—	—		—
Dividends to stockholders	—	—	—	—	—	—	—	—	—	—		—
Other cash provided (applied)	8,373	3,766	86	(65)	4,905	345	535	1,391	316	—		19,652
Net cash provided by (used in) financing and miscellaneous	8,373	3,766	86	(65)	4,905	345	535	1,391	316	—		19,652
Reconciliation of Cash, Cash Equivalents and Short-Term Investments												
New reporting entity included in the consolidation	—	—	—	—	—	—	—	—	—	—		—
Net change in cash, cash equivalents and short-term investments	(2,287)	(1,579)	(1,858)	(308)	(28,431)	2,118	(526)	(42)	2,992	—		(29,921)
Cash, cash equivalents and short-term investments												
Beginning of year	2,710	2,818	3,471	2,280	29,771	11,014	2,735	1,672	2,958	—		59,429
End of year	$ 423	$ 1,239	$ 1,613	$ 1,972	$ 1,340	$ 13,132	$ 2,209	$ 1,630	$ 5,950	$ —		$ 29,508

References: (1) Elimination of the change in intercompany loss and LAE reinsurance.

American Family Mutual Insurance Company, S.I. and Consolidated Property & Casualty Subsidiaries
Supplemental Schedule of Consolidation
Consolidated Property & Casualty Statement of Cash Flows
Year Ended December 31, 2017
(in thousands of dollars)

	PGAC	PGAC Ohio	GAIC	Eliminations	Ref No.	PGC Consolidated
Cash from Operations						
Premiums collected net of reinsurance	$ 94,603	$ 46,994	$ 29,781	$ —		$ 171,378
Net investment income	6,478	2,642	205	—		9,325
Miscellaneous income (expenses)	31,773	18,256	7,006	—		57,035
Benefit and loss related payments	(52,362)	(24,840)	(17,244)	—		(94,446)
Commissions, expenses paid and aggregate write-ins for deductions	(44,928)	(23,949)	(11,770)	—		(80,647)
Dividends paid to policyholders	—	—	—	—		—
Federal income taxes (paid) recovered, net of tax on capital gains (losses)	6,841	9,914	2,212	—		18,967
Net cash provided by (used in) operations	42,405	29,017	10,190	—		81,612
Cash from Investments						
Proceeds from investments sold, matured, or repaid						
Bonds	172,988	43,519	71,433	—		287,940
Stocks	—	—	—	—		—
Mortgage loans	—	—	—	—		—
Real estate	—	—	—	—		—
Other invested assets	—	—	—	—		—
Net gains or (losses) on cash and short-term investments	—	—	—	—		—
Miscellaneous proceeds	—	—	—	—		—
Total investment proceeds	172,988	43,519	71,433	—		287,940
Cost of investments acquired (long-term only)						
Bonds	195,499	58,094	81,584	—		335,177
Stocks	—	—	—	—		—
Mortgage loans	—	—	—	—		—
Capital contribution to affiliate	—	—	—	—		—
Real estate	—	—	—	—		—
Other invested assets	—	—	—	—		—
Miscellaneous applications	8,755	173	451	—		9,379
Total investments acquired	204,254	58,267	82,035	—		344,556
Net cash provided by (used in) investments	(31,266)	(14,748)	(10,602)	—		(56,616)
Cash from Financing and Miscellaneous sources						
Capital and paid in surplus	—	—	—	—		—
Borrowed funds	—	—	—	—		—
Dividends to stockholders	—	—	—	—		—
Other cash provided (applied)	(8,227)	18,758	(3,486)	—		7,045
Net cash provided by (used in) financing and miscellaneous sources	(8,227)	18,758	(3,486)	—		7,045
Reconciliation of Cash, Cash Equivalents and Short-Term Investments						
New reporting entity included in the consolidation	17,101	8,319	4,834	—		30,254
Net change in cash, cash equivalents and short-term investments	20,013	41,346	936	—		62,295
Cash, cash equivalents and short-term investments						
Beginning of year	—	—	—	—		—
End of year	$ 20,013	$ 41,346	$ 936	$ —		$ 62,295

