American Family Mutual Insurance Company and Consolidated Property and Casualty Subsidiaries

Consolidated Property and Casualty Statutory Financial Statements
December 31, 2014 and 2013

American Family Mutual Insurance Company and Consolidated Property and Casualty Subsidiaries
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Independent Auditor's Report

To the Board of Directors of
American Family Mutual Insurance Company:

We have audited the accompanying statutory financial statements of American Family Mutual Insurance Company and its Consolidated Property and Casualty Subsidiaries (the "Companies"), which comprise the statutory balance sheets as of December 31, 2014 and 2013, and the related statutory statements of income, of changes in policyholders' surplus, and of cash flows for the years then ended.

Management's Responsibility for the 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 various domiciliary state insurance departments. 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.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. At December 31, 2013, we did not audit the financial statements of Homesite Group, Inc., an indirect wholly-owned subsidiary of American Family Mutual Insurance Company acquired on December 31, 2013, which statements reflected total net statutory capital and surplus recorded as an affiliated common stock constituting 2.8 percent of consolidated total admitted assets at December 31, 2013. These financial statements were audited by other auditors whose report thereon was furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Homesite Group, Inc., at December 31, 2013 is based solely on the report of the other auditors. 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 of 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 Companies' 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 Companies' 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.

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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 Companies on the basis of the accounting practices prescribed or permitted by the various domiciliary state insurance departments which is a basis of accounting other than accounting principles generally accepted in the United States of America.

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 are 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 Companies as of December 31, 2014 and 2013, or the results of their operations or their cash flows for the years then ended.

Opinion on Statutory Basis of Accounting

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and surplus of the Companies as of December 31, 2014 and 2013, 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 various domiciliary state insurance departments described in Note 1.

Emphasis of Matter

As discussed in Note 1m to the consolidated financial statements, the Companies changed the manner in which they account for employee pension and postretirement benefits and agent termination benefits as of January 1, 2013. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2014, the Companies made a change in reporting entity by including the Homesite Group, Inc. entities within the consolidated financial statements. Our opinion is not modified with respect to this matter.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The Supplemental Schedules of Consolidation are the responsibility of management and have 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, based on our audits and the report of the other auditors, the Supplemental Schedules of Consolidation are fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The Supplemental Schedules of Consolidation are 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 27, 2015

American Family Mutual Insurance Company and Consolidated Property and Casualty Subsidiaries
Consolidated Property and Casualty Statutory Balance Sheets
December 31, 2014 and 2013

(in thousands of dollars)

	2014	2013
Admitted Assets		
Bonds	$ 7,804,616	$ 6,969,917
Common stocks, including investments in unconsolidated subsidiaries	3,517,469	3,503,017
Real estate (net of accumulated depreciation of $222,459 and $212,399)	238,164	235,717
Cash, cash equivalents and short-term investments	441,185	338,334
Other invested assets	748,195	721,034
Total cash and invested assets	12,749,629	11,768,019
Property and casualty premiums receivable and agents' balances	1,200,292	1,027,620
Accrued investment income	78,311	73,895
Deferred tax assets	332,878	233,119
Electronic data processing equipment and software (net)	15,073	13,096
Other assets	93,444	94,456
Total admitted assets	$ 14,469,627	$ 13,210,205

	2014	2013
Liabilities		
Property and casualty loss and loss adjustment expense reserve	$ 3,540,838	$ 3,367,903
Property and casualty unearned premiums	2,619,443	2,214,077
Drafts outstanding	87,050	93,419
Agent termination benefits	675,164	575,156
Employee pension and other benefits	376,901	187,743
Accrued expenses	21,169	309,584
Income taxes payable	68,397	15,343
Debt	502,204	502,204
Other liabilities	548,378	153,079
Total liabilities	8,439,544	7,418,508
Policyholders' Surplus		
Special surplus funds	1,465	1,250
Unassigned surplus	6,028,618	5,790,447
Total policyholders' surplus	6,030,083	5,791,697
Total liabilities and policyholders' surplus	$ 14,469,627	$ 13,210,205

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

American Family Mutual Insurance Company and Consolidated Property and Casualty Subsidiaries
Consolidated Property and Casualty
Statutory Statements of Income
Years Ended December 31, 2014 and 2013

(in thousands of dollars)	2014	2013
Premiums and other income		
Property and casualty premiums earned	$ 6,252,337	$ 5,494,011
Net investment income	330,296	277,549
Net realized investment gains (losses)	549,229	128,903
Other income	34,954	34,363
Total premiums and other income	7,166,816	5,934,826
Losses and expenses		
Property and casualty losses and loss adjustment expenses incurred	4,423,697	3,989,775
Commissions	510,421	515,946
Other underwriting expenses	1,369,030	1,117,568
Dividends to policyholders	960	2,232
Total losses and expenses	6,304,108	5,625,521
Income (loss) before income tax expense (benefit)	862,708	309,305
Income tax (benefit)	135,816	18,449
Net income (loss)	$ 726,892	$ 290,856

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

American Family Mutual Insurance Company and Consolidated Property and Casualty Subsidiaries
Consolidated Property and Casualty
Statutory Statements of Changes in Policyholders' Surplus
Years Ended December 31, 2014 and 2013

(in thousands of dollars)	**2014**	**2013**
Special surplus funds		
Beginning balance	$ 1,250	$ 1,250
ACA Fee	215	-
Ending balance	1,465	1,250
Unassigned surplus		
Beginning balance	5,790,447	5,163,710
Net income (loss)	726,892	290,856
Net change in unrealized capital gains (losses) of investments, net of deferred income tax	(180,628)	363,074
Change in nonadmitted assets	(31,192)	(47,165)
Change in net deferred income tax	(105,441)	(21,896)
Pension & termination benefits adjustments	(155,593)	41,937
Other	(15,867)	(69)
Ending balance	6,028,618	5,790,447
Total policyholders' surplus	$ 6,030,083	$ 5,791,697

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

American Family Mutual Insurance Company and Consolidated Property and Casualty Subsidiaries
Consolidated Property and Casualty
Statutory Statements of Cash Flows
Years Ended December 31, 2014 and 2013

(in thousands of dollars)	**2014**	**2013**
Cash from Operations		
Premiums collected net of reinsurance	$ 6,220,431	$ 5,557,324
Net investment income	397,402	349,818
Miscellaneous income	31,847	35,806
Benefit and loss related payments	(3,749,014)	(4,003,701)
Commissions, expenses paid and aggregate write-ins for deductions	(2,294,237)	(1,580,665)
Dividends paid to policyholders	(1,377)	(2,231)
Federal income taxes (paid) recovered, net of tax on capital gains (losses)	(68,385)	(34,247)
Net cash provided by (used in) operations	536,667	322,104
Cash from Investments		
Proceeds from investments sold, matured, or repaid:		
Bonds	4,730,854	3,602,573
Stocks	909,120	323,003
Real estate	4,309	1,589
Other invested assets	83,510	79,253
Net gains or (losses) on cash and short-term investments	135	(1,534)
Miscellaneous proceeds	35,908	18,622
Total investment proceeds	5,763,836	4,023,506
Cost of investments acquired (long-term only):		
Bonds	4,965,655	3,712,154
Stocks	936,001	133,371
Capital contribution to affiliate	8,119	680,237
Real estate	5,078	4,157
Other invested assets	159,123	219,160
Miscellaneous applications	32,841	213
Total investments acquired	6,106,817	4,749,292
Net cash provided by (used in) investments	(342,981)	(725,786)
Cash from Financing and Miscellaneous sources		
Borrowed funds received	-	500,000
Other cash provided (applied)	(113,288)	(79,324)
Net cash provided by (used in) financing and miscellaneous sources	(113,288)	420,676
Reconciliation of Cash, Cash Equivalents and Short-Term Investments		
New reporting entity included in the consolidation	22,453	9,611
Net change in cash, cash equivalents and short-term investments	102,851	26,605
Cash, cash equivalents and short-term investments		
Beginning of year	338,334	311,729
End of year	$ 441,185	$ 338,334
Income taxes paid (received)	$ 103,396	$ 42,690

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

1. Nature of Operations and Significant Statutory Accounting Policies

American Family Mutual Insurance Company (AFMIC) is the parent of its wholly-owned subsidiaries, American Family Brokerage, Inc. (AFBI), American Family Securities, LLC (AFS), The AssureStart Insurance Agency LLC (AIA), and AmFam, Inc. AmFam, Inc.'s wholly-owned subsidiaries are American Family Life Insurance Company (AFLIC), American Standard Insurance Company of Wisconsin (ASIC), American Family Insurance Company (AFIC), American Standard Insurance Company of Ohio (ASICO), American Family Financial Services, Inc. (AFFS), PGC Holdings Corp. (PGC), Homesite Group, Inc. (Homesite) and Midvale Indemnity Company (MIC). In 2013, Lumbermens Casualty Insurance Company was renamed to MIC. AmFam, Inc., a non-insurance holding company, is the managing member and AFLIC is a non-managing member of New Ventures, LLC (NV), an indirect, wholly-owned subsidiary of AFMIC. AFMIC and its subsidiaries are herein referred to collectively as the "Companies" or the "Company." For purposes of the 2013 financial statements, the Company consolidated only ASIC, ASICO, AFIC, and MIC.

Effective January 1, 2014, AFMIC executed a loss portfolio transfer and prospective 100% quota share reinsurance agreement with Homesite Insurance Company of the Midwest (HMW) as described in Note 1(g). As a result, as of January 1, 2014 the Company elected to make a change in reporting entity and consolidate the results of HMW, Homesite Indemnity Corporation (HIC), Homesite Insurance Company (HCT), Homesite Insurance Company of California (HCA), Homesite Insurance Company of New York (HNY), Homesite Insurance Company of Illinois (HIL), Homesite Insurance Company of Georgia (HGA), Homesite Insurance Company of Florida (HFL), and Homesite Lloyd's of Texas (HLTX) in addition to ASIC, ASICO, AFIC, and MIC, herein referred to as AFMIC and consolidated property and casualty subsidiaries, for purposes of the 2014 financial statements. The change in reporting entity had no impact on AFMIC and consolidated property and casualty subsidiaries' surplus.

AFMIC and AFIC are engaged principally in the writing of automobile insurance, homeowners insurance, commercial insurance, and other property and casualty insurance. ASIC and ASICO are engaged principally in the writing of non-standard automobile and cycle insurance. In 2011, ASIC started assuming property reinsurance mainly outside the Companies' existing geographic operating territory in order to diversify the Companies' risk. AFLIC principally markets whole life, term life and universal life products to provide financial protection for qualified individuals, families and business enterprises. AFLIC also supports a small amount of group life insurance and structured settlement business primarily as a service to its affiliates. These companies sell these lines of business predominantly through a multi-line, exclusive agency force in nineteen states. AFFS was substantially engaged in the business of making direct loans to qualified individuals and business enterprises. AFFS ceased issuing new loans on November 1, 2007, and existing loans are in run-off. ASICO sells insurance in the states of Ohio and Georgia only. AFBI is an insurance agency which provides brokerage services to its affiliates and administers the federal Write Your Own Flood Program on behalf of AFMIC. In 2014, articles of dissolution for AFS, a non-clearing registered broker-dealer, were filed with and approved by the state of Wisconsin, at which time the assets were distributed to AFMIC. NV was formed in 2010 to support the Companies' non-insurance business development efforts.

On January 14, 2013, AFMIC obtained control of Business Insurance Direct, LLC (BID). On August 31, 2013 AFMIC exchanged its existing investment in BID for 100% of the Class A units of AIA. On November 26, 2014, AFMIC purchased 100% of the Class B units of AIA (see Note 3). AIA is a managing general agent and utilizes MIC to underwrite policies for small commercial businesses direct to the consumer. On December 31, 2013, AmFam, Inc. acquired 100% of the ownership interest in Homesite (see Note 2). Homesite specializes in direct-to-consumer homeowners, renters and condominium insurance. Homesite sells their products primarily through alliances with other insurers, mortgage companies, and real estate companies. Homesite's wholly-owned subsidiary, HIC, is a property and casualty writer domiciled in Kansas. Homesite's other subsidiary, Homesite Securities Company, LLC (HSC), owns Homesite Insurance Agency (HIA) and has seven wholly-owned insurance subsidiaries: HGA, HNY, HCA, HMW, HIL, HFL, and HCT. HSC also owns and controls Texas-South of Homesite, Inc. (HTX), which is the attorney-in-fact for HLTX.

AmFam, Inc. owns 100% of the interest in PGC. PGC is the ultimate parent of the group of companies referred to generally as the Permanent General Companies. The Permanent General Companies specialize in writing non-standard private passenger personal automobile insurance, primarily to consumers interested in acquiring an insurance policy to comply with state minimum insurance requirements. PGC's business is primarily written online and over the phone. PGC wholly-owns Permanent General Assurance Corp of OH (PGACO), Permanent General Companies, Inc. (PGCI), PGC Holdings Corp. Statutory Trust I (PGSTI), and PGC Holdings Corp. Statutory Trust II (PGSTII). PGACO's wholly-owned subsidiary is The General Automobile Insurance Company, Inc. (GAIC). PGCI's wholly-owned subsidiary is Permanent General Assurance Corporation (PGAC), which in turn wholly-owns PGA Service Corporation (PGASC). PGASC's wholly-owned subsidiaries are The General Automobile Insurance Services of Texas, Inc. (GAIT), The General Automobile Insurance Services of Ohio, Inc. (GAIO), The General Automobile Insurance Services of Georgia, Inc. (GAIG), The General Automobile Insurance Services, Inc. (GAI), and The General Automobile Insurance Services of Louisiana, Inc. (GAIL).

AFMIC and its consolidated property and casualty subsidiaries are licensed in a total of 50 states and the District of Columbia.

The equity basis of accounting is applied to all subsidiaries other than AFMIC and the consolidated property and casualty subsidiaries (see Note 1(b)). This is the same basis of accounting used in preparing the Company's Annual Statement filed with state insurance departments for AFMIC and its property and casualty subsidiaries.

The accompanying financial statements have been prepared principally for filing with regulatory agencies and, as such, are prepared in conformity with accounting practices prescribed or permitted by the various domiciliary state insurance departments (statutory accounting practices).

AFMIC and ASIC are domiciled in Wisconsin; AFIC and ASICO are domiciled in Ohio; MIC, HIL, and HFL are domiciled in Illinois; HMW is domiciled in North Dakota; HCT is domiciled in Connecticut; HCA is domiciled in California; HIC is domiciled in Kansas; HNY is domiciled in New York; HGA is domiciled in Georgia; and HLTX is domiciled in Texas . Prescribed statutory accounting practices (STAT) include the National Association of Insurance Commissioners' (NAIC) "Accounting Practices and Procedures Manual," state laws, regulations, and general administrative rules applicable to all insurance enterprises domiciled in a particular state. In addition, the various domiciliary state insurance departments have a right to permit other specific practices that may deviate from prescribed practices. Annual approval is obtained from the various domiciliary 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 agreement. No permitted differences in statutory accounting practices between the various domiciliary state insurance departments and the NAIC are used in the preparation of the statutory financial statements.

The accompanying financial statements have been prepared in accordance with STAT which 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 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 STAT basis: a) bonds are generally carried at amortized cost rather than being valued at 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) PGC and non-property and casualty insurance companies are excluded from this consolidation; e) reinsurance recoverables on unpaid losses are offset against the liability for property and casualty losses and loss adjustment expenses; f) money market mutual funds are reported as short-term investments rather than cash equivalents; g) the STAT purchase method of accounting relies on carryover basis of accounting and the resulting goodwill will be amortized over a period of ten years; h) for statutory purposes certain assets are considered non-admitted and therefore excluded from surplus; see Note 1(l) below for a description of these items; and i) debt is recorded on a cost basis rather than at fair value.