American Family Mutual Insurance Company, S.I. and Consolidated Property & Casualty Subsidiaries
Supplemental Schedule of Consolidation
Consolidated Property & Casualty Statement of Cash Flows
Year Ended December 31, 2016
(in thousands of dollars)

	ASIC	ASICO	AFIC	MIC	Homesite Consolidated	AFMIC	Eliminations	Ref. No	AFMIC Consolidated
Cash from Operations									
Premiums collected net of reinsurance	$ (19,468)	$ (610)	$ 12,445	$ 4,105	$ 32,499	$ 7,166,755	$ (53,313)	(1)	$ 7,142,413
Net investment income	10,636	309	576	106	4,390	370,706	—		386,723
Miscellaneous income (expenses)	(1,456)	—	—	—	91	(13,076)	—		(14,441)
Benefit and loss related payments	(1,665)	(43)	3,751	(233)	(27,308)	(3,834,472)	25,228	(2)	(3,834,742)
Commissions, expenses paid and aggregate write-ins for deductions	742	—	—	(99)	7,083	(2,924,383)	—		(2,916,657)
Dividends paid to policyholders	—	—	—	—	—	(1,397)	—		(1,397)
Federal income taxes (paid) recovered, net of tax on capital gains (losses)	(2,163)	(3)	47	294	(1,535)	(78,416)	—		(81,776)
Net cash provided by (used in) operations	(13,374)	(347)	16,819	4,173	15,220	685,717	(28,085)		680,123
Cash from Investments									
Proceeds from investments sold, matured, or repaid									
Bonds	661,371	—	5,244	1,230	145,522	8,977,423	—	(3)	9,790,790
Stocks	—	—	—	—	—	457,972	—		457,972
Mortgage loans	—	—	—	—	—	—	—		—
Real estate	—	—	—	—	—	2,061	—		2,061
Other invested assets	—	—	—	—	—	58,375	—		58,375
Net gains or (losses) on cash and short-term investments	—	—	—	—	—	(13)	—		(13)
Miscellaneous proceeds	21,314	—	—	—	—	51,969	—		73,283
Total investment proceeds	682,685	—	5,244	1,230	145,522	9,547,787	—		10,382,468
Cost of investments acquired (long-term only)									
Bonds	659,797	—	9,481	1,569	153,769	9,653,279	—		10,477,895
Stocks	—	—	—	—	—	507,947	—		507,947
Mortgage loans	—	—	—	—	—	—	—		—
Capital contribution to affiliate	—	—	—	—	—	82,849	—	(3)	82,849
Real estate	—	—	—	—	—	18,074	—		18,074
Other invested assets	—	—	—	—	—	145,260	—		145,260
Miscellaneous applications	14,664	—	—	1	—	6,941	—		21,606
Total investments acquired	674,461	—	9,481	1,570	153,769	10,414,350	—		11,253,631
Net cash provided by (used in) investments	8,224	—	(4,237)	(340)	(8,247)	(866,563)	—		(871,163)
Cash from Financing and Miscellaneous sources									
Capital and paid in surplus	—	—	—	—	10,000	—	—	(3)	10,000
Borrowed funds	—	—	—	—	—	—	—		—
Dividends to stockholders	—	—	—	—	—	—	—		—
Other cash provided (applied)	(4,163)	2,089	(9,219)	(5,678)	1,200	15,891	28,085	(1),(2)	28,205
Net cash provided by (used in) financing and miscellaneous sources	(4,163)	2,089	(9,219)	(5,678)	11,200	15,891	28,085		38,205
Reconciliation of Cash, Cash Equivalents and Short-Term Investments									
New reporting entity included in the consolidation	—	—	—	—	—	—	—		—
Net change in cash, cash equivalents and short-term investments	(9,313)	1,742	3,363	(1,845)	18,173	(164,955)	—		(152,835)
Cash, cash equivalents and short-term investments									
Beginning of year	41,943	1,548	5,284	5,968	41,256	494,605	—		590,604
End of year	$ 32,630	$ 3,290	$ 8,647	$ 4,123	$ 59,429	$ 329,650	$ —		$ 437,769

References: (1) Elimination of the chance in intercompany reinsurance premium. (2) Elimination of the change in intercompany loss and LAE reinsurance. (3) Elimination of intercompany investment transactions.