The effect of the foregoing differences in the accompanying consolidated statutory financial statements is material. Consolidated GAAP policyholders' equity is $6,965,108,000 and $6,580,946,000 as of December 31, 2014 and 2013, respectively. Consolidated GAAP net income is $515,194,000 and $378,835,000 for the years ended December 31, 2014 and 2013, respectively.

The significant accounting policies used in the preparation of these statements include:

a. Principles of Consolidation

The accompanying consolidated property and casualty statutory financial statements include the accounts of AFMIC and its wholly-owned property and casualty subsidiaries (ASIC, AFIC, ASICO, MIC, HMW, HCT, HCA, HIC, HNY, HIL, HGA, HLTX, and HFL) after elimination of all significant intercompany balances and activity.

b. Cash and Invested Assets

Investments in bonds rated "1" (highest quality), or "2" (high quality), by the Securities Valuation Office ("SVO") of the NAIC are reported in the 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 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.

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

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 had maturities of one year or less at purchase and consist primarily of money market funds carried at amortized cost, which approximates fair value.

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 reported as other invested assets or other liabilities, as applicable, on the balance sheets. When 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 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 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 and 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. All other subsidiaries are accounted using GAAP equity. For statutory purposes, AFBI and AssureStart are nonadmitted because these companies do not undergo a separate audit. 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 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 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.

Premiums receivable consists of accounts receivable for uncollected premium balances, bills receivable for premiums, and amounts due from agents and brokers. AFMIC routinely assesses the collectability of these receivables. Any premiums receivable which are greater than 90 days past due are nonadmitted. As of December 31, 2014 and 2013, nonadmitted amounts are $5,174,000 and $2,705,000, respectively. Based upon the Companies' experience, premiums receivable of $4,962,000 and $4,069,000 as of December 31, 2014 and 2013, respectively, are estimated to be uncollectible in excess of nonadmitted amounts;

therefore, a corresponding additional provision for uncollectible amounts has been recorded in 2014 and 2013.

AFMIC 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. AFMIC generally does not charge interest on delinquent accounts.

The Companies annually evaluate whether a premium deficiency exists relating to short-duration contracts for each of its major lines of business. Anticipated investment income is considered as part of this evaluation. A premium deficiency of $889,000 existed at December 31, 2014 attributable to health lines with 50% of the balance subject to ceding under a reinsurance contract for a net premium deficiency of $445,000. A premium deficiency of $3,088,000 existed at December 31, 2013 attributable to health lines with 50% of the balance subject to ceding under a reinsurance contract for a net premium deficiency of $1,544,000.

e. Acquisition Costs

Costs that are directly related to the acquisition of new or renewal insurance contracts are expensed as incurred.

f. Property and Casualty Loss and Loss Adjustment Expense Reserve

The property and 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 reflected currently. Accordingly, losses and loss adjustment expenses 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 and 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 financial statements.

g. Reinsurance

In the normal course of business, the Companies seek to limit their 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 contracts and coinsurance contracts. Liabilities related to insurance contracts are reported after the effects of reinsurance. Estimated reinsurance recoverable is recognized in a manner consistent with the liabilities related to the underlying reinsured contracts. After reinsurance cessions to external parties including American Republic Insurance Company and National Flood Insurance Program, ASIC, AFIC and ASICO cede the remainder of their insurance business to AFMIC under 100% quota share reinsurance contracts. Effective January 1, 2013, MIC entered into a 100% quota share agreement with AFMIC.

Effective January 1, 2014, AFMIC executed a loss portfolio transfer and prospective 100% quota share reinsurance agreement with Homesite Insurance Company of the Midwest (HMW). Per the agreement, 100% of the net consolidated underwriting activity of HMW, including all outstanding and subsequent losses, is reinsured from HMW to AFMIC. HMW 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 Homesite Group of companies. As such, the amounts ceded from HMW to AFMIC consist of the consolidated underwriting activity of the Homesite Group of companies after ceding externally to third-party reinsurers.

ASIC assumes property reinsurance mainly outside the Companies' existing geographic operating territory in order to diversify the Companies' risk. Property and casualty earned premiums assumed under reinsurance contracts under this program during 2014 and 2013 were $76,581,000 and $68,478,000, respectively.

The Companies do 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.

h. Federal Income Taxes

The Companies file a consolidated federal income tax return with the following entities:

American Family Mutual Insurance Company (Parent Company)
American Standard Insurance Company of Wisconsin
American Family Life Insurance Company
American Family Financial Services, Inc.
AmFam, Inc.
American Family Brokerage, Inc.
American Family Insurance Company
American Standard Insurance Company of Ohio
Midvale Indemnity Company
PGC Holdings Corp. and Subsidiaries
Homesite Group Inc. and Subsidiaries

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 their 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 their losses. Such compensation shall come directly from profitable companies that utilize those tax losses to reduce their 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. Under STAT, state current income taxes are included as an underwriting expense while for GAAP they are part of income tax expense.

i. 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.

j. 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 auto, furniture and equipment, leasehold improvements and telephone. 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 statements of income.

The gross cost, accumulated depreciation, net cost, non-admitted assets, and net admitted assets of major classes as of December 31 are as follows:

	2014					
(in thousands of dollars)	**Gross Cost**	**Accumulated Depreciation**	**Net Cost**	**Non Admitted Asset**	**Net Admitted Asset**	**Depreciation Expense**
Furniture and equipment	$ 210,108	$ (132,840)	$ 77,268	$ 77,268	$ -	$ 11,376
EDP equipment and software	716,664	(488,820)	227,844	212,771	15,073	50,402
	$ 926,772	$ (621,660)	$ 305,112	$ 290,039	$ 15,073	$ 61,778

	2013					
(in thousands of dollars)	**Gross Cost**	**Accumulated Depreciation**	**Net Cost**	**Non Admitted Asset**	**Net Admitted Asset**	**Depreciation Expense**
Furniture and equipment	$ 229,761	$ (143,035)	$ 86,726	$ 86,726	$ -	$ 10,869
EDP equipment and software	651,806	(438,733)	213,073	199,977	13,096	13,588
	$ 881,567	$ (581,768)	$ 299,799	$ 286,703	$ 13,096	$ 24,457

k. Leases

The Company leases various office equipment and real estate under various noncancelable operating lease agreements with various expiration dates through 2019 and thereafter. Lease expense for 2014 and 2013, prior to allocation to nonconsolidated affiliates, was $28,463,000 and $32,779,000, respectively.

As of December 31, 2014, the minimum aggregate lease commitments, prior to allocations to nonconsolidated affiliates, were as follows:

(in thousands of dollars) **Year ending December 31**	**Operating Leases**
2015	$ 28,672
2016	28,716
2017	27,516
2018	27,804
2019 and thereafter	28,187
Total	$ 140,895

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.

l. 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, a portion of electronic data processing equipment, non-operating software, furniture and equipment, and common stock of certain affiliated companies, have been excluded from the balance sheets through a direct charge against unassigned surplus. Changes in nonadmitted assets are reported as a direct adjustment to surplus in the statements of changes in policyholders' surplus.

The nonadmitted assets as of December 31 are as follows:

(in thousands of dollars)	**2014**	**2013**
Common stocks	$ 870	$ 1,458
Receivable for investments	24	-
Other invested assets	23,390	692
Uncollected premiums	3,121	2,705
Net deferred tax assets	85	84
EDP and software	212,771	199,977
Furniture and equipment	77,268	86,726
All other	20,987	15,333
Total nonadmitted assets	$ 338,516	$ 306,975

m. Adoption of New Accounting Guidance

Accounting for Pension, Other Post-Retirement Benefits, and Agent Termination Benefits

In March 2012, the NAIC adopted new guidance—SSAP 102 and SSAP 92—for the accounting for pension and other postretirement benefits. The new standards became effective for the Company beginning January 1, 2013. Under the new rules, the unfunded benefit obligations are recognized on the balance sheet, and impacts statutory surplus. Further, nonvested participants are now included in the statutory measurement of the obligation and expense. In addition, the new guidance discontinues the previous statutory provision to allow for asset smoothing. The initial adoption of this new guidance was recorded through an adjustment to surplus. Companies can make an election to recognize the entire adjustment to surplus as a result of adopting this new guidance or over a period not to exceed 10 years. The Company elected to recognize the entire adjustment to surplus in 2013. Adopting this new accounting guidance increased the Company's liability for pension and other postretirement benefits by approximately $257,925,000, which reduced unassigned surplus by approximately $248,195,000, after tax, as of January 1, 2013. This adjustment to unassigned surplus is included in the 2013 change for the pension and termination benefits adjustment line of the statutory statements of changes in policyholders' surplus.

n. Subsequent Events

The Company has evaluated events subsequent to December 31, 2014 through February 27, 2015, the date these financial statements were available to be issued. Based on this evaluation, no type I or type II events have occurred subsequent to December 31, 2014 that require disclosure or adjustment to the financial statements at that date or for the year then ended.

2. Acquisition

On December 31, 2013, AFMIC, through AmFam, Inc., acquired 100% of the ownership interest in Homesite for $666,447,000 in cash, including direct costs of the acquisition. The purpose of this acquisition was to broaden distribution channels and to spread the concentration of risk. Homesite specializes in direct-to-consumer homeowners, renters and condominium insurance. Homesite sells its products primarily through alliances with other insurers, mortgage companies, and real estate companies. As of December 31, 2014, Homesite had policies in force in 47 states and the District of Columbia. AmFam, Inc. accounted for the transaction under the STAT purchase method of accounting which resulted in the recognition of $300,120,000 of goodwill, none of which was amortized during 2013. Goodwill amortization expense was $30,023,000 for the year ended December 31, 2014.

3. Establishment of Control

On January 14, 2013, AFMIC obtained control of BID by making an initial $1,500,000 cash contribution in exchange for 100% of the Class A units of BID and majority membership on the BID Board of Managers.

On August 31, 2013, AFMIC exchanged its existing investment in BID and contributed $4,000,000 of additional capital for 100% of the 8,000 Class A units of AIA. The transaction was accounted for as a transfer of assets between entities under common control. On November 26, 2014, AFMIC purchased 100% of the Class B units of AIA for $4,692,000 cash. The class A units and class B units of AIA entitle AFMIC to 100% voting capital interest and 100% nonvoting profits interest. As of December 31, 2014, AIA had a carrying value of $19,452,000.

4. 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 markets that are generally active.

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 with valuations based on unadjusted quoted prices for identical assets in markets that are generally active.

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 with valuations based on unadjusted quoted prices for identical assets in markets that are generally active.

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 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:

Corporates: 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.

Municipals: 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 Federal Home Loan Bank of Chicago (FHLBC) stock as discussed in Note 15. While not actively traded, the valuation for this investment is perpetually quoted at $100 by the FHLBC.

Cash Equivalents: Cash equivalents 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.

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 4(a).

Level 3 Measurements

Bonds: The majority of Level 3 bonds are valued externally using a pricing vendor that specializes in pricing esoteric securities. The vendor's pricing model uses projected cash flows, prepay, default and severity assumptions, benchmark yields, weighted average lives and credit spreads 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:

Municipals: Valued internally based on a discounted cash flow model.

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

The following summarizes the Company's financial assets 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 statutory balance sheets as the vast 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).

2014

(in thousands of dollars)	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, 2014
Financial assets				
Bonds				
Municipals	$ -	$ 1,875	$ 13,874	$ 15,749
Corporates	-	185,472	-	185,472
Common stocks	2,033,796	10,000	-	2,043,796
Short-term investments	214,524	-	-	214,524
Derivative assets	-	3,041	-	3,041
Total fair value financial assets	$ 2,248,320	$ 200,388	$ 13,874	$ 2,462,582
Derivative liabilities	-	18,795	-	18,795
Total fair value financial liabilities	$ -	$ 18,795	$ -	$ 18,795

2013

(in thousands of dollars)	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, 2013
Financial assets				
Bonds				
Municipals	$ -	$ 9,041	$ 13,545	$ 22,586
Corporates	-	82,426	1,506	83,932
Common stocks	1,749,427	10,000	-	1,759,427
Short-term investments	218,196	-	-	218,196
Derivative assets	-	37,406	-	37,406
Total fair value financial assets	$ 1,967,623	$ 138,873	$ 15,051	$ 2,121,547
Derivative liabilities	-	505	-	505
Total fair value financial liabilities	$ -	$ 505	$ -	$ 505

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

2014

(in thousands of dollars)	Balance as of January 1, 2014	Total Realized and Unrealized Gains (Losses) included in Net Income	OCI on Balance Sheet	Purchases	Sales	Settlements	Net Transfers In and/or (Out) of Level 3	Balance as of December 31, 2014	Total Gains (Losses) included in Net Income for Instruments Still Held at December 31, 2014
Financial assets									
Bonds									
Municipals	$ 13,545	$ -	$ 329	$ -	$ -	$ -	$ -	$ 13,874	$ -
Corporates	1,506	(26)	9	2,642	(4,117)	(14)	-	-	-
Other invested assets	-	(862)		478	(3,141)	(375)	3,900	-	-
Total recurring Level 3 financial assets	$ 15,051	$ (888)	$ 338	$ 3,120	$ (7,258)	$ (389)	$ 3,900	$ 13,874	$ -

2013

(in thousands of dollars)	Balance as of January 1, 2013	Total Realized and Unrealized Gains (Losses) included in Net Income	OCI on Balance Sheet	Purchases	Sales	Settlements	Net Transfers In and/or (Out) of Level 3	Balance as of December 31, 2013	Total Gains (Losses) included in Net Income for Instruments Still Held at December 31, 2013
Financial assets									
Bonds									
Municipals	$ -	$ -	$ (455)	$ -	$ -	$ -	$ 14,000	$ 13,545	$ -
Corporates	-	-	(9)	549	-	(27)	993	1,506	-
Total recurring Level 3 financial assets	$ -	$ -	$ (464)	$ 549	$ -	$ (27)	$ 14,993	$ 15,051	$ -

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

2014

(in thousands of dollars)	Aggregate Fair Value	Admitted Assets	(Level 1)	(Level 2)	(Level 3)
Bonds	$ 8,039,843	$ 7,804,615	$ 357,851	$ 7,584,156	$ 97,837
Common stocks - unaffiliated	2,043,796	2,043,796	2,033,796	10,000	-
Cash equivalents	26,373	26,373	22,641	3,732	-
Short-term investments	385,597	385,622	335,589	50,007	-
Derivative assets	3,041	3,041	-	3,041	-
Other invested assets	748,038	727,226	-	-	748,038
Total financial assets	$ 11,246,688	$ 10,990,673	$ 2,749,877	$ 7,650,936	$ 845,875
Derivative liabilities	$ 18,795	$ 18,795	$ -	$ 18,795	$ -
Total financial liabilities	$ 18,795	$ 18,795	$ -	$ 18,795	$ -

2013

(in thousands of dollars)	Aggregate Fair Value	Admitted Assets	(Level 1)	(Level 2)	(Level 3)
Bonds	$ 7,051,100	$ 6,969,917	$ 306,997	$ 6,697,277	$ 46,826
Common stocks - unaffiliated	1,759,427	1,759,427	1,749,427	10,000	-
Cash equivalents	1,368	1,367	-	1,368	-
Short-term investments	328,525	328,252	302,053	26,472	-
Derivative assets	37,406	37,406	-	37,406	-
Other invested assets	665,472	664,780	-	-	665,472
Total financial assets	$ 9,843,298	$ 9,761,149	$ 2,358,477	$ 6,772,523	$ 712,298
Derivative liabilities	$ 505	$ 505	$ -	$ 505	$ -
Total financial liabilities	$ 505	$ 505	$ -	$ 505	$ -

As part of its pricing procedures, the Company obtains quotes from a leading provider of pricing data, and the Company's internal pricing policy is to use a consistent source for individual securities 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 a pricing service that specializes 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. Level 3 securities have historically represented a nominal percentage of the total investment portfolio and have generally consisted of illiquid or thinly traded CDO and private placement deals, bonds of issuers in the process of restructuring or bankruptcy, or other esoteric or difficult-to-price securities with little liquidity.