American Family Mutual Insurance Company, S.I. and Consolidated Property & Casualty Subsidiaries
Supplemental Schedule of Consolidation
Consolidated Property & Casualty Statement of Cash Flows
Year Ended December 31, 2016
(in thousands of dollars)

	Homesite California	Homesite Insurance	Homesite Indemnity	Homesite Illinois	Homesite Midwest	Homesite New York	Homesite Georgia	Homesite Lloyds (TX)	Homesite Florida	Eliminations	Ref No.	Homesite Consolidated
Cash from Operations												
Premiums collected net of reinsurance	$ (1,706)	$ (5,640)	$ 153	$ (44)	$ 34,871	$ 10,861	$ (3,144)	$ (2,079)	$ (773)	$ —		$ 32,499
Net investment income	532	1,181	492	77	1,683	224	(16)	117	100	—		4,390
Miscellaneous income (expenses)	—	91	—	—	—	—	—	—	—	—		91
Benefit and loss related payments	(1,304)	(4,407)	104	44	(19,891)	(979)	802	(1,592)	(529)	444	(1)	(27,308)
Commissions, expenses paid and aggregate write-ins for deductions	818	3,064	(343)	(16)	1,733	(1,136)	563	2,591	253	(444)	(1)	7,083
Dividends paid to policyholders	—	—	—	—	—	—	—	—	—	—		—
Federal income taxes (paid) recovered, net of tax on capital gains (losses)	(96)	(466)	299	10	(425)	(635)	(52)	(140)	(30)	—		(1,535)
Net cash provided by (used in) operations	(1,756)	(6,177)	705	71	17,971	8,335	(1,847)	(1,103)	(979)	—		15,220
Cash from Investments												
Proceeds from investments sold, matured, or repaid												
Bonds	12,456	33,066	14,837	1,180	63,462	4,957	11,032	2,150	2,382	—		145,522
Stocks	—	—	—	—	—	—	—	—	—	—		—
Mortgage loans	—	—	—	—	—	—	—	—	—	—		—
Real estate	—	—	—	—	—	—	—	—	—	—		—
Other invested assets	—	—	—	—	—	—	—	—	—	—		—
Net gains or (losses) on cash and short-term investments	—	—	—	—	—	—	—	—	—	—		—
Miscellaneous proceeds	—	—	—	—	—	—	—	—	—	—		—
Total investment proceeds	12,456	33,066	14,837	1,180	63,462	4,957	11,032	2,150	2,382	—		145,522
Cost of investments acquired (long-term only)												
Bonds	10,838	32,493	13,189	836	64,046	3,916	19,351	7,124	1,976	—		153,769
Stocks	—	—	—	—	—	—	—	—	—	—		—
Mortgage loans	—	—	—	—	—	—	—	—	—	—		—
Capital contribution to affiliate	—	—	—	—	—	—	—	—	—	—		—
Real estate	—	—	—	—	—	—	—	—	—	—		—
Other invested assets	—	—	—	—	—	—	—	—	—	—		—
Miscellaneous applications	—	—	—	—	—	—	—	—	—	—		—
Total investments acquired	10,838	32,493	13,189	836	64,046	3,916	19,351	7,124	1,976	—		153,769
Net cash provided by (used in) investments	1,618	573	1,648	344	(584)	1,041	(8,319)	(4,974)	406	—		(8,247)
Cash from Financing and Miscellaneous sources												
Capital and paid in surplus	—	—	—	—	—	—	10,000	—	—	—		10,000
Borrowed funds	—	—	—	—	—	—	—	—	—	—		—
Dividends to stockholders	—	—	—	—	—	—	—	—	—	—		—
Other cash provided (applied)	1,800	5,487	(76)	(63)	(10,354)	518	986	2,138	764	—		1,200
Net cash provided by (used in) financing and miscellaneous sources	1,800	5,487	(76)	(63)	(10,354)	518	10,986	2,138	764	—		11,200
Reconciliation of Cash, Cash Equivalents and Short-Term Investments												
New reporting entity included in the consolidation	—	—	—	—	—	—	—	—	—	—		—
Net change in cash, cash equivalents and short-term investments	1,662	(117)	2,277	352	7,033	9,894	820	(3,939)	191	—		18,173
Cash, cash equivalents and short-term investments												
Beginning of year	1,048	2,935	1,194	1,928	22,738	1,120	1,915	5,611	2,767	—		41,256
End of year	$ 2,710	$ 2,818	$ 3,471	$ 2,280	$ 29,771	$ 11,014	$ 2,735	$ 1,672	$ 2,958	$ —		$ 59,429