All transfers into or out of a particular level are recognized as of the beginning of the reporting period. The Company recorded a $3,900,000 transfer into Level 3 in 2014 for partnerships valued using agreed-upon purchase prices from a sale planned to occur later in the year. These partnerships have always been considered Level 3 assets, but were previously valued using capital account valuations as reported by the various limited partnerships. Therefore, the investments were not carried at fair value prior to 2014. There were no other material transfers into or out of Levels 1, 2, or 3 during 2014.

The Company recorded a $14,993,000 transfer into Level 3 in 2013 for two securities. The first is a municipal bond that was initially valued based on its December 2012 purchase price but has subsequently been valued internally using a discounted cash flow model utilizing unobservable inputs. The second is a security that was previously priced by a third party pricing service using observable inputs, but pricing for this security was discontinued in 2013. This bond is now priced manually using unobservable inputs. There were no other material transfers into or out of Levels 1, 2, or 3 during 2013.

b. Common Stocks – Unaffiliated

The aggregate cost of unaffiliated stocks at December 31, 2014 and 2013 was $1,186,868,000 and $683,248,000, respectively. Net unrealized appreciation of unaffiliated stocks stated at fair value includes gross unrealized gains of $872,745,000 and $1,076,583,000 and gross unrealized losses of $15,817,000 and $404,000 at December 31, 2014 and 2013, respectively.

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:

	2014							
	Less than 12 Months			**12 Months or More**			**Total**	
(in thousands of dollars, except number of issues)	**Number of Issues**	**Fair Value**	**Unrealized Losses**	**Number of Issues**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Description of Securities:								
Common stock - nonaffiliated	510	$ 133,415	$ (15,816)	1	$ 11	$ (1)	$ 133,426	$ (15,817)
Total	510	$ 133,415	$ (15,816)	-	$ 11	$ (1)	$ 133,426	$ (15,817)

	2013							
	Less than 12 Months			**12 Months or More**			**Total**	
(in thousands of dollars, except number of issues)	**Number of Issues**	**Fair Value**	**Unrealized Losses**	**Number of Issues**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Description of Securities:								
Common stock - nonaffiliated	17	$ 4,391	$ (404)	-	$ -	$ -	$ 4,391	$ (404)
Total	17	$ 4,391	$ (404)	-	$ -	$ -	$ 4,391	$ (404)

The Company believes that unrealized losses related to these stocks are temporary. In determining whether these unrealized losses 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 2014 and 2013, the Company recorded other-than-temporary impairments (OTTI) in its stock portfolio, resulting in a total realized loss of $5,971,000 and $728,000, respectively.

Proceeds from sales of stocks during 2014 and 2013 were $872,035,000 and $300,934,000, respectively. These amounts exclude spin-offs, tax-free exchanges, taxable exchanges and returns of capital. Gross gains of $414,868,000 and $65,518,000, and gross losses of $8,776,000 and $5,318,000 were realized on those sales during 2014 and 2013, respectively. The basis of the securities sold was determined using specific identification.

c. Financial Information for Unconsolidated Subsidiaries

Condensed financial information regarding AFMIC's indirect wholly-owned subsidiary, AFLIC, which has not been consolidated is shown as follows:

(in thousands of dollars)	December 31, 2014	December 31, 2013
Balance Sheets		
Assets	$ 5,230,458	$ 5,074,042
Liabilities	$ 4,341,848	$ 4,251,248
Statutory surplus	886,610	822,794
Liabilities and stockholders' equity	$ 5,228,458	$ 5,074,042

(in thousands of dollars)	Year Ended December 31, 2014	Year Ended December 31, 2013
Results of Operations		
Revenues	$ 585,764	$ 603,837
Realized gains (losses), net of tax	7,120	1,195
Expenses	479,386	501,936
Income (loss) before income tax expense (benefit)	113,498	103,096
Income tax expense (benefit)	32,794	36,893
Net income (loss)	$ 80,704	$ 66,203

Condensed financial information regarding AmFam, Inc., AFS (2013 only), AFFS, AFBI, AIA, GAIC, NV, MIC, PGAC, PGACO, PGC, PGCI, PGSTI, PGSTII, PGASC, GAIT, GAIO, GAIG, GAI, GAIL, Homesite, HSC, HIA, and HTX which are also direct or indirect wholly-owned operating subsidiaries of AFMIC, are not included in the above tables for purposes of this disclosure.

d. Bonds

The carrying value and fair value of bonds, including short-term investments, at December 31 are as follows:

	2014			
(in thousands of dollars)	**Carrying Value**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Description of Securities:				
U.S. governments	$ 772,041	$ 5,908	$ (2,266)	$ 775,683
States, territories and possessions (direct and guaranteed)	574,303	14,790	(957)	588,136
Political subdivisions of states, territories and possessions (direct and guaranteed)	741,321	17,612	(1,427)	757,506
Special revenue and special assessment obligations and all nonguaranteed obligations of agencies and nonguaranteed obligations of agencies and authorities of governments and their political subdivisions	3,932,052	162,174	(5,705)	4,088,521
Industrial and miscellaneous	2,170,519	52,686	(7,611)	2,215,594
Totals	$8,190,236	$ 253,170	$ (17,966)	$8,425,440

	2013			
(in thousands of dollars)	**Carrying Value**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Description of Securities:				
U.S. governments	$ 713,215	$ 2,032	$ (14,034)	$ 701,213
States, territories and possessions (direct and guaranteed)	264,862	5,971	(2,738)	268,095
Political subdivisions of states, territories and possessions (direct and guaranteed)	628,250	19,712	(7,801)	640,161
Special revenue and special assessment obligations and all nonguaranteed obligations of agencies and nonguaranteed obligations of agencies and authorities of governments and their political subdivisions	3,794,453	86,718	(59,016)	3,822,155
Industrial and miscellaneous	1,897,388	65,901	(15,288)	1,948,001
Totals	$7,298,168	$ 180,334	$ (98,877)	$7,379,625

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:

	2014							
	Less Than 12 Months			12 Months or More			Total	
(in thousands of dollars, except number of issues)	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities:								
U.S. governments	20	$ 230,704	$ (445)	11	$ 78,928	$ (1,821)	$ 309,632	$ (2,266)
States, territories and possessions (direct and guaranteed)	32	186,589	(957)	-	-	-	186,589	(957)
Political subdivisions of states, territories and possessions (direct and guaranteed)	66	218,865	(761)	10	34,343	(666)	253,208	(1,427)
Special revenue and special assessment obligations and all nonguaranteed obligations of agencies and nonguaranteed obligations of agencies and authorities of government and their political subdivisions	131	475,189	(2,842)	47	181,588	(2,863)	656,777	(5,705)
Industrial and miscellaneous	149	427,083	(4,379)	46	98,444	(3,232)	525,527	(7,611)
	398	$1,538,430	$ (9,384)	114	$ 393,303	$ (8,582)	$1,931,733	$ (17,966)

	2013							
	Less Than 12 Months			12 Months or More			Total	
(in thousands of dollars, except number of issues)	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities:								
U.S. governments	38	$ 270,583	$ (12,786)	7	$ 20,979	$ (1,248)	$ 291,562	$ (14,034)
States, territories and possessions (direct and guaranteed)	24	102,138	(2,738)	-	-	-	102,138	(2,738)
Political subdivisions of states, territories and possessions (direct and guaranteed)	66	189,453	(6,034)	6	28,819	(1,767)	218,272	(7,801)
Special revenue and special assessment obligations and all nonguaranteed obligations of agencies and nonguaranteed obligations of agencies and authorities of government and their political subdivisions	372	1,455,185	(53,264)	28	70,689	(5,752)	1,525,874	(59,016)
Industrial and miscellaneous	200	523,195	(13,715)	12	33,237	(1,573)	556,432	(15,288)
	700	$2,540,554	$ (88,537)	53	$ 153,724	$ (10,340)	$2,694,278	$ (98,877)

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 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 impairments are recorded as a realized investment loss in the 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 2014 and 2013. There were no credit-related impairments recorded on structured securities in 2014 and 2013, and the Company does not hold any structured securities with a 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.

In 2014 and 2013, there was no credit-related OTTI recorded on non-structured securities. The Company recognized $0 and $6,751,000 of OTTI due to the intent to sell non-structured securities in 2014 and 2013, respectively.

During 2014 and 2013, for its bond portfolio, the Company recorded total OTTI in investment losses in the statements of income of $0 and $6,751,000, 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 unrealized investment losses related to bonds are temporary.

Subprime mortgages are residential loans to borrowers with weak credit profiles. Alt A mortgages are residential loans to borrowers who have credit profiles above subprime but do not conform to traditional ("prime") mortgage underwriting guidelines. The Company had insignificant exposure to subprime and Alt A mortgages at December 31, 2014 and 2013.

The carrying value and fair value of bonds, including short-term investments, at December 31, 2014 by contractual maturity are shown as follows. 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, 2014	
(in thousands of dollars)	**Carrying Value**	**Fair Value**
Due in one year or less	$ 880,237	$ 884,784
Due after one year through five years	2,308,763	2,369,967
Due after five years through ten years	2,689,099	2,774,231
Due after ten years	818,568	882,626
Subtotal	6,696,667	6,911,608
Mortgage-backed securities	901,754	919,832
Asset-backed securities	591,815	594,000
Total	$ 8,190,236	$ 8,425,440

Proceeds from sales of bonds during 2014 and 2013 were $3,927,904,000 and $3,214,491,000, respectively. Gross gains of $154,922,000 and $125,814,000 and gross losses of $12,663,000 and $57,343,000 were realized on those sales during 2014 and 2013, respectively. The basis of the securities sold was determined using specific identification.

At December 31, 2014 and 2013, investments with an amortized value of $31,824,000 and $29,749,000, 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, 2014. None of these positions are classified as mortgage-referenced securities.

(in thousands of dollars)	December 31, 2014		
CUSIP Identification	**Actual Cost**	**Fair Value**	**Book/Adjusted Carrying Value**
010685HD0	$ 12,413	$ 13,498	$ 12,591
01728AH25	9,176	9,247	9,253
01728VFV7	13,995	14,194	14,042
03938LAX2	799	801	792
040507HN8	8,916	9,137	9,005
13033LY50	2,247	2,228	2,241
20772JHL9	4,006	4,071	4,004
24023DAC8	3,799	3,914	3,795
249002BA3	3,072	3,062	3,290
251237W66	9,191	9,360	9,374
25477GGQ2	10,000	10,097	10,000
388640S54	5,285	5,187	5,264
414004Z46	4,496	4,636	4,559
414008BM3	4,000	4,008	4,000
46613PSY3	1,765	2,084	1,848
491189EE2	20,152	21,541	20,411
51166FCN7	2,000	2,015	2,000
57582PBS8	2,323	2,722	2,420
57582PDM9	34,311	34,075	34,327
57582PK41	2,250	2,255	2,250
576004FR1	3,609	4,146	3,661
645918S20	4,508	4,519	4,506
659155BY0	5,115	5,043	5,111
7092235D9	2,250	2,263	2,250
786134PG5	21,150	22,909	21,500
912828PP9	3,282	3,755	3,580
913366BU3	3,500	4,279	3,628
96634RAQ5	4,975	4,978	4,975
P09646AD5	4,084	4,105	4,014
Total	$ 206,669	$ 214,129	$ 208,691

e. Real Estate

Real estate assets (excluding land held for sale) were disposed of at a net realized gain of $2,721,000 and $359,000 during 2014 and 2013, respectively. The assets disposed in 2014 primarily consisted of an office building. The assets disposed in 2013 primarily consisted of an office building and a drive-in claims office.

The Company owns certain properties with the intent to develop and sell the land. Lots are listed and sold through licensed real estate brokers following planned marketing and sale methods. Timing of sales is determined by market conditions, and the Company recognized a gain on the sale of these lots of $2,344,000 and $0 as of December 31, 2014 and 2013, respectively.

During 2014 and 2013, the Company recorded OTTI on real estate assets of $1,043,000 and $0, respectively. The other-than-temporarily impaired assets were related to properties that were intended to be sold at a reduced listing price.

f. Other Invested Assets

During 2014 and 2013, the Company recorded OTTI in the other invested assets portfolio of $11,269,000 and $2,426,000, 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.

Low Income Housing Tax Credits (LIHTC)

The schedule of LIHTC unexpired tax credits and the required holding periods as of December 31, 2014 are listed as follows:

Entity Description	Years of Unexpired Tax Credits	Required Holding Period
MAHF XVI	4	2019
MO TAX VI	2	2017
MAHF XVIII	6	2021
MAHF XIX	6	2021

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, 2014 and 2013. The Company did not hold any non-transferable state tax credits as of December 31, 2014 and 2013.

g. Derivative Instruments

Interest rate risk is the risk that the Company will incur a market value loss due to adverse changes in interest rates relative to the interest rate characteristics of its interest bearing assets and liabilities. The Company is subject to interest rate risk with respect to both its investment portfolio and its general operations.

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. The interest rate derivatives are used to hedge interest rate risk. The Company does not use derivatives for speculative purposes, and did not use derivatives for replication or other income generation purposes during 2014 or 2013.

Derivative instruments are accounted for on a fair value basis on the balance sheets. Unrealized gains and losses are recognized in surplus; realized gains and losses on derivative positions are recognized in the statements of income. All derivative 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 balance sheet. Cash collateral payable (receivable) is netted with derivative assets (liabilities) and the net amount is recorded in other invested assets (liabilities) on the balance sheet. These derivative instruments are not separately presented on the balance sheets and statements of income due to their immaterial effect on the Company's financial condition, cash flows, and results of operations.

Derivative instruments as of December 31, 2014 and 2013, are as follows:

	2014					
(in thousands of dollars)			**Balance Sheet**		**Statement of Changes in Policyholders' Surplus**	
Derivatives designated as:	**Notional Value**	**Purpose**	**Classification**	**Fair Value**	**Classification**	**Amount Realized**
Non-hedging instruments						
Assets:						
Interest rate swaps	$ 130,000	Manage interest rate risk	Other assets	$ 3,041	Unassigned surplus	$ (34,479)
Liabilities:						
Interest rate swaps	1,005,000	Manage interest rate risk	Other liabilities	(18,794)	Unassigned surplus	(17,493)
Total open positions	$1,135,000			$ (15,753)		$ (51,972)
Closed:						
Interest rate swaps	$ 265,000	Manage interest rate risk	N/A		Realized capital gain (loss)	$ (4,142)
Total closed positions						$ (4,142)
Total						$ (56,114)

	2013					
(in thousands of dollars)			**Balance Sheet**		**Statement of Changes in Policyholders' Surplus**	
Derivatives designated as:	**Notional Value**	**Purpose**	**Classification**	**Fair Value**	**Classification**	**Amount Realized**
Non-hedging instruments						
Assets:						
Interest rate swaps	$ 1,150,000	Manage interest rate risk	Other assets	$ 37,406	Unassigned surplus	$ 36,565
Liabilities:						
Interest rate swaps	50,000	Manage interest rate risk	Other liabilities	(505)	Unassigned surplus	10,326
Total open positions	$1,200,000			$ 36,901		$ 46,891
Closed:						
Interest rate swaps	$ 535,000	Manage interest rate risk	N/A		Realized capital gain (loss)	$ 4,778
Total closed positions						$ 4,778
Total						$ 51,669

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

2014

(in thousands of dollars)

					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	$ 4,147	$ (1,106)	$ (2,610)	$ 431	$ -	$ 431
Liabilities	(19,900)	1,106	20,436	1,642	14,291	15,933
Total	$ (15,753)	$ -	$ 17,826	$ 2,073	$ 14,291	$ 16,364

2013

(in thousands of dollars)

					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	$ 38,542	$ (1,136)	$ (22,084)	$ 15,322	$ (6,115)	$ 9,207
Liabilities	(1,641)	1,136	220	(285)	523	238
Total	$ 36,901	$ -	$ (21,864)	$ 15,037	$ (5,592)	$ 9,445

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 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 and requires 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, 2014 and 2013, the Company pledged bonds with a carrying value and fair value of $14,291,000 and $523,000, respectively, as collateral to counterparties. Bonds pledged by the Company as collateral are included in bonds on the balance sheets. As of December 31, 2014 and 2013, counterparties pledged bonds with a fair value of $0 and $6,115,000, respectively, to the Company. Bonds pledged by counterparties as collateral are not included on the Company's balance sheets. The Company pledged cash of $656,000 and $220,000 as collateral to counterparties and counterparties pledged $2,610,000 and $16,740,000 in cash collateral to the Company as of December 31, 2014 and 2013, respectively. Cash collateral pledged to (by) the Company is netted with derivative assets (liabilities) on the 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, 2014 and 2013, the Company pledged initial margin of $50,000 and $12,276,000 in cash to the CME. In addition, the Company pledged $19,781,000 and $0 in cash as variation margin to the CME as of December 31, 2014 and 2013, respectively. In return, the CME posted $0 and $5,344,000 in cash as variation margin to the Company as of December 31, 2014 and 2013, respectively. Cash pledged as variation margin by (to) the Company is netted with derivative assets (liabilities) on the balance sheets as previously described. Bonds pledged by the Company as margin are included in bonds, available-for-sale, on the balance sheets.

Counterparty credit exposure by counterparty credit rating as it relates to open interest rate derivative contracts as of December 31, 2014 and 2013, is as follows:

(in thousands of dollars)

	2014			
Rating	**Number of Counterparties**	**Notional Value**	**Credit Exposure**	**Exposure, Net of Collateral**
Centrally Cleared	1	$ 670,000	$ -	$ -
A+	2	330,000	3,041	431
A	1	85,000	-	-
A-	1	50,000	-	-
Total	5	$ 1,135,000	$ 3,041	$ 431

(in thousands of dollars)

	2013			
Rating	**Number of Counterparties**	**Notional Value**	**Credit Exposure**	**Exposure, Net of Collateral**
Centrally Cleared	1	$ 575,000	$ 11,885	$ 6,541
A+	2	450,000	18,761	2,021
A	1	125,000	6,760	645
A-	1	50,000	-	-
Total	5	$ 1,200,000	$ 37,406	$ 9,207

h. Net Investment Income

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

(in thousands of dollars)	**2014**	**2013**
Bonds	$ 252,167	$ 236,918
Common stocks	45,562	40,772
Real estate	44,289	48,039
Other	92,741	26,795
Total investment income	434,759	352,524
Investment expenses	(104,463)	(74,975)
Net investment income	$ 330,296	$ 277,549

5. Federal Income Taxes

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

(in thousands of dollars)

1.	2014 Ordinary	2014 Capital	2014 Total	2013 Ordinary	2013 Capital	2013 Total
(a) Gross deferred tax assets (DTAs)	$ 787,611	$ 1,658	$ 789,269	$ 761,032	$ 120	$ 761,152
(b) Statutory valuation allowance adjustment	1,641	-	1,641	2,016	-	2,016
(c) Adjusted gross deferred tax assets ((a) - (b))	785,970	1,658	787,628	759,016	120	759,136
(d) Deferred tax assets nonadmitted	85	-	85	84	-	84
(e) Subtotal (net deferred tax assets) ((c) - (d))	785,885	1,658	787,543	758,932	120	759,052
(f) Deferred tax liablilities	85,894	368,771	454,665	82,047	443,886	525,933
(g) Net admitted deferred tax assets ((e) - (f))	$ 699,991	$ (367,113)	$ 332,878	$ 676,885	$ (443,766)	$ 233,119

2. Admission calculation components of SSAP No. 101	2014 Ordinary	2014 Capital	2014 Total	2013 Ordinary	2013 Capital	2013 Total
(a) Fed inc tax paid in prior years recov through loss carrybacks	$ 147,160	$ 1,658	$ 148,818	$ 45,412	$ -	$ 45,412
(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)	225,213	-	225,213	302,641	(642)	301,999
1. Adjusted gross deferred tax assets expected to be realized following the balance sheet date	225,213	-	225,213	302,641	(642)	301,999
2. Adjusted gross deferred tax assets allowed per limitation threshold	XXXXX	XXXXX	831,808	XXXXX	XXXXX	831,808
(c) Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from (a) and (b) above) offset by gross deferred tax liabilities	413,512	-	413,512	410,879	762	411,641
(d) Deferred tax assets admitted as the result of application of SSAP 101, Total (a)+(b)+(c)	$ 785,885	$ 1,658	$ 787,543	$ 758,932	$ 120	$ 759,052

3.	2014	2013
(a) Ratio percentage used to determine recovery period and threshold limitation amount	-	798
(b) Amount of adjusted capital and surplus used to determine recovery period and threshold limitation in 2(b)2 above	$ -	$5,545,386

4. Impact of Tax Planning Strategies	2014 Ordinary Percent	2014 Capital Percent	2014 Total Percent	2013 Ordinary Percent	2013 Capital Percent	2013 Total Percent
(a) Adjusted gross DTAs (% of total adjusted gross DTAs)	-	-	-	-	-	-
(b) Net admitted adjusted gross DTAs (% of total net admitted adjusted gross DTAs)	-	-	-	-	-	-

(c) Does the company's tax-planning strategies include the use of reinsurance? 2014: No 2013: No

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

(in thousands of dollars)	**2014**	**2013**
Current Income Tax		
Federal	$ 1,916	$ (5,011)
Foreign	-	-
Subtotal	1,916	(5,011)
Federal income tax on net capital gains	119,208	22,646
Utilization of Net Capital Loss Carryforward	-	381
Other - Audit, Over and Underaccrual	14,692	433
Federal and foreign income taxes incurred	$ 135,816	$ 18,449

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

(in thousands of dollars)	**2014**	**2013**
DTAs		
Ordinary		
Discounting of unpaid losses	$ 55,103	$ 63,782
Unearned premiums	189,667	159,825
Investments	10,848	16,018
Fixed assets	-	74
Compensation and benefits accrual	297,283	250,407
Pension accrual	72,587	15,849
Nonadmitted assets	117,232	106,901
Tax credit carryforward	37,430	142,484
NOL carryforward	1,641	1,943
Other (including items <5% of total ordinary	5,820	-
assets)	-	3,749
Subtotal	787,611	761,032
Statutory valuation allowance adjustment	1,641	2,016
Nonadmitted DTAs	85	84
Admitted ordinary deferred tax assets	785,885	758,932
Capital		
Investments	756	120
Other	902	-
Subtotal	1,658	120
Statutory valuation allowance adjustment	-	-
Nonadmitted DTAs	-	-
Admitted capital deferred tax assets	1,658	120
Admitted deferred tax assets	$ 787,543	$ 759,052

(in thousands of dollars)	**2014**	**2013**
DTLs		
Ordinary		
Investments	$ 3,879	$ 4,261
Fixed assets	81,686	77,786
Other (including items <5% of total ordinary liabilities)	329	-
Subtotal	85,894	82,047
Capital		
Investments	367,802	443,886
	969	-
Subtotal	368,771	443,886
Deferred tax liabilities	454,665	525,933
Net deferred tax assets (liabilities)	$ 332,878	$ 233,119

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

(in thousands of dollars)	**2014**	**2013**	**Change**
Total DTAs	$ 787,628	$ 759,136	$ 28,492
Total DTLs	454,665	525,933	(71,268)
Net DTAs (DTLs)	$ 332,963	$ 233,203	99,760
Tax effect of investment unrealized gains/(losses)			(99,805)
Foreign exchange gains (losses)			129
Employee and agent benefit plans			(83,782)
New reporting entity DTA			(21,743)
Change in net deferred tax			$ (105,441)

The actual federal income tax expense on operations for 2014 and 2013 differed from expected tax expense (benefit) as follows:

	2014			2013		
(in thousands of dollars)	**Amount**	**Tax Effect at 35%**	**Effective Tax Rate**	**Amount**	**Tax Effect at 35%**	**Effective Tax Rate**
Income (loss) before taxes	$ 862,709	$ 301,948	35.00 %	$ 309,305	$ 108,257	35.00 %
Tax exempt interest	(110,593)	(38,708)	(4.49)	(121,618)	(42,566)	(13.76)
Dividends received deduction	(33,465)	(11,713)	(1.36)	(29,803)	(10,431)	(3.37)
Tax-exempt interest and dividend deduction			-			
proration	21,235	7,432	0.86	22,676	7,937	2.57
Treasury inflation protected securities	59	21	0.00	11	4	-
50% meals and entertainment adjustment	2,540	889	0.10	2,469	864	0.28
Other current year permanent items	(22,220)	(7,777)	(0.90)	(4,557)	(1,595)	(0.52)
Change in prior year permanent items	817	286	0.03	(2,606)	(912)	(0.29)
Nonadmitted assets	(31,864)	(11,152)	(1.29)	(58,564)	(20,497)	(6.63)
Audit interest	(1,597)	(559)	(0.06)	(108)	(38)	(0.01)
Excluded gain on stock contribution	(1,663)	(582)	(0.07)	(713)	(250)	(0.08)
Deferred tax balance and audit adjustments	4,033	1,412	0.16	509	178	0.06
Valuation allowance	(1,072)	(375)	(0.04)	(1,707)	(597)	(0.19)
Other current year permanent items	395	139	0.02	-	-	-
Foreign tax credit and penalties	(10)	(4)	(0.00)	(22)	(8)	-
Taxable income (loss)	$ 689,304	$ 241,257	27.97 %	$ 115,272	$ 40,345	13.04 %
Federal income tax incurred		135,816	15.74		18,449	5.96
Change in net deferred income tax		105,441	12.22		21,896	7.08
Total statutory income taxes (excluding taxes on unrealized gains/losses)		$ 241,257	27.97 %		$ 40,345	13.04 %

(in thousands of dollars)

The Company reported the following loss carry forwards:

		12/31/2014		12/31/2013
AMT credit carry forwards, which do not expire, in the amount of:	$	37,430	$	142,484

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
2014	$	121,476
2013		59,111
2012		40,923

On a consolidated basis the Company reported the following carry forwards available for recoupment:

		12/31/2014		12/31/2013
AMT credit carry forwards, which do not expire, in the amount of:	$	37,430	$	142,484

On a consolidated basis the following is income tax expense for 2014, 2013, and 2012 that is available for recoupment in the event of future net losses:

Year		Amount
2014	$	160,959
2013		76,852
2012		62,150

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 $536,000 and $1,396,000 as of December 31, 2014 and 2013, 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 2011 and prior are closed, and the years 2012 through 2013 remain open under the IRS statute of limitations. The examinations of Homesite Group Inc. and Subsidiaries’ federal income tax return (filed separately until 2014) for the years 2009 and prior are closed, and the years 2010 through 2013 remain open under the IRS statute of limitations.

6. Employee Benefit Plans

The Companies, excluding PGC, Homesite and AIA, have non-contributory pension plans (herein referred to as the “Plans”) covering substantially all employees. Employees providing services to the Companies are employees of AFMIC, with the exception of employees providing services to PGC, Homesite, and AIA who continued as employees of PGC, Homesite, and AIA, respectively. For AFMIC employees hired before January 1, 2009, and Agency Sales Managers hired before January 1, 2010, the benefits are based on years of credited service and highest average compensation (as defined in the Plans). For employees hired on or after January 1, 2009, and Agency Sales Managers hired on or after January 1, 2010, benefits are determined under a cash balance formula (as defined in the Plans). The asset valuation method used in 2014 for the funding calculation was the Two-Year Smoothed Value method. The new benefit restrictions, required under the Pension Protection Act of 2006, do not apply in 2014 given the funded status of the Plans.

The Companies provide certain health care benefits to certain grandfathered agents and substantially all employees. In addition, the Companies provide most employees with a life insurance benefit. Upon retirement, agents and employees are eligible to continue certain of these benefits. For the life insurance program, the Companies absorb substantially all of the cost. The Company also contributes toward eligible employees’ postretirement health care using a fixed amount for each year of eligible service. The Companies’ portions of the costs of these programs are unfunded. The Companies sponsor no other significant postretirement benefit plans. The Companies use a measurement date of December 31 for pension and other postretirement benefit plans.

The following table reflects the pension plans' funded status, the Companies' accrued postretirement benefits liability, and amounts recognized in the Companies' consolidated balance sheets at December 31:

Change in benefit obligation (in thousands of dollars)

Pension Benefits

	Overfunded 2014	Overfunded 2013	Underfunded 2014	Underfunded 2013
1. Benefit obligation at beginning of year	$ -	$ -	$ 869,609	$ 967,601
2. Service cost	-	-	40,043	52,199
3. Interest cost	-	-	38,653	36,014
4. Contribution by plan participants	-	-	-	-
5. Actuarial (gain)/loss	-	-	176,920	(79,928)
6. Foreign currency exchange rate changes	-	-	-	-
7. Benefits paid	-	-	(54,690)	(106,277)
8. Plan amendments	-	-	-	-
9. Business combinations, divestitures, curtailments, settlements, and special termination benefits	-	-	-	-
10. Benefit obligation, end of year	$ -	$ -	$ 1,070,535	$ 869,609

Postretirement Benefits

	Overfunded 2014	Overfunded 2013	Underfunded 2014	Underfunded 2013
1. Benefit obligation at beginning of year	$ -	$ -	$ 50,061	$ 36,611
2. Service cost	-	-	3,059	12,245
3. Interest cost	-	-	2,248	1,923
4. Contribution by plan participants	-	-	-	-
5. Actuarial (gain)/loss	-	-	1,675	501
6. Foreign currency exchange rate changes	-	-	-	-
7. Benefits paid	-	-	(1,336)	(1,219)
8. Plan amendments	-	-	-	-
9. Business combinations, divestitures, curtailments, settlements, and special termination benefits	-	-	-	-
10. Benefit obligation, end of year	$ -	$ -	$ 55,707	$ 50,061

Postemployment & Compensated Absence Benefits

	Overfunded 2014	Overfunded 2013	Underfunded 2014	Underfunded 2013
1. Benefit obligation at beginning of year	$ -	$ -	$ 69,288	$ 69,108
2. Service cost	-	-	1,567	563
3. Interest cost	-	-	539	7,245
4. Contribution by plan participants	-	-	-	-
5. Actuarial (gain)/loss	-	-	-	-
6. Foreign currency exchange rate changes	-	-	-	-
7. Benefits paid	-	-	(5,671)	(7,628)
8. Plan amendments	-	-	-	-
9. Business combinations, divestitures, curtailments, settlements, and special termination benefits	-	-	-	-
10. Benefit obligation, end of year	$ -	$ -	$ 65,723	$ 69,288

(in thousands of dollars)	Pension Benefits 2014	Pension Benefits 2013	Postretirement Benefits 2014	Postretirement Benefits 2013	Postemployment 2014	Postemployment 2013
Change in plan assets						
a. Fair value of plan assets at beginning of year	$ 731,927	$ 670,302	$ -	$ -	$ -	$ -
b. Actual return on plan assets	68,205	84,542	-	-	-	-
c. Foreign currency exchange rate changes	-	-	-	-	-	-
d. Reporting entity contribution	3,899	83,360	1,336	1,219	5,671	7,628
e. Plan participants' contributions	-	-	-	-	-	-
f. Benefits paid	(54,690)	(106,277)	(1,336)	(1,219)	(5,671)	(7,628)
g. Business combinations, divestitures, and settlements	-	-	-	-	-	-
h. Fair value of plan assets at end of year	$ 749,341	$ 731,927	$ -	$ -	$ -	$ -

Funded status

	Pension Benefits 2014	Pension Benefits 2013	Postretirement Benefits 2014	Postretirement Benefits 2013
Overfunded				
a. Assets (nonadmitted)				
1. Prepaid benefit costs	$ -	$ -	$ -	$ -
2. Overfunded Plan assets	-	-	-	-
3. Total assets (nonadmitted)	$ -	$ -	$ -	$ -
Underfunded				
b. Liabilities recognized				
1. Accrued benefit costs	$ 42,860	$ 21,530	$ 54,791	$ 50,541
2. Liability for pension benefits	278,334	116,152	916	(480)
3. Total liabilities recognized	$ 321,194	$ 137,682	$ 55,707	$ 50,061
c. Unrecognized liabilities	$ -	$ -	$ -	$ -

Components of net periodic benefit cost

	Pension Benefits 2014	Pension Benefits 2013	Postretirement Benefits 2014	Postretirement Benefits 2013	Postemployment & Compensated Absence Benefits 2014	Postemployment & Compensated Absence Benefits 2013
a. Service cost	$ 40,043	$ 42,008	$ 3,059	$ 3,252	$ 1,567	$ 563
b. Interest cost	38,654	36,014	2,248	1,923	539	7,245
c. Expected return on plan assets	(53,640)	(49,720)	-	-	-	-
d. Incremental (asset) / obligation	(3,669)	(3,669)	-	-	-	-
e. Prior service cost / (credit)	(7,083)	22,357	157	335	-	-
f. Actuarial (Gain) / loss	9,599	3,097	122	157	-	-
g. Gain or loss recognized due to a settlement or curtailment	1,325	26,312	-	-	-	-
h. Net periodic cost	$ 25,229	$ 76,399	$ 5,586	$ 5,667	$ 2,106	$ 7,808

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 $1,325,000 and $26,312,000 for 2014 and 2013, respectively.