References:
(1) Elimination of the change in intercompany loss and LAE reinsurance.

SUPPLEMENTAL INFORMATION

pwc

Report of Independent Auditors

To the Board of Directors of American Family Mutual Insurance Company, S.I.:

We have audited the consolidated statutory-basis financial statements of American Family Mutual Insurance Company, S.I. and Consolidated Property & Casualty Subsidiaries as of December 31, 2017 and for the year then ended and our report thereon appears on page 1 of this document. That audit was conducted for the purpose of forming an opinion on the consolidated statutory-basis financial statements taken as a whole. The Supplemental Summary Investment Schedule, Supplemental Investment Risk Interrogatories, and Supplemental Schedule of Reinsurance Disclosures (collectively, the “supplemental schedules”) of the Company as of December 31, 2017 and for the year then ended are presented to comply with the National Association of Insurance Commissioners’ Annual Statement Instructions and Accounting Practices and Procedures Manual and for purposes of additional analysis and are not a required part of the consolidated statutory-basis financial statements. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated statutory-basis financial statements. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the consolidated statutory-basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated statutory-basis financial statements or to the consolidated statutory-basis financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated, in all material respects, in relation to the consolidated statutory-basis financial statements taken as a whole.

PricewaterhouseCoopers LLP

February 23, 2018

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American Family Mutual Insurance Company, S.I. and Consolidated Property & Casualty Subsidiaries
Supplemental Summary Investment Schedule
December 31, 2017 — Schedule I
(in thousands of dollars)

				Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
				Amount	Percentage	Amount	Percentage
1.	Bonds:						
	1.1	U.S. treasury securities		$ 653,698	4.42%	$ 653,698	4.42%
	1.2	U.S. government agency obligations:					
		1.21	Issued by U.S. government agencies	—	0.00%	—	0.00%
		1.22	Issued by U.S. government sponsored agencies	293,793	1.99%	293,793	1.99%
	1.3	Non-U.S. government (including Canada, excluding mortgage-backed securities)		—	0.00%	—	0.00%
	1.4	Securities issued by states, territories, and possessions and political subdivisions in the U.S.:					
		1.41	States, territories and general obligations	745,970	5.05%	745,970	5.05%
		1.42	Political subdivisions of states, territories and possessions and political subdivisions general obligations	912,022	6.17%	912,022	6.17%
		1.43	Revenue and assessment obligations	3,208,164	21.71%	3,208,164	21.71%
		1.44	Industrial development and similar obligations	—	0.00%	—	0.00%
	1.5	Mortgage-backed securities (includes residential and commercial MBS):					
		1.51	Pass-through securities:				
		1.511	Issued or Guaranteed by GNMA	66,984	0.45%	66,984	0.45%
		1.512	Issued or Guaranteed by FNMA and FHLMC	303,045	2.05%	303,045	2.05%
		1.513	All other	—	0.00%	—	0.00%
		1.52	CMOs and REMICs:				
		1.521	Issued or guaranteed by GNMA, FNMA, FHLMC or VA	74,950	0.51%	74,950	0.51%
		1.522	Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521	—	0.00%	—	0.00%
		1.523	All Other	267,818	1.81%	267,818	1.81%
2.	Other debt and other fixed income securities (excluding short-term):						
	2.1	Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)		2,175,828	14.72%	2,175,828	14.72%
	2.2	Unaffiliated Non-U.S. securities(including Canada)		549,670	3.72%	549,670	3.72%
	2.3	Affiliated securities		—	0.00%	—	0.00%
3.	Equity interests:						
	3.1	Investments in mutual funds		18,536	0.13%	18,536	0.13%
	3.2	Preferred stocks:					
		3.21	Affiliated	—	0.00%	—	0.00%
		3.22	Unaffiliated	—	0.00%	—	0.00%
	3.3	Publicly traded equity securities (excluding preferred stocks):					
		3.31	Affiliated	—	0.00%	—	0.00%
		3.32	Unaffiliated	2,386,094	16.14%	2,386,094	16.14%
	3.4	Other equity securities:					
		3.41	Affiliated	1,341,874	9.08%	1,341,874	9.08%
		3.42	Unaffiliated	12,600	0.09%	12,600	0.09%
	3.5		Other equity interest				
		3.51	Affiliated	—	0.00%	—	0.00%
		3.52	Unaffiliated	—	0.00%	—	0.00%
4.	Mortgage loans:						
	4.1	Construction and land development		—	0.00%	—	0.00%
	4.2	Agricultural		—	0.00%	—	0.00%
	4.3	Single family residential properties		—	0.00%	—	0.00%
	4.4	Multifamily residential properties		—	0.00%	—	0.00%
	4.5	Commercial loans		49,931	0.34%	49,931	0.34%
	4.6	Mezzanine real estate loans		—	0.00%	—	0.00%
5.	Real estate investments:						
	5.1	Property occupied by company		251,798	1.70%	251,798	1.70%
	5.2	Property held for production of income (includes $0 of property acquired in satisfaction of debt)		7,651	0.05%	7,651	0.05%
	5.3	Property held for sale ($0 including property acquired in satisfaction of debt)		153	0.00%	153	0.00%
6.	Contract loans			—	0.00%	—	0.00%
7.	Derivatives (1)			—	0.00%	—	0.00%
8.	Receivables for securities			16,951	0.11%	16,951	0.11%
9.	Securities Lending			—	0.00%	—	0.00%
10.	Cash, cash equivalents and short-term investments			343,549	2.32%	343,549	2.32%
11.	Other invested assets			1,099,766	7.44%	1,099,766	7.44%
12.	Total invested assets			$ 14,780,845	100.00%	$ 14,780,845	100.00%

(1) This amount is included in total invested assets in the statutory annual statement, and is included similarly in this schedule. However, the amount is included with other assets in the consolidated property & casualty statutory balance sheets in this audit report. As a result, total cash and invested assets from the consolidated property & casualty statutory balance sheets will not tie to total invested assets shown on this schedule.

(in thousands of dollars)

1. State the reporting entity's total admitted assets as reported on Page 2 of this annual statement. $ 17,023,602

2. State by investment category the 10 largest exposures to a single issuer/borrower/investment, excluding U.S. government, U.S. government agency securities and those U.S. Government money market funds listed in the Appendix to the SVO Purposes and Procedures Manual as exempt, property occupied by the company and policy loans.