(In thousands of dollars)

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

		Pension Benefits		Postretirement Benefits	
		2014	**2013**	**2014**	**2013**
a.	Items not yet recognized as a component of net periodic cost - prior year	$ 116,152	$ 268,809	$ (480)	$ (9,483)
b.	Net transition asset or obligation recognized	3,784	3,669	-	-
c.	Net prior service cost or credit arising during the period	-	10,191	-	8,993
d.	Net prior service cost or credit recognized	7,083	(3,097)	(157)	(157)
e.	Net gain and loss arising during the period	162,355	(114,751)	1,675	501
f.	Net gain and loss recognized	(11,039)	(48,669)	(122)	(334)
g.	Items not yet recognized as a component of net periodic cost - current year	$ 278,335	$ 116,152	$ 916	$ (480)

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

		Pension Benefits		Postretirement Benefits	
		2014	**2013**	**2014**	**2013**
a.	Net transition asset or obligation	$ (3,650)	$ (3,669)	$ -	$ -
b.	Net prior service cost or credit	(7,085)	(7,083)	157	157
c.	Net recognized gains and losses	23,526	11,212	134	126

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

		Pension Benefits		Postretirement Benefits	
		2014	**2013**	**2014**	**2013**
a.	Net transition asset or obligation	$ (21,900)	$ (25,683)	$ -	$ -
b.	Net prior service cost or credit	(53,080)	(60,163)	(5,143)	(4,986)
c.	Net recognized gains and losses	353,314	201,998	6,059	4,506

Weighted-average assumptions used to determine net periodic benefit cost as of December 31:	**2014**	**2013**
a. Weighted-average discount rate	4.62 %	3.77 %
b. Expected long-term rate of return on plan assets	7.50	7.75
c. Rate of compensation increase	3.75	3.75
Weighted-average assumptions used to determine projected benefit obligations as of December 31:		
d. Weighted-average discount rate	3.83 %	4.62 %
e. Rate of compensation increase	3.25	3.75

The pension accumulated benefit obligation at December 31, 2014 and 2013 was $927,580,000 and $697,536,000, 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 7.50% and 7.75% (Pre-65) and 7.00% and 7.25% (Post-65) of covered health care benefits were assumed for 2014 and 2013, respectively. Rates will gradually decrease to 5.00% by 2022.

Expected Cash Flows
Information about the expected cash flows for the pension and other postretirement benefits plans follows:

(in thousands of dollars)	**Pension Benefits**	**Postretirement Benefits**
Employer contributions		
2015 (expected)	$4,000 - $702,000	$ 2,803
Expected benefit payments		
2015	64,720	2,803
2016	72,391	2,763
2017	77,509	2,761
2018	81,876	2,958
2019	85,252	3,156
2020 - 2024	464,701	17,911

Expected contributions include a qualified pension benefits contribution within the range of $0 (minimum contribution) and $679,000,000 (maximum contribution) and postretirement contribution of $2,803,000 expected to be paid from the Companies' assets in 2015.

The expected long-term rate of return on these plan assets was 7.5% and 7.75% in 2014 and 2013, respectively. The expected rate of return on plan assets is based upon an analysis of historical returns for each asset class. The expected returns by asset class contemplate a risk free interest rate environment 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. The target allocation, asset allocation, and fair value of plan assets for the Companies' pension plans at the end of 2014 and 2013, by asset category, follow.

(in thousands of dollars)	**Target Allocation**		**Percentage of Plan Assets, Year End**		**Fair Value of Plan Assets, Year End**	
Asset Category	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Equity	54 %	54 %	55 %	56 %	$ 401,467	$ 410,747
Debt	40	40	37	33	276,147	238,608
Private equity	5	5	7	10	49,090	71,554
Commodities	1	1	-	1	-	5,225
Other (cash and cash equivalents)	-	-	1	-	9,686	1,157
Total	100 %	100 %	100 %	100 %	$ 736,390	$ 727,291

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. In 2013 the Company modified its target asset allocations to improve the risk adjusted return of the plan assets. The existing allocations are within the Company's tolerance for variation from target allocation.

The Plan's equity allocation seeks to provide a solid long-term return 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 35% and 36% of Plan assets at December 31, 2014 and 2013, 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 20% of Plan assets at both December 31, 2014 and 2013.

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-backed securities and asset-backed securities, and cash equivalents. The objective is to outperform Barclays' U.S. Aggregate Index. This fund comprised 37% and 33% of Plan assets at year end 2014 and 2013, respectively.

The alternative investments objective is to add diversification and produce superior long-term returns when compared to more traditional investment opportunities. This fund comprised 7% and 10% of Plan assets at year end 2014 and 2013, respectively.

The Companies have 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

Equity Securities:

Common Stocks and Foreign 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.

Mutual Funds: Comprised of actively traded U.S. and international mutual funds and foreign stocks that have daily quoted net asset values for identical assets that the Plan can access.

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

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.

Level 2 Measurements

Equity Securities: *Mutual Funds:* Comprised of non-actively traded U.S. and international funds priced by the fund manager using observable inputs primarily consisting of quoted prices of the underlying stocks.

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.

Short-term Investments: Valued based on inputs including amortized cost, which approximates fair value, and quoted prices for identical or similar assets in markets that are not active.

Commodity Funds: Comprised of an investment in an actively managed limited partnership investment fund traded in non-active markets with underlying investments in commodity-linked exchange traded funds, common stocks, future contracts, and swaps. Valued using the market approach based on capital account valuations, which are quoted monthly by the fund manager.

Level 3 Measurements

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

The following table summarizes the Plan's financial assets measured at fair value on a recurring basis as of December 31, 2014 and 2013:

	Assets at fair value as of December 31, 2014			
(in thousands of dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Bonds				
U.S Government securities	$ 14,588	$ -	$ -	$ 14,588
Corporate bonds and notes	-	217,200	-	217,200
Municipal bonds	-	1,312	-	1,312
Foreign bonds	-	43,047	-	43,047
Equity securities				-
Common stocks	178,963	-	-	178,963
Mutual funds	-	219,715	-	219,715
Foreign stocks	2,789	-	-	2,789
Short-term investments	9,686	-	-	9,686
Limited partnerships*	-	-	49,090	49,090
Total financial assets at fair value	$ 206,026	$ 481,274	$ 49,090	$ 736,390

	Assets at fair value as of December 31, 2013			
(in thousands of dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Bonds				
U.S Government securities	$ 2,111	$ -	$ -	$ 2,111
Corporate bonds and notes	-	197,986	-	197,986
Municipal bonds	-	765	-	765
Foreign bonds	-	37,746	-	37,746
Equity securities				-
Common stocks	29,159	-	-	29,159
Mutual funds	143,813	235,781	-	379,594
Foreign stocks	1,994	-	-	1,994
Short-term investments	-	1,157	-	1,157
Commodities	-	5,225	-	5,225
Limited partnerships*	-	-	71,554	71,554
Total financial assets at fair value	$ 177,077	$ 478,660	$ 71,554	$ 727,291

* 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. The Plan transferred $9,686,000 of short-term investments from Level 2 to Level 1 in 2014 as a result of a review of current pricing methodologies. The transferred money market funds are valued based on unadjusted quoted prices in markets that are considered to be generally active and therefore meet the characteristics of Level 1 financial asset.

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, 2014 and 2013:

	Limited Partnerships	
(in thousands of dollars)	**2014**	**2013**
Balance, beginning of year*	$ 71,554	$ 72,965
Purchases, sales, issuance and settlements, net	(22,464)	(1,411)
Balance, end of year*	$ 49,090	$ 71,554

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

<u>Other Plans</u>

AFMIC and consolidated property and casualty subsidiaries also participate in a qualified contributory 401(k) plan (herein referred to as the “Plan”). Substantially all employees are eligible to enter into the Plan. Employee participation in the Plan is optional; participants contribute at least 1%, but no more than 30% of base compensation, subject to Internal Revenue Service limitations. The Companies are required to make contributions each payroll period, as defined, to a trust fund. These 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. The Companies’ maximum annual contribution is 4% of eligible contributions. The Companies recognized expense of $17,433,000 and $17,568,000 related to the Plan in 2014 and 2013, respectively.

Homesite sponsors a defined contribution 401(k) plan for which substantially all Homesite employees are eligible to participate. 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 this plan of $3,620,000 were incurred during 2014.

A liability of $45,933,000 and $43,806,000 was accrued for earned but untaken vacation as of December 31, 2014 and 2013, respectively. A liability of $13,531,000 and $17,291,000 was accrued for unused sick leave as of December 31, 2014 and 2013, respectively.

7. Agent Termination Benefits

Exclusive agents of American Family 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, benefits 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, benefits are based on a cash balance formula that utilize sales and service fees (as defined in the agreement).

The Companies use a measurement date of December 31 for their agent termination benefits plan.

The following sets forth the status of the agent termination benefits plan's obligation reconciled with amounts reported in the Companies' consolidated balance sheets at December 31:

(in thousands of dollars)	2014	2013
Change in benefit obligation		
Benefit obligation at beginning of year	$ 575,156	$ 638,555
Service cost	24,501	83,888
Interest cost	26,526	26,077
Contribution by plan participants	-	-
Actuarial (gain)/loss	82,588	(144,492)
Foreign currency exchange rate changes	-	-
Benefits paid	(33,607)	(28,872)
Plan amendments	-	-
Business combinations, divestitures, curtailments, settlements, and special termination benefits	-	-
Benefit obligation, end of year	$ 675,164	$ 575,156
Change in plan assets		
Fair value of plan assets at beginning of year	$ -	$ -
Actual return on plan assets	-	-
Foreign currency exchange rate changes	-	-
Reporting entity contribution	33,607	28,872
Plan participants' contributions	-	-
Benefits paid	(33,607)	(28,872)
Business combinations, divestitures, and settlements	-	-
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	$ 681,552	$ 657,340
Liability for pension benefits	(6,388)	(82,184)
Total liabilities recognized	$ 675,164	$ 575,156
Unrecognized liabilities	$ -	$ -

(in thousands of dollars)	2014	2013
Components of net periodic benefit cost		
Service cost	$ 24,501	$ 34,006
Interest cost	26,526	26,077
Expected return on plan assets	-	-
Amortization of unrecognized transition obligation or transition asset	-	-
Amount of recognized (gains)/losses	(5,345)	(200)
Amount of prior service cost recognized	12,137	12,137
Amount of gain or loss recognized due to a settlement or curtailment	-	-
Net periodic cost	$ 57,819	$ 72,020

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

	2014	2013
Items not yet recognized as a component of net periodic cost - prior year	$ (82,184)	$ 24,363
Net transition asset or obligation recognized	-	-
Net prior service cost or credit arising during the period	-	49,882
Net prior service cost or credit recognized	(12,137)	(12,137)
Net gain and loss arising during the period	82,588	(144,492)
Net gain and loss recognized	5,345	200
Items not yet recognized as a component of net periodic cost - current year	$ (6,388)	$ (82,184)

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

	2014	2013
Net transition asset or obligation	$ -	$ -
Net prior service cost or credit	12,137	12,137
Net recognized gains and losses	(137)	(5,070)

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

	2014	2013
Net transition asset or obligation	$ -	$ -
Net prior service cost or credit	25,609	37,745
Net recognized gains and losses	(31,997)	(119,929)

	2014	2013
Assumptions used to determine projected benefit obligation as of December 31:		
Discount rate	3.95 %	4.75 %
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
Assumptions used to determine net periodic benefit cost as of December 31:		
Discount rate	4.75	3.90
Service fees increase		
AFMIC		
First 8 years after appointment	21.00	21.00
After first 8 years of appointment	3.25	4.75
ASIC		
First 6 years after appointment	8.00	8.00
After first 6 years of appointment	(4.00)	(3.00)
Expected return on plan assets	N/A	N/A

The accumulated benefit obligation at December 31, 2014 and 2013 was $579,689,000 and $495,704,000, respectively.

Expected Cash Flows

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

(in thousands of dollars)	
Expected contract termination payments	
2015	$ 33,536
2016	33,918
2017	37,198
2018	39,940
2019	40,123
2020-2024	226,191

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

8. Property and Casualty Loss and Loss Adjustment Expense Reserve

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

(in thousands of dollars)	**2014**	**2013**
Net balance as of January 1	$ 3,367,903	$ 3,421,963
Incurred losses and loss adjustment expenses related to		
Current year	4,564,486	4,190,387
Prior years	(140,789)	(200,612)
Total incurred	4,423,697	3,989,775
Paid losses and loss adjustment expenses related to		
Current year	2,890,335	2,580,696
Prior years	1,360,427	1,463,139
Total paid	4,250,762	4,043,835
Reinsurance payable in dispute	-	-
Net balance as of December 31	$ 3,540,838	$ 3,367,903

The estimated cost of loss and loss adjustment expenses attributable to insured events of prior years decreased by $140,789,000 and $200,612,000 during 2014 and 2013, respectively, as a result of re-estimation of unpaid losses and loss adjustment expenses. 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 their 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.

9. Related Parties

AFMIC guarantees loans, notes and other debt and financial obligations of any kind incurred by AFFS to a maximum $10,000,000 at December 31, 2014 and 2013. There was no outstanding principal or interest guaranteed by AFMIC at December 31, 2014 and 2013.

AFMIC and ASIC each agreed to lend up to a maximum of $5,000,000 in short-term demand notes to AFFS in 2014 and 2013. AFFS had no outstanding short-term demand notes payable to AFMIC at December 31, 2014 and 2013. AFFS had $0 and $1,000,000 of outstanding short-term demand notes payable to ASIC at December 31, 2014 and 2013.

As of December 31, 2014 and 2013, on a consolidated basis, the Companies reported $57,745,000 and $71,066,000, respectively, due from affiliates and $30,914,000 and $25,025,000, respectively, due to affiliates. Terms of the settlement require that these amounts be settled within 30 days.

AFMIC has agreed to provide certain management and information systems services to its wholly-owned subsidiaries. AFMIC shares certain administrative, occupancy, marketing and tax expenses with other affiliated companies. Such expenses are allocated by AFMIC at cost in proportion to estimated utilization. Allocation methods are refined periodically in light of current operations and resources utilized by the Company.

During 2014, AFMIC contributed $8,119,000 to AmFam, Inc., of which the majority was used to support the Companies non-insurance business development efforts. During 2013, AFMIC contributed $680,237,000 to AmFam, Inc., of which the majority was used to fund the acquisition of Homesite.

During 2014, as part of an overall equity portfolio rebalancing, certain equity positions were transferred from AFMIC to AFLIC for cash consideration. The total amount transferred was $18,093,000, which represents the market value of the transferred equities as of the transfer date.

10. 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(k).

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.

AFMIC enters into contractual agreements that require capital contributions to limited partnerships. These contributions are recorded on the financial statements as other invested assets. Capital is typically contributed to the partnerships over multiple years. At any time, AFMIC will have commitments to the partnerships that have not yet been funded. As of December 31, 2014 and 2013, AFMIC was obligated to contribute $352,947,000 and $410,756,000, 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 their 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 financial statements.

From time to time, mandatory assessments are levied on AFMIC and its insurance subsidiaries by the property and 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, 2014 and 2013, were $25,267,000 and $24,113,000, respectively. Guaranty fund assets related to future premium tax credits were $12,949,000 and $13,352,000 for the years ended December 31, 2014 and 2013, 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.

11. Structured Settlements

AFMIC has purchased annuities of which the claimant is the payee, but for which AFMIC is contingently liable. At December 31, 2014 and 2013, the present values of all such annuities were $118,799,000 and $118,296,000, of which $58,723,000 and $54,964,000 were from nonaffiliated life insurers, respectively.

12. Capital and Surplus, and Dividend Restrictions

Outstanding shares of subsidiary and affiliate common stock:

Company	Authorized	Issued & Outsanding	Par Value
ASIC	10,000	6,000	$ 500
AFIC	850	100	10,000
ASICO	850	100	10,000
MIC	50,000	35,000	100
HMW	20,000	16,280	215
HCA	200,000	52,000	50
HCT	50,000	45,400	100
HIC	5,000	3,250	1,000
HIL	100,000	10,000	100
HNY	10,000	10,000	100
HGA	10,000	10,000	100
HFL	100,000	100,000	10
HLTX	-	-	-

The Companies' surplus may be available for distribution to its policyholders. Such distributions as dividends may be subject to prior regulatory approval. AFMIC paid $1,377,000 and $2,232,000 of workers compensation policyholder dividends in 2014 and 2013, respectively. 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 $2,149,431,000 and $2,384,457,000 at December 31, 2014 and 2013, respectively.

13. Reinsurance

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

	2014					
	Assumed		Ceded		Assumed Less Ceded	
(in thousands of dollars)	Unearned Premiums	Commission Equity	Unearned Premiums	Commission Equity	Unearned Premiums	Commission Equity
	$ 57,887	$ 6,958	$ 171,118	$ 2,649	$ (113,231)	$ 4,309
Totals	$ 57,887	$ 6,958	$ 171,118	$ 2,649	$ (113,231)	$ 4,309
Direct unearned premium reserve	$2,732,674					

	2013					
	Assumed		Ceded		Assumed Less Ceded	
(in thousands of dollars)	Unearned Premiums	Commission Equity	Unearned Premiums	Commission Equity	Unearned Premiums	Commission Equity
	$ 31,439	$ 6,555	$ 99,603	$ 3,018	$ (68,164)	$ 3,537
Totals	$ 31,439	$ 6,555	$ 99,603	$ 3,018	$ (68,164)	$ 3,537
Direct unearned premium reserve	$2,282,242					

Earned premiums ceded under reinsurance contracts during 2014 and 2013 were $255,636,000 and $170,258,000, respectively. Written premiums ceded under reinsurance contracts during 2014 and 2013 were $234,181,000 and $175,224,000, respectively. Unearned premiums ceded under reinsurance contracts were $171,118,000 and $99,603,000 at December 31, 2014 and 2013, respectively. Loss and loss adjustment expenses ceded under reinsurance contracts were $86,040,000 and $41,710,000 for the years ended December 31, 2014 and 2013, respectively.

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

14. Environmental Reserves

AFMIC has environmental exposure from its business owners, other commercial multiple peril and general liability policies. The environmental claims include Superfund, Landfills and Underground Storage Tanks. 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. AFMIC also has environmental exposure from its participation in reinsurance pools.

AFMIC's methodology for reserving for reported losses is to establish a liability based on what AFMIC estimates it will ultimately pay. For Bulk and IBNR reserves, AFMIC 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 AFMIC's environmental reserves reported net of reinsurance at December 31:

(in thousands of dollars)		2014		2013
Environmental				
Beginning reserves	$	3,700	$	3,700
Incurred losses and loss adjustment expenses		1,050		187
Calendar year payments for losses and loss adjustment expenses		(809)		(187)
Ending reserves	$	3,941	$	3,700

Of the environmental reserves reported above, $2,900,000 and $2,838,000 relate to IBNR loss and IBNR loss adjustment expense reserves as of December 31, 2014 and 2013, respectively.

15. Long-Term Debt

The Company is a member of the FHLBC. Through its membership the Company executed a 30-year fixed rate advance of $500,000,000 from the FHLBC on November 20, 2013, which was used to partially finance the acquisition of Homesite on December 31, 2013. See Note 2 for further details of this acquisition. 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 $25,956,000 and $782,000 in interest on the advance during 2014 and 2013, respectively, and accrued interest of $2,204,000 at both December 31, 2014 and 2013. The advance is fully collateralized with stock and qualified securities.

In 2013, the Company purchased an additional 40,943 common shares of FHLBC stock for $4,094,000 in connection with the Homesite financing. The shares in FHLBC stock are considered Class B shares not eligible for redemption, and are recorded as common stocks in the statutory balance sheet. The following table represents the FHLBC Capital Stock as of December 31 in the general account:

		2014		2013
Shares outstanding		100,000		100,000
(in thousands of dollars)				
Membership Stock - Class B	$	5,203	$	5,387
Activity Stock		4,797		4,613
Aggregate Total - Carrying Value		10,000		10,000
Actual or Estimated Borrowing Capacity		500,000		500,000
Collateral Pledged - Fair Value		693,721		619,931
Collateral Pledged - Carrying Value		668,437		626,153
Total Borrowing		500,000		500,000

Borrowing capacity is calculated as 50 times the value of FHLBC stock. The Company's borrowing capacity net of outstanding advances was $0 as of both December 31, 2014 and 2013.

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December 31, 2014

(in thousands of dollars)	ASIC	ASICO	AFIC	MIC	Homesite Underwriting Entities	AFMIC	Eliminations	Ref No.	AFMIC Consol.
Admitted Assets									
Bonds	$ 318,190	$ 7,002	$ 23,004	$ 4,473	$ 266,665	$ 7,163,605	$ 21,677	(4)	$ 7,804,616
Common stocks, including investments in unconsolidated subsidiaries	-	-	-	-	-	4,200,824	(683,355)	(1)	3,517,469
Real estate (net of accumulated depreciation of $222,459)	-	-	-	-	-	238,164			238,164
Cash, cash equivalents and short-term investments	24,994	1,134	804	8,540	46,409	380,981	(21,677)	(4)	441,185
Other invested assets	-	2	2	-	1,762	746,429			748,195
Total cash and invested assets	343,184	8,138	23,810	13,013	314,836	12,730,003	(683,355)		12,749,629
Property and casualty premiums receivable and agents' balances	25,788	-	129	49	120,473	1,202,994	(149,141)	(3)	1,200,292
Accrued investment income	2,641	159	271	17	1,254	73,969			78,311
Deferred tax asset	(70)	-	-	-	1,381	331,567	-		332,878
Electronic data processing equipment and software (net)	-	-	-	-	-	15,073			15,073
Other assets	43,218	858	1,713	7	86,543	146,918	(185,813)	(2),(3)	93,444
Total admitted assets	$ 414,761	$ 9,155	$ 25,923	$ 13,086	$ 524,487	$ 14,500,524	$ (1,018,309)		$ 14,469,627
Liabilities									
Property and casualty loss and loss adjustment expense reserve	$ 45	$ -	$ -	$ -	$ -	$ 3,624,924	$ (84,131)	(3)	$ 3,540,838
Property and casualty unearned premiums	-	-	-	-	-	2,619,443			2,619,443
Drafts outstanding	13,587	531	3,712	-	-	69,220			87,050
Agents termination benefits payable	-	-	-	-	-	675,164			675,164
Employee pensions and other benefits	-	-	-	-	-	376,901			376,901
Accrued expenses	48,372	-	11,800	1,152	17,230	30,320	(87,705)	(2)	21,169
Income taxes payable	1,128	1	-	(369)	-	81,615	(13,978)	(2)	68,397
Debt	-	-	-	-	-	502,204			502,204
Other liabilities	22,320	915	(6,794)	(157)	190,584	490,650	(149,140)	(3)	548,378
Total liabilities	85,452	1,447	8,718	626	207,814	8,470,441	(334,954)		8,439,544
Policyholders' Surplus									
Special surplus funds	-	-	-	-	221,959	1,465	(221,959)	(1)	1,465
Unassigned surplus	329,309	7,708	17,205	12,460	94,714	6,028,618	(461,396)	(1)	6,028,618
Total policyholders' surplus	329,309	7,708	17,205	12,460	316,673	6,030,083	(683,355)		6,030,083
Total liabilities and policyholders' surplus	$ 414,761	$ 9,155	$ 25,923	$ 13,086	$ 524,487	$ 14,500,524	$ (1,018,309)		$ 14,469,627

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

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	Homesite California	Homesite Insurance	Homesite Indemnity	Homesite Illinois	Homesite Midwest	Homesite New York	Homesite Georgia	Homesite Lloyds (TX)	Homesite Florida	Eliminations	Ref No.	Homesite Consol.
Admitted Assets												
Bonds	$ 29,673	$ 66,612	$ 30,827	$ 6,229	$ 98,512	$ 12,634	$ 8,777	$ 5,007	$ 8,394	$ -		$ 266,665
Common stocks, including investments in unconsolidated subsidiaries	-	-	-	-	-	-	-	-	-	-		-
Real estate (net of accumulated depreciation of $212,399)	-	-	-	-	-	-	-	-	-	-		-
Cash, cash equivalents and short-term investments	2,830	5,463	2,976	1,769	25,899	1,401	1,859	1,623	2,588	-		46,409
Other invested assets	-	1,175	587	-	-	-	-	-	-	-		1,762
Total cash and invested assets	32,504	73,250	34,390	7,998	124,410	14,035	10,636	6,630	10,982	-		314,836
Property and casualty premiums receivable and agents' balances	9,578	40,889	13,030	2,924	58,501	7,374	3,210	7,178	35	(22,245)	(1)	120,473
Accrued investment income	121	213	144	13	655	54	27	2	25	-		1,254
Deferred tax asset	(130)	598	244	90	400	221	(70)	14	13	-		1,381
Electronic data processing equipment and software (net)	-	-	-	-	-	-	-	-	-	-		-
Other assets	1,936	9,835	2,247	1,219	87,426	1,715	872	635	74	(19,416)	(2)	86,543
Total admitted assets	$ 44,008	$ 124,785	$ 50,054	$ 12,245	$ 271,392	$ 23,399	$ 14,675	$ 14,460	$ 11,129	$ (41,661)		$ 524,487
Liabilities												
Property and casualty losses and loss adjustment expenses	$ -	$ -	$ -	$ -	$ 19,416	$ -	$ -	$ -	$ -	$ (19,416)	(3)	$ -
Property and casualty unearned premiums	-	-	-	-	-	-	-	-	-	-		-
Drafts outstanding	-	-	-	-	-	-	-	-	-	-		-
Agents termination benefits payable	-	-	-	-	-	-	-	-	-	-		-
Employee pensions and other benefits	-	-	-	-	-	-	-	-	-	-		-
Accrued expenses	1,002	5,807	1,886	726	5,031	1,139	893	645	101	-		17,230
Income taxes payable	-	-	-	-	-	-	-	-	-	-		-
Debt	-	-	-	-	-	-	-	-	-	-		-
Other liabilities	6,812	34,764	9,214	2,402	148,145	6,010	2,197	3,191	93	(22,245)	(4)	190,584
Total liabilities	7,814	40,572	11,101	3,127	172,592	7,149	3,090	3,836	194	(41,661)		207,814
Policyholders' Surplus												
Common stock												
Special surplus funds	26,850	55,210	25,177	8,300	64,592	9,600	7,900	14,525	9,805	-		221,959
Unassigned surplus	9,344	29,003	13,776	818	34,208	6,650	3,685	(3,901)	1,131	-		94,714
Total policyholders' surplus	36,194	84,213	38,953	9,118	98,799	16,250	11,585	10,624	10,935	-		316,673
Total liabilities and policyholders' surplus	$ 44,008	$ 124,785	$ 50,054	$ 12,245	$ 271,392	$ 23,399	$ 14,675	$ 14,460	$ 11,129	$ (41,661)		$ 524,487

(1) Elimination of intercompany premiums receivable
(2) Elimination of receivable from reinsurers related to inter-company activity
(3) Elimination of Loss and LAE payable to reinsurers related to inter-company activity
(4) Elimination of payable to reinsurers related to inter-company activity

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(in thousands of dollars)	ASIC	ASICO	AFIC	MIC	AFMIC	Eliminations	Ref No.	AFMIC Consol.
Admitted Assets								
Bonds	$ 316,725	$ 6,487	$ 19,704	$ 3,309	$ 6,623,692			$ 6,969,917
Common stocks, including investments in unconsolidated subsidiaries	-	-	-	-	3,857,585	(354,568)	(1)	3,503,017
Real estate (net of accumulated depreciation of $212,399)	-	-	-	-	235,717			235,717
Cash, cash equivalents and short-term investments	22,024	3,503	2,099	9,435	301,273			338,334
Other invested assets	-	2	2	-	721,030			721,034
Total cash and invested assets	338,749	9,992	21,805	12,744	11,739,297	(354,568)		11,768,019
Property and casualty premiums receivable and agents' balances	17,112	-	57	(13)	1,020,654	(10,190)	(3)	1,027,620
Accrued investment income	2,761	149	271	16	70,698			73,895
Deferred tax asset	(96)	-	-	-	233,215			233,119
Electronic data processing equipment and software (net)	-	-	-	-	13,096			13,096
Other assets	35,309	462	910	4	152,677	(94,906)	(2),(3)	94,456
Total admitted assets	$ 393,835	$ 10,603	$ 23,043	$ 12,751	$ 13,229,637	$ (459,664)		$ 13,210,205
Liabilities								
Property and casualty loss and loss adjustment expense reserve	$ -	$ -	$ -	$ -	$ 3,381,877	$ (13,974)	(3)	$ 3,367,903
Property and casualty unearned premiums	-	-	-	-	2,214,077			2,214,077
Drafts outstanding	11,029	2,433	2,611	-	77,346			93,419
Agents termination benefits payable	-	-	-	-	575,156			575,156
Employee pensions and other benefits	-	-	-	-	187,743			187,743
Accrued expenses	55,291	-	1	1,396	333,828	(80,932)	(2)	309,584
Income taxes payable	11	-	(1)	(473)	15,806			15,343
Debt	-	-	-	-	502,204			502,204
Other liabilities	8,855	732	4,049	(270)	149,903	(10,190)	(3)	153,079
Total liabilities	75,186	3,165	6,660	653	7,437,940	(105,096)		7,418,508
Policyholders' Surplus								
Special surplus funds	-	-	-	-	1,250			1,250
Unassigned surplus	318,649	7,438	16,383	12,098	5,790,447	(354,568)	(1)	5,790,447
Total policyholders' surplus	318,649	7,438	16,383	12,098	5,791,697	(354,568)		5,791,697
Total liabilities and policyholders' surplus	$ 393,835	$ 10,603	$ 23,043	$ 12,751	$ 13,229,637	$ (459,664)		$ 13,210,205

References

(1) Elimination of affiliated common stock of property and casualty subsidiaries.