	1 Issuer	2 Description of Exposure	3 Amount	4 Percentage of Total Admitted Assets
2.01	AMFAM INC.	AFFILIATE STOCK	$ 1,320,055	7.754%
2.02	ILLINOIS (STATE OF)	BONDS	156,470	0.919%
2.03	JP MORGAN REAL ESTATE INCOME AND GROWTH, LP	LIMITED PARTNERSHIP	143,517	0.843%
2.04	CALIFORNIA STATE OF	BONDS	112,194	0.659%
2.05	NY ST DORM AUTH	BONDS	111,450	0.655%
2.06	NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY	BONDS	102,125	0.600%
2.07	PARTNERS GROUP, USA INC	LIMITED PARTNERSHIP	98,969	0.581%
2.08	APPLE INC	BONDS AND COMMON STOCK	87,583	0.514%
2.09	NEW YORK CITY TRANSITIONAL FIN AUTH	BONDS	86,600	0.509%
2.1	COMMONWEALTH OF MASSACHUSETTS	BONDS	83,374	0.490%

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

	Bonds	1	2	Preferred Stocks	1	2
3.01	NAIC-1	$ 7,444,442	43.730%	P/RP-1	$ —	0.000%
3.02	NAIC-2	1,376,872	8.088%	P/RP-2	$ —	0.000%
3.03	NAIC-3	277,889	1.632%	P/RP-3	$ —	0.000%
3.04	NAIC-4	267,847	1.573%	P/RP-4	$ —	0.000%
3.05	NAIC-5	24,899	0.146%	P/RP-5	$ —	0.000%
3.06	NAIC-6	327	0.002%	P/RP-6	$ —	0.000%

4. State the amounts and percentages on assets held in foreign investments:

4.01	Are assets held in foreign investment less than 2.5% of the reporting entity's total admitted assets?	Yes [ ]	No [X]
4.02	Total admitted assets held in foreign investments	$ 667,774	3.923%
4.03	Foreign-currency-denominated investments	—	0.000%
4.04	Insurance liabilities denominated in that same foreign currency	—	0.000%

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

5. Aggregate foreign investment exposure by NAIC sovereign rating:

		1	2
5.01	Countries rated NAIC-1	$ 515,042	3.025%
5.02	Countries rated NAIC-2	100,701	0.592%
5.03	Countries rated NAIC-3 or below	52,031	0.306%

(in thousands of dollars)

6. Two largest foreign investment exposures to a single country, categorized by NAIC sovereign

		1	2
Countries rated NAIC-1:			
6.01	Ireland	$ 77,943	0.458%
6.02	United Kingdom	77,514	0.455%
Countries rated NAIC-2:			
6.03	Mexico	41,301	0.243%
6.04	Panama	17,473	0.103%
Countries rated NAIC-3 or below:			
6.05	Guernsey	30,833	0.181%
6.06	British Virgin Islands	15,678	0.092%

		1	2
7.	Aggregate unhedged foreign currency exposure: N/A	$ —	—%

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

		1	2
8.01	Countries rated NAIC-1	$ —	—%
8.02	Countries rated NAIC-2	—	—%
8.03	Countries rated NAIC-3 or below	—	—%

9. Two largest unhedged currency exposures to a single country, categorized by NAIC sovereign rating: N/A

Countries rated NAIC-1:			
9.01		$ —	—%
9.02		—	—%
	Countries rated NAIC-2:		
9.03		—	—%
9.04		—	—%
	Countries rate NAIC-3 or below:		
9.05		—	—%
9.06		—	—%

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

	1 Issuer	2 NAIC Rating	3	4
10.01	LyondellBasell Industries NV	2	$ 19,127	0.112%
10.02	Accenture PLC	Common Stock	18,721	0.110%
10.03	AerCap Holdings NV	2	16,901	0.099%
10.04	Amdocs Ltd	Common Stock	16,146	0.095%
10.05	Credit Suisse Group AG	2	14,687	0.086%
10.06	Lloyds Banking Group PLC	2	13,563	0.080%
10.07	Westpac Banking Corp	1	12,186	0.072%
10.08	Teva Pharmaceutical Industries	2	11,496	0.068%
10.09	UBS Group AG	1	11,187	0.066%
10.10	Next Alt Sarl	4	10,748	0.063%

(in thousands of dollars)

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

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

If response to 11.01 is yes, responses are not required for the remainder of interrogatory 11.