(2) Elimination of intercompany payables/receivables and intercompany balances related to underwriting expenses reinsured.

(3) Elimination of affiliated reinsurance premium.

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Year Ended December 31, 2014

(in thousands of dollars)	ASIC	ASICO	AFIC	MIC	Homesite Underwriting Entities	AFMIC	Eliminations	Ref No.	AFMIC Consol.
Premiums and other income									
Property and casualty premiums earned	$ -	$ -	$ -	$ -	$ -	$ 6,252,337			$ 6,252,337
Net investment income	9,604	287	875	17	8,774	310,739			330,296
Net realized investment gains (losses)	5,367	-	-	-	30,057	513,805			549,229
Other income	(387)	-	-	-	1,210	34,131			34,954
Total premiums and other income	14,584	287	875	17	40,041	7,111,012	-		7,166,816
Losses and expenses									
Property and casualty losses and loss adjustment expenses incurred	-	-	-	-	-	4,423,697			4,423,697
Commissions	-	-	-	-	-	510,421			510,421
Other underwriting expenses	-	-	-	-	-	1,369,030			1,369,030
Dividends to policyholders	-	-	-	-	-	960			960
Total benefits and expenses	-	-	-	-	-	6,304,108	-		6,304,108
Income (loss) before income tax expense (benefit)	14,584	287	875	17	40,041	806,904	-		862,708
Income tax expense (benefit)	4,256	18	45	(369)	(15,810)	147,676			135,816
Net income (loss)	$ 10,328	$ 269	$ 830	$ 386	$ 55,851	$ 659,228	$ -		$ 726,892
Special surplus funds									
Beginning and ending balance	$ -	$ -	$ -	$ -	$ 221,959	$ 1,250	$ (221,959)	(1)	$ 1,250
ACA Fee Assessment	-	-	-	-	-	215			215
Ending balance	-	-	-	-	221,959	1,465	(221,959)		1,465
Unassigned surplus									
Beginning balance	318,649	7,439	16,384	12,098	83,799	5,790,445	(438,367)	(1)	5,790,447
Net income (loss)	10,328	269	830	386	55,851	659,228			726,892
Net change in unrealized capital gains (losses) of investments, net of deferred income tax	(33)	-	-	-	(14,506)	(143,060)	(23,029)	(2)	(180,628)
Change in nonadmitted assets	-	-	(9)	(24)	(2,230)	(28,929)			(31,192)
Change in net deferred income tax	126	-	-	-	(28,172)	(77,395)			(105,441)
Pension & termination benefits adjustments	-	-	-	-	-	(155,593)			(155,593)
Other	239	-	-	-	(28)	(16,078)			(15,867)
Ending balance	329,309	7,708	17,205	12,460	94,714	6,028,618	(461,396)		6,028,618
Total policyholders' surplus	$ 329,309	$ 7,708	$ 17,205	$ 12,460	$ 316,673	$ 6,030,083	$ (683,355)		$ 6,030,083

References:

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

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

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Consolidated Property and Casualty Statement of Income
Year Ended December 31, 2014

	Homesite California	Homesite Insurance	Homesite Indemnity	Homesite Illinois	Homesite Midwest	Homesite New York	Homesite Georgia	Homesite Lloyds (TX)	Homesite Florida	Eliminations	Ref No.	Homesite Consol.
Premiums and other income												
Property and casualty premiums earned	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -			$ -
Net investment income	932	2,239	1,301	186	3,237	338	245	103	193			8,774
Net realized investment gains (losses)	3,255	9,062	4,174	8	9,902	1,957	1,253	11	435			30,057
Other income	70	662	80	(45)	247	60	42	94	-			1,210
Total premiums and other income	4,257	11,963	5,555	150	13,387	2,356	1,540	207	628	-		40,041
Losses and expenses												
Property and casualty losses and loss adjustment expenses incurred	-	-	-	-	-	-	-	-	-			-
Commissions	-	-	-	-	-	-	-	-	-			-
Other underwriting expenses	-	-	-	-	-	-	-	-	-			-
Dividends to policyholders	-	-	-	-	-	-	-	-	-			-
Total benefits and expenses	-	-	-	-	-	-	-	-	-	-		-
Income (loss) before income tax expense (benefit)	4,257	11,963	5,555	150	13,387	2,356	1,540	207	628	-		40,041
Income tax expense (benefit)	(1,146)	(1,733)	(709)	(540)	(9,356)	(552)	(454)	(702)	(620)			(15,810)
Net income (loss)	$ 5,402	$ 13,696	$ 6,263	$ 689	$ 22,743	$ 2,907	$ 1,994	$ 910	$ 1,248	$ -		$ 55,851
Special surplus funds												
Beginning balance- common stock												
Beginning balance- paid in capital	$ 26,850	$ 55,210	$ 25,177	$ 8,300	$ 64,592	$ 9,600	$ 7,900	$ 14,525	$ 9,805			$ 221,959
SSAP10R	-	-	-	-	-	-	-	-	-			-
Ending balance	26,850	55,210	25,177	8,300	64,592	9,600	7,900	14,525	9,805	-		221,959
Unassigned surplus												
Beginning balance	8,120	25,910	12,394	708	30,809	5,849	3,224	(4,096)	881	-		83,799
Net income (loss)	5,402	13,696	6,263	689	22,743	2,907	1,994	910	1,248			55,851
Net change in unrealized capital gains (losses) of investments, net of deferred income tax	(1,554)	(4,481)	(1,979)	-	(4,879)	(875)	(568)	-	(170)	-		(14,506)
Change in nonadmitted assets	(100)	(646)	(516)	56	(1,077)	-	-	53	-			(2,230)
Change in net deferred income tax	(2,526)	(5,504)	(2,385)	(635)	(13,333)	(1,231)	(964)	(767)	(828)			(28,172)
Pension & termination benefits adjustments	-	-	-	-	-	-	-	-	-			-
Other	-	28	-	-	(56)	-	-	-	-			(28)
Ending balance	9,344	29,003	13,776	818	34,208	6,650	3,685	(3,901)	1,131	-		94,714
Total policyholders' surplus	$ 36,194	$ 84,213	$ 38,953	$ 9,118	$ 98,799	$ 16,250	$ 11,585	$ 10,624	$ 10,935	$ -		$ 316,673

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Consolidated Property and Casualty Statement of Income
Year Ended December 31, 2013

(in thousands of dollars)	ASIC	ASICO	AFIC	MIC	AFMIC	Eliminations	Ref No.	AFMIC Consol.
Premiums and other income								
Property and casualty premiums earned	$ -	$ -	$ -	$ -	$ 5,494,011			$ 5,494,011
Net investment income	9,604	286	869	15	266,775			277,549
Net realized investment gains (losses)	1,541	-	-	-	127,362			128,903
Other income	(379)	-	-	-	34,742			34,363
Total premiums and other income	10,766	286	869	15	5,922,890	-		5,934,826
Losses and expenses								
Property and casualty losses and loss adjustment expenses incurred	-	-	-	-	3,989,775			3,989,775
Commissions	-	-	-	-	515,946			515,946
Other underwriting expenses	-	-	-	-	1,117,568			1,117,568
Dividends to policyholders	-	-	-	-	2,232			2,232
Total benefits and expenses	-	-	-	-	5,625,521	-		5,625,521
Income (loss) before income tax expense (benefit)	10,766	286	869	15	297,369	-		309,305
Income tax expense (benefit)	2,768	17	132	(592)	16,124			18,449
Net income (loss)	$ 7,998	$ 269	$ 737	$ 607	$ 281,245	$ -		$ 290,856
Special surplus funds								
Beginning and ending balance	$ -	$ -	$ -	$ -	$ 1,250			$ 1,250
Unassigned surplus								
Beginning balance	310,732	7,170	15,647	11,491	5,163,710	(345,040)	(1)	5,163,710
Net income (loss)	7,998	269	737	607	281,245			290,856
Net change in unrealized capital gains (losses) of investments, net of deferred income tax	8	-	-	-	372,594	(9,528)	(2)	363,074
Change in nonadmitted assets	-	-	(5)	-	(47,160)			(47,165)
Change in net deferred income tax	(18)	-	5	-	(21,883)			(21,896)
Pension & termination benefits adjustments	-	-	-	-	41,937			41,937
Other	(71)	-	-	-	2			(69)
Ending balance	318,649	7,439	16,384	12,098	5,790,445	(354,568)		5,790,447
Total policyholders' surplus	$ 318,649	$ 7,439	$ 16,384	$ 12,098	$ 5,791,695	$ (354,568)		$ 5,791,697

References:

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

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

American Family Mutual Insurance Company and Consolidated Property and Casualty Subsidiaries
Supplemental Schedule of Consolidation
Consolidated Property and Casualty Statement of Cash Flows
Year Ended December 31, 2014

(in thousands of dollars)	ASIC	ASICO	AFIC	MIC	Homesite Underwriting Entities	AFMIC	Eliminations	Ref No.	AFMIC Consol.
Cash from Operations									
Premiums collected, net of reinsurance	$ 5,408	$ (302)	$ (10,962)	$ 50	$ (115,402)	$ 6,522,276	$ (180,637)	(1)	$ 6,220,431
Net investment income	12,129	299	885	55	19,543	364,491			397,402
Miscellaneous income	(673)	-	-	-	(1,611)	34,131			31,847
Benefit and loss related payments	(2,310)	(175)	930	(4)	(170,156)	(3,647,456)	70,157	(2)	(3,749,014)
Commissions, expenses paid and aggregate write-ins for deductions	(394)	-	-	(145)	(19,756)	(2,273,942)			(2,294,237)
Dividends paid to policyholders	-	-	-	-	-	(1,377)			(1,377)
Federal income taxes (paid) recovered, net of tax on capital gains (losses)	(3,138)	(17)	(45)	472	17,070	(82,727)			(68,385)
Net cash from operations	11,022	(195)	(9,192)	428	(270,312)	915,396	(110,480)		536,667
Cash from Investments									
Proceeds from investments sold, matured, or repaid									
Bonds	208,632	-	-	27	303,247	4,484,922	(265,974)	(3)	4,730,854
Stocks	-	-	-	-	89,035	826,848	(6,763)	(3)	909,120
Real estate	-	-	-	-	-	4,309			4,309
Other invested assets	-	-	-	-	34,887	48,623			83,510
Net gains or (losses) on cash, cash equivalents and short-term investments	-	-	-	-	-	135			135
Miscellaneous proceeds	682	-	-	-	2,090	33,136			35,908
Total investment proceeds	209,314	-	-	27	429,259	5,397,973	(272,737)		5,763,836
Cost of investments acquired (long-term only)									
Bonds	207,404	536	3,311	1,230	55,235	4,942,236	(244,297)	(3)	4,965,655
Stocks	-	-	-	-	-	942,764	(6,763)	(3)	936,001
Capital contribution to affiliate	-	-	-	-	-	8,119			8,119
Real estate	-	-	-	-	-	5,078			5,078
Other invested assets	-	-	-	-	482	158,641			159,123
Miscellaneous applications	-	-	-	24	2,090	30,727			32,841
Total investment acquired	207,404	536	3,311	1,254	57,807	6,087,565	(251,060)		6,106,817
Net cash from investments	1,910	(536)	(3,311)	(1,227)	371,452	(689,592)	(21,677)		(342,981)
Cash from Financing and Miscellaneous Sources									
Borrowed funds received	-	-	-	-	-	-			-
Other cash provided (applied)	(9,962)	(1,638)	11,208	(96)	(77,184)	(146,096)	110,480	(1),(2)	(113,288)
Net cash from financing and miscellaneous sources	(9,962)	(1,638)	11,208	(96)	(77,184)	(146,096)	110,480		(113,288)
Reconciliation of Cash, Cash Equivalents and Short-Term Investments									
New reporting entity included in the consolidation	-	-	-	-	22,453	-			22,453
Net change in cash, cash equivalents and short-term investments	2,970	(2,369)	(1,295)	(895)	46,409	79,708	(21,677)		102,851
Cash, cash equivalents and short-term investments									
Beginning of year	22,024	3,503	2,099	9,435	-	301,273			338,334
End of year	$ 24,994	$ 1,134	$ 804	$ 8,540	$ 46,409	$ 380,981	$ (21,677)		$ 441,185

References:

(1) Elimination of the change in intercompany reinsurance premium.

(2) Elimination of the change in intercompany loss and LAE reinsurance.

(3) Elimination of intercompany sale of investments

American Family Mutual Insurance Company and Consolidated Property and Casualty Subsidiaries

Supplemental Schedule of Consolidation

Consolidated Property and Casualty Statement of Cash Flows

Year Ended December 31, 2014

	Homesite California	Homesite Insurance	Homesite Indemnity	Homesite Illinois	Homesite Midwest	Homesite New York	Homesite Georgia	Homesite Lloyds (TX)	Homesite Florida	Eliminations	Ref No.	Homesite Consol.
Cash from Operations												
Premiums collected, net of reinsurance	$ (26,958)	$ (60,822)	$ (28,871)	$ (6,991)	$ 46,542	$ (11,462)	$ (9,702)	$ (7,335)	$ (9,804)	$ -		$ (115,402)
Net investment income	1,975	5,077	3,027	441	6,964	709	511	301	540			19,543
Miscellaneous income	-	72	-	-	(1,687)	-	-	-	4			(1,611)
Benefit and loss related payments	(13,314)	(32,872)	(14,400)	(3,547)	(79,677)	(5,148)	(4,851)	(3,650)	(4,799)	(7,899)	(1)	(170,156)
Commissions, expenses paid and aggregate write-ins for deductions	(3,207)	(8,367)	(3,001)	(753)	(7,610)	(1,899)	(990)	(515)	(1,313)	7,899	(2)	(19,756)
Dividends paid to policyholders	-	-	-	-	-	-	-	-	-			-
Federal income taxes (paid) recovered, net of tax on	-	-	-	-	-	-	-	-	-			-
capital gains (losses)	1,280	2,661	1,240	539	9,216	202	534	724	674			17,070
Net cash from operations	(40,224)	(94,252)	(42,004)	(10,312)	(26,251)	(17,599)	(14,498)	(10,474)	(14,698)	-		(270,312)
Cash from Investments												
Proceeds from investments sold, matured, or repaid												
Bonds	38,546	74,352	30,920	12,839	270,354	17,478	14,344	12,252	17,044	(184,883)	(3)	303,247
Stocks	9,049	27,605	11,886	-	32,979	5,529	3,680	-	1,236	(2,929)	(3)	89,035
Real estate	-	-	-	-	-	-	-	-	-			-
Other invested assets	1,879	10,585	8,308	-	14,114	-	(0)	-	-			34,887
Net gains or (losses) on cash, cash equivalents and	-	-	-	-	-	-	-	-	-			-
short-term investments	-	-	-	-	-	-	-	-	-			-
Miscellaneous proceeds	117	653	178	-	1,008	67	67	-	-			2,090
Total investment proceeds	49,591	113,194	51,292	12,839	318,456	23,075	18,091	12,252	18,280	(187,812)		429,258
Cost of investments acquired (long-term only)												
Bonds	8,712	16,840	7,705	1,596	192,703	4,602	3,086	1,471	3,403	(184,883)	(3)	55,235
Stocks	-	-	-	-	2,929	-	-	-	-	(2,929)	(3)	-
Capital contribution to affiliate	-	-	-	-	-	-	-	-	-			-
Real estate	-	-	-	-	-	-	-	-	-			-
Other invested assets	-	238	-	-	245	-	-	-	-			482
Miscellaneous applications	117	653	178	-	1,008	67	67	-	-			2,090
Total investment acquired	8,829	17,730	7,883	1,596	196,885	4,669	3,152	1,471	3,403	(187,812)		57,806
Net cash from investments	40,762	95,464	43,410	11,243	121,571	18,405	14,938	10,781	14,877	-		371,452
Cash from Financing and Miscellaneous Sources												
Borrowed funds received	-	-	-	-	-	-	-	-	-			-
Other cash provided (applied)	(320)	(2,188)	(1,890)	(511)	(70,422)	(1,296)	(201)	(384)	28	-		(77,184)
Net cash from financing and miscellaneous sources	(320)	(2,188)	(1,890)	(511)	(70,422)	(1,296)	(201)	(384)	28	-		(77,184)
Reconciliation of Cash, Cash Equivalents and Short-Term Investments												
New reporting entity included in the consolidation	2,613	6,438	3,460	1,349	1,001	1,891	1,620	1,700	2,381			22,453
Net change in cash, cash equivalents and short-term investments	2,830	5,463	2,976	1,769	25,899	1,401	1,859	1,623	2,588	-		46,409
Cash, cash equivalents and short-term investments												
Beginning of year	-	-	-	-	-	-	-	-	-			
	-	-	-	-	-	-	-	-	-			-
End of year	$ 2,830	$ 5,463	$ 2,976	$ 1,769	$ 25,899	$ 1,401	$ 1,859	$ 1,623	$ 2,588	$ -		$ 46,409

References:

(1) Elimination of the net change in receivable from reinsurers and Loss payable to reinsurers related to inter-company activity.