11.02	Total admitted assets held in Canadian investments	$ —	0.000%
11.03	Canadian-currency-denominated investments	—	0.000%
11.04	Canadian-denominated insurance liabilities	—	0.000%
11.05	Unhedged Canadian currency exposure	—	0.000%

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

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

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

	1	2	3
12.02	Aggregate statement value of investments with contractual sales restrictions	$ —	0.000%
	Largest 3 investments with contractual sales restrictions		
12.03		—	0.000%
12.04		—	0.000%
12.05		—	0.000%

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

13.01	Are assets held in equity interests less than 2.5% of the reporting equity's total admitted	Yes [ ]	No [X]

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

	1 Name of Issuer	2	3
13.02	AMFAM, INC.	$ 1,320,055	7.754%
13.03	PARTNERS GROUP, USA INC	98,969	0.581%
13.04	APPLE INC	60,591	0.356%
13.05	ALPHABET INC	55,797	0.328%
13.06	JOHNSON & JOHNSON	38,196	0.224%
13.07	MICROSOFT CORP	33,562	0.197%
13.08	CROSSLINK CROSSOVER FUND VI, L.P.	31,958	0.188%
13.09	UNITED HEALTH GROUP INC	31,784	0.187%
13.10	AT&T INC	30,774	0.181%
13.11	WALMART STORES INC	30,248	0.178%

14. State the amounts and percentages of the entity's total admitted assets held in nonaffiliated,

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

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

	1	2	3
14.02	Aggregate statement value of investments held in nonaffiliated, privately placed equities	$ —	0.000%
	Largest 3 investments held in nonaffiliated, privately placed equities:		
14.03		—	0.000%
14.04		—	0.000%
14.05		—	0.000%

(in thousands of dollars)

15. State the aggregate amounts and percentages of the entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interest less than 2.5% of the reporting entity's total admitted assets?

Yes [X] No [ ]

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

	1	2	3
15.02	Aggregate statement value of investments held in general partnership interests	$ —	0.000%
	Largest 3 investments held in general partnership interests:		
15.03		—	0.000%
15.04		—	0.000%
15.05		—	0.000%

16. State the aggregate amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets?

Yes [X] No [ ]

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

	1 Type (Residential, Commercial, Agricultural)	2	3
16.02		$ —	0.000%
16.03		—	0.000%
16.04		—	0.000%
16.05		—	0.000%
16.06		—	0.000%
16.07		—	0.000%
16.08		—	0.000%
16.09		—	0.000%
16.10		—	0.000%
16.11		—	0.000%

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

16.12	Construction loans	—	0.000%
16.13	Mortgage loans over 90 days past due	—	0.000%
16.14	Mortgage loans in the process of foreclosure	—	0.000%
16.15	Mortgage loans foreclosed	—	0.000%
16.16	Restructured mortgage loans	—	0.000%

17. State the aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date: N/A

	Loan-to-Value	Residential		Commercial		Agricultural	
		1	2	3	4	5	6
17.01	above 95%	$ —	0.00%	$ —	0.00%	$ —	0.00%
17.02	91% to 95%	—	0.00%	—	0.00%	—	0.00%
17.03	81% to 90%	—	0.00%	—	0.00%	—	0.00%
17.04	71% to 80%	—	0.00%	—	0.00%	—	0.00%
17.05	below 70%	—	0.00%	—	0.00%	—	0.00%

(in thousands of dollars)

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

18.01 Are assets held in real estate reported in less than 2.5% of the reporting entity's total admitted assets?

Yes [X] No [ ]

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

	Description 1	2	3
	Largest 5 investments in any one parcel or group of contiguous parcels of real estate:		
18.02		$ —	0.000%
18.03		—	0.000%
18.04		—	0.000%
18.05		—	0.000%
18.06		—	0.000%

19. State the amounts and percentages of the reporting entity's total admitted assets held in mezzanine real estate loans: N/A

	Description 1	2	3
19.02	Aggregate statement value	$ —	0.000%
	Largest 3 investments in mezzanine real estate loans:		
19.03		—	0.000%
19.04		—	0.000%
19.05		—	0.000%

20. State the amounts and percentages of the reporting entity's total admitted assets subject to the following types of

		At Year-End		At End of Each Quarter		
				1st Qtr	2nd Qtr	3rd Qtr
		1	2	3	4	5
20.01	Securities lending (do not include assets held as collateral for such transactions)	$ —	0.000%	$ —	$ —	$ —
20.02	Repurchase agreements	—	0.000%	—	—	—
20.03	Reverse repurchase agreements	—	0.000%	—	—	—
20.04	Dollar repurchase agreements	—	0.000%	—	—	—
20.05	Dollar reverse repurchase agreements	—	0.000%	—	—	—

(in thousands of dollars)

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

		Owned		Written	
		1	2	3	4
21.01	Hedging	$ —	0.000%	$ —	0.000%
21.02	Income generation	—	0.000%	—	0.000%
21.03	Other	—	0.000%	—	0.000%

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

		At Year-End		At End of Each Quarter 1st Qtr	2nd Qtr	3rd Qtr
		1	2	3	4	5
22.01	Hedging	$ 11,048	0.065%	$ 10,223	$ 9,187	$ 8,781
22.02	Income generation	—	0.000%	—	—	—
22.03	Replications	—	0.000%	—	—	—
22.04	Other	—	0.000%	—	—	—

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

		At Year-End		At End of Each Quarter 1st Qtr	2nd Qtr	3rd Qtr
		1	2	3	4	5
23.01	Hedging	$ —	0.000%	$ —	$ —	$ —
23.02	Income generation	—	0.000%	—	—	—
23.03	Replications	—	0.000%	—	—	—
23.04	Other	—	0.000%	—	—	—

1 Disclose any risks reinsured under a quota share reinsurance contract, entered into, renewed or amended on or after January 1, 1994, with any other entity that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g. a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)? If yes, indicate the number of reinsurance contracts containing such provisions and if the amount of reinsurance credit taken reflects the reduction in quota share coverage caused by any applicable limiting provision(s). — No

2 Disclose if the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), entered into, renewed or amended on or after January 1, 1994, for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features that would have similar results: — No

a. A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;

b. A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;

c. Aggregate stop loss reinsurance coverage;

d. An unconditional or unilateral right by either party to commute the reinsurance contract, except for such provisions which are only triggered by a decline in the credit status of the other party;

e. A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or

f. Payment schedules, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.

3 Disclose if the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), entered into, renewed or amended on or after January 1, 1994, excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member, where: — No

a. The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or

b. Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates.

4 If affirmative disclosure is required for items 2 or 3 above, provide the following information for each reinsurance contracts entered into, renewed or amended on or after January 1, 1994: — No

a. A summary of the reinsurance contract terms and indicate whether it applies to the contracts meeting items 2 or 3;

b. A brief discussion of management's principal objectives in entering into the reinsurance contract including the economic purposes to be achieved; and

c. The aggregate financial statement impact gross of all such ceded reinsurance contracts on the balance sheet and statement of income.

5	Except for transactions meeting the requirements of paragraph 32 of SSAP No. 62R - Property and Casualty Reinsurance, disclose if the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates), entered into, renewed or amended on or after January 1, 1994, during the period covered by the financial statement, and either: a. Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP"); or b. Accounted for that contract as reinsurance under GAAP and as a deposit under SAP?	No
6	If affirmative disclosure is required for item 5 above, explain why the contract(s) is (are) treated differently for GAAP and SAP.	No