(2) Elimination of the net change in LAE payable to reinsurers related to inter-company activity.

(3) Elimination of intercompany sale of investments

American Family Mutual Insurance Company and Consolidated Property and Casualty Subsidiaries
Supplemental Schedule of Consolidation
Consolidated Property and Casualty Statement of Cash Flows
Year Ended December 31, 2013

(in thousands of dollars)	ASIC	ASICO	AFIC	MIC	AFMIC	Eliminations	Ref No.	AFMIC Consol.
Cash from Operations								
Premiums collected, net of reinsurance	$ (288)	$ 312	$ 812	$ (267)	$ 5,554,894	$ 1,861	(1)	$ 5,557,324
Net investment income	12,806	304	880	54	335,774			349,818
Miscellaneous income	452	-	-	-	35,354			35,806
Benefit and loss related payments	25	(193)	(1,566)	-	(4,010,130)	8,163	(2)	(4,003,701)
Commissions, expenses paid and aggregate write-ins for deductions	708	-	-	(253)	(1,581,120)			(1,580,665)
Dividends paid to policyholders	-	-	-	-	(2,231)			(2,231)
Federal income taxes (paid) recovered, net of tax on capital gains (losses)	(2,644)	(18)	(93)	119	(31,611)			(34,247)
Net cash from operations	11,059	405	33	(347)	300,930	10,024		322,104
Cash from Investments								
Proceeds from investments sold, matured, or repaid								
Bonds	189,503	-	-	-	3,413,070			3,602,573
Stocks	-	-	-	-	323,003			323,003
Real estate	-	-	-	-	1,589			1,589
Other invested assets	-	-	-	-	79,253			79,253
Net gains or (losses) on cash, cash equivalents and short-term investments	-	-	-	-	(1,534)			(1,534)
Miscellaneous proceeds	103	-	-	-	18,519			18,622
Total investment proceeds	189,606	-	-	-	3,833,900	-		4,023,506
Cost of investments acquired (long-term only)								
Bonds	183,346	-	601	-	3,528,207			3,712,154
Stocks	-	-	-	-	133,371			133,371
Capital contribution to affiliate	-	-	-	-	680,237			680,237
Real estate	-	-	-	-	4,157			4,157
Other invested assets	-	-	-	-	219,160			219,160
Miscellaneous applications	213	-	-	-	-			213
Total investment acquired	183,559	-	601	-	4,565,132	-		4,749,292
Net cash from investments	6,047	-	(601)	-	(731,232)	-		(725,786)
Cash from Financing and Miscellaneous Sources								
Borrowed funds received	-	-	-	-	500,000			500,000
Other cash provided (applied)	(2,161)	1,781	(1,458)	171	(67,633)	(10,024)	(1),(2)	(79,324)
Net cash from financing and miscellaneous sources	(2,161)	1,781	(1,458)	171	432,367	(10,024)		420,676
Reconciliation of Cash, Cash Equivalents and Short-Term Investments								
New reporting entity included in the consolidation	-	-	-	9,611	-	-		9,611
Net change in cash, cash equivalents and short-term investments	14,945	2,186	(2,026)	9,435	2,065	-		26,605
Cash, cash equivalents and short-term investments								
Beginning of year	7,080	1,316	4,124	-	299,209			311,729
								-
End of year	$ 22,025	$ 3,502	$ 2,098	$ 9,435	$ 301,274	$ -		$ 338,334

(1) Elimination of the change in intercompany reinsurance premium.

(2) Elimination of the change in intercompany loss and LAE reinsurance.

SUPPLEMENTAL INFORMATION

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Independent Auditor's Report on Supplemental Financial Information

To the Board of Directors of
American Family Mutual Insurance Company:

We have audited the consolidated statutory financial statements (the "financial statements") of American Family Mutual Insurance Company and its Consolidated Property and Casualty Subsidiaries (the "Companies") as of December 31, 2014 and for the year then ended and our report thereon appears on page one of this document. That audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Supplemental Summary Investment Schedule, Supplemental Investment Risk Interrogatories and Supplemental Schedule of Reinsurance Disclosures (the "supplemental schedules") of the Companies as of December 31, 2014 and for the year then ended are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The effects on the supplemental schedules of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America are material; they are described in Note 1. As a consequence, the supplemental schedules do not present fairly, in conformity with accounting principles generally accepted in the United States of America, such information of the Company as of December 31, 2014 and for the year then ended. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audits and the report of the other auditors, the supplemental schedules are fairly stated, in all material respects, in relation to the financial statements taken as a whole.

PricewaterhouseCoopers LLP

February 27, 2015

PricewaterhouseCoopers LLP, One North Wacker, Chicago, IL 60606
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American Family Mutual Insurance Company and Consolidated Property and Casualty Subsidiaries

Supplemental Summary Investment Schedule

December 31, 2014 — Schedule I

Line	Description	Gross Investment Holdings Amount	Gross Investment Holdings Percentage	Admitted Assets as Reported in the Annual Statement Amount	Admitted Assets as Reported in the Annual Statement Percentage
1.	Bonds:				
1.1	U.S. treasury securities	$ 353,374,651	2.77%	$ 353,374,651	2.77%
1.2	U.S. government agency obligations:				
1.21	Issued by U.S. government agencies	1,964,437	0.02%	1,964,437	0.02%
1.22	Issued by U.S. government sponsored agencies	101,573,400	0.80%	101,573,400	0.80%
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	573,236,334	4.50%	573,236,334	4.50%
1.42	Political subdivisions of states, territories and possessions and political subdivisions general obligations	718,276,699	5.63%	718,276,699	5.63%
1.43	Revenue and assessment obligations	3,212,169,507	25.18%	3,212,169,507	25.18%
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	81,186,693	0.64%	81,186,693	0.64%
1.512	Issued or Guaranteed by FNMA and FHLMC	576,046,633	4.52%	576,046,633	4.52%
1.513	All other	-	0.00%	-	0.00%
1.52	CMOs and REMICs:				
1.521	Issued or guaranteed by GNMA, FNMA, FHLMC or VA	23,162,693	0.18%	23,162,693	0.18%
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	221,357,788	1.74%	221,357,788	1.74%
2.	Other debt and other fixed income securities (excluding short term):				
2.1	Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	1,693,825,110	13.29%	1,693,825,110	13.29%
2.2	Unaffiliated Non-U.S. securities(including Canada)	248,441,097	1.95%	248,441,097	1.95%
2.3	Affiliated securities	-	0.00%	-	0.00%
3.	Equity interests:				
3.1	Investments in mutual funds	221,297	0.00%	221,297	0.00%
3.2	Preferred stocks:				
3.21	Affiliated	-	0.00%	-	0.00%
3.22	Unaffiliated	-	0.00%	-	0.00%
3.3	Publicly traded equity securities (excluding preferred stocks):				
3.31	Affiliated	-	0.00%	-	0.00%
3.32	Unaffiliated	2,033,574,995	15.95%	2,033,574,995	15.95%
3.4	Other equity securities:				
3.41	Affiliated	1,473,672,287	11.56%	1,473,672,287	11.56%
3.42	Unaffiliated	10,000,000	0.08%	10,000,000	0.08%
3.5	Other equity interests including tangible personal property under lease:				
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	-	0.00%	-	0.00%
4.6	Mezzanine real estate loans	-	0.00%	-	0.00%
5.	Real estate investments:				
5.1	Property occupied by company	231,272,176	1.81%	231,272,176	1.81%
5.2	Property held for production of income (includes $0 of property acquired in satisfaction of debt)	6,891,881	0.05%	6,891,881	0.05%
5.3	Property held for sale ($0 including property acquired in satisfaction of debt)	-	0.00%	-	0.00%
6.	Contract loans	-	0.00%	-	0.00%
7.	Derivatives	431,382	0.00%	431,382	0.00%
8.	Receivables for securities	1,035,862	0.01%	1,035,862	0.01%
9.	Securities Lending	-	0.00%	-	0.00%
10.	Cash, cash equivalents and short-term investments	441,184,984	3.46%	441,184,984	3.46%
11.	Other invested assets	746,727,908	5.86%	746,727,908	5.86%
12.	Total invested assets	$ 12,749,627,814	100.00%	$ 12,749,627,814	100.00%

See Independent Auditor's Report on Supplemental Information

1. State the reporting entity's total admitted assets as reported on Page 2 of this annual statement. $ 14,469,626,226

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	$ 1,412,500,082	9.761%
2.02	JP MORGAN REAL ESTATE INCOME AND GROWTH, LP	LIMITED PARTNERSHIP	122,621,900	0.847%
2.03	New York State Dormitory Authority	Municipal Bond	96,915,805	0.670%
2.04	City of New York NY	Municipal Bond	84,160,510	0.582%
2.05	State of Wisconsin	Municipal Bond	83,208,762	0.575%
2.06	State of California	Municipal Bond	81,045,272	0.560%
2.07	Maranon Senior Credit Fund II, LP	LIMITED PARTNERSHIP	79,030,765	0.546%
2.08	Partners Group, USA Inc	LIMITED PARTNERSHIP	78,038,833	0.539%
2.09	City of Chicago IL	Municipal Bond	77,361,651	0.535%
2.10	New Jersey Economic Development Authority	Municipal Bond	72,092,599	0.498%

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	$ 7,214,047,971	49.851%	P/RP-1	N/A	N/A
3.02	NAIC-2	$ 597,670,349	4.130%	P/RP-2	N/A	N/A
3.03	NAIC-3	$ 186,578,067	1.289%	P/RP-3	N/A	N/A
3.04	NAIC-4	$ 204,013,800	1.410%	P/RP-4	N/A	N/A
3.05	NAIC-5	$ 14,299,280	0.099%	P/RP-5	N/A	N/A
3.06	NAIC-6	$ -	0.000%	P/RP-6	N/A	N/A

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 [X]	No [ ]
4.02	Total admitted assets held in foreign investments	$ 297,631,409	2.057%	
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: N/A

		1	2
5.01	Countries rated NAIC-1	$	%
5.02	Countries rated NAIC-2	$	%
5.03	Countries rated NAIC-3 or below	$	%

American Family Mutual Insurance Company and Consolidated Property and Casualty Subsidiaries
Supplemental Investment Risk Interrogatories
December 31, 2014 — Schedule II

6. Two largest foreign investment exposures to a single country, categorized by NAIC sovereign rating: N/A

		1	2
Countries rated NAIC-1:			
6.01	Country:	$	%
6.02	Country:	$	%
Countries rated NAIC-2:			
6.03	Country:	$	%
6.04	Country:	$	%
Countries rated NAIC-3 or below:			
6.05	Country:	$	%
6.06	Country:	$	%

	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:

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

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

	1 Issuer	2 NAIC Rating	3	4
10.01			$	%
10.02			$	%
10.03			$	%
10.04			$	%
10.05			$	%
10.06			$	%
10.07			$	%
10.08			$	%
10.09			$	%
10.10			$	%

See Independent Auditor's Report on Supplemental Information

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 admitted assets? 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	$ 25,485,953	0.176%
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			
12.04			
12.05			

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 assets? Yes [ ] No [X]

If response to 13.01 is yes, responses are not required for the remainder of interrogatory 13. $ - 0.000%

	1 Name of Issuer	2	3
13.02	AMFAM, INC.	$ 1,412,500,082	9.761%
13.03	JP MORGAN REAL ESTATE INCOME AND GROWTH, LP	$ 122,621,900	0.847%
13.04	Maranon Senior Credit Fund II, LP	$ 79,030,765	0.546%
13.05	Partners Group, USA Inc	$ 78,038,833	0.539%
13.06	Apple Inc	$ 52,613,400	0.364%
13.07	Pfizer Inc	$ 42,918,283	0.297%
13.08	Exxon Mobile Corp	$ 39,202,868	0.271%
13.09	Wells Fargo & Co	$ 39,070,872	0.270%
13.10	Merck & Co Inc	$ 32,826,153	0.227%
13.11	JP Morgan Infrastructure Fund	$ 29,568,720	0.204%

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

14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? Yes [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			
14.04			
14.05			

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
15.04
15.05

16. State the aggregate amounts and percentages of the reporting entity's total admitted assets held in mortgage loans: $ - 0.000 %

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%	$ -	0.000 %	$ -	0.000 %	$ -	0.000 %
17.02	91% to 95%	$ -	0.000 %	$ -	0.000 %	$ -	0.000 %
17.03	81% to 90%	$ -	0.000 %	$ -	0.000 %	$ -	0.000 %
17.04	71% to 80%	$ -	0.000 %	$ -	0.000 %	$ -	0.000 %
17.05	below 70%	$ -	0.000 %	$ -	0.000 %	$ -	0.000 %

18. State the aggregate amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate: $ 6,891,881 0.048%

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
Yes [X] No [ ]

	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 agreements: N/A
Yes [X] No [ ]

		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)	$ -	$ -	$ -	$ -	$ -
20.02	Repurchase agreements	$ -	$ -	$ -	$ -	$ -
20.03	Reverse repurchase agreements	$ -	$ -	$ -	$ -	$ -
20.04	Dollar repurchase agreements	$ -	$ -	$ -	$ -	$ -
20.05	Dollar reverse repurchase agreements	$ -	$ -	$ -	$ -	$ -

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	$ -	$ -	$ -	$ -
21.02	Income generation	$ -	$ -	$ -	$ -
21.03	Other	$ -	$ -	$ -	$ -

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

		At Year-End		At End of Each Quarter		
				1st Qtr	2nd Qtr	3rd Qtr
		1	2	3	4	5
22.01	Hedging	$ 12,982,730	$ 0.090%	$ 13,939,717	$ 13,945,389	$ 13,457,492
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 futures contracts:

		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 30 of SSAP No. 62 - 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: No

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?

6 If affirmative disclosure is required for item 5 above, explain why the contract(s) is (are) treated differently for GAAP and SAP. No