American Family Insurance Mutual Holding Company and Subsidiaries

Consolidated Financial Statements
December 31, 2017 and 2016

	Page(s)
Report of Independent Auditors	1
Consolidated Financial Statements	
Consolidated Balance Sheets	2
Consolidated Statements of Comprehensive Income	3
Consolidated Statements of Changes in Policyholders' Equity	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6

Report of Independent Auditors

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

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Family Insurance Mutual Holding Company and its subsidiaries as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

February 23, 2018

PricewaterhouseCoopers LLP, One North Wacker, Chicago, IL 60606
T: (312)298 2000, F: (312)298 2001, www.pwc.com/us

American Family Insurance Mutual Holding Company and Subsidiaries
Consolidated Balance Sheets
Years Ended December 31, 2017 and 2016
(in thousands of dollars)

	2017	2016
Assets		
Bonds, available-for-sale	$ 13,572,740	$ 13,349,669
Common stocks, available-for-sale	2,646,816	2,423,872
Mortgage loans	687,606	575,213
Real estate	7,804	8,269
Policy loans	196,759	205,237
Cash and cash equivalents	687,166	739,184
Short-term investments	157,264	110,029
Other invested assets	997,651	859,030
Total cash and investments	18,953,806	18,270,503
Property & casualty premiums receivable and agents' balances	1,679,079	1,542,477
Accrued investment income	134,560	130,563
Deferred policy acquisition costs	797,153	763,488
Property and equipment (net of accumulated depreciation of $1,017,094 and $967,205)	785,329	703,190
Reinsurance recoverable	651,637	254,316
Prepaid reinsurance premium	98,509	42,182
Income tax recoverable	188,380	12,388
Deferred tax assets	—	83,174
Goodwill	329,792	221,627
Intangible assets	142,242	151,658
Other assets	141,502	190,331
Separate account assets	331,049	295,743
Total assets	24,233,038	22,661,640
Liabilities		
Property & casualty loss and loss adjustment expense reserve	4,750,962	4,085,485
Liabilities for life policies and deposit contracts	4,227,795	4,157,412
Property & casualty unearned premiums	3,673,494	3,451,664
Life policyholders' dividends payable	6,607	9,281
Drafts outstanding	4,987	73,007
Deferred tax liabilities	64,064	—
Agent contract termination payments	762,347	697,175
Employee pension and other benefits	336,491	355,331
Debt (includes $647,566 and $601,855 at fair value)	814,005	637,938
Accrued expenses	335,103	382,484
Ceded premiums payable	72,829	15,967
Other liabilities	801,480	740,196
Separate account liabilities	331,049	295,743
Total liabilities	16,181,213	14,901,683
Policyholders' equity		
Retained earnings	7,469,170	7,313,542
Accumulated other comprehensive income (loss)	582,655	446,415
Total policyholders' equity	8,051,825	7,759,957
Total liabilities and policyholders' equity	$ 24,233,038	$ 22,661,640

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

American Family Insurance Mutual Holding Company and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2017 and 2016
(in thousands of dollars)

	2017	2016
Revenues		
Property & casualty premiums earned	$ 8,205,266	$ 7,601,888
Life insurance premiums, fees, and other considerations	331,019	427,510
Net investment income	523,281	520,588
Net impairment losses recognized in earnings	(23,381)	(41,295)
Other realized capital gains (losses)	315,306	144,590
Other income	193,862	175,524
Total revenues	9,545,353	8,828,805
Benefits and expenses		
Property & casualty losses and loss adjustment expenses incurred	6,324,473	5,207,412
Life insurance claims and other benefits	191,961	293,023
Life insurance dividends to policyholders	14,781	17,957
Change in future life policy benefits	104,313	111,923
Other property & casualty underwriting expenses	2,485,671	2,514,353
Other expenses	275,126	247,953
Total benefits and expenses	9,396,325	8,392,621
Income (loss) before income tax expense (benefit)	149,028	436,184
Income tax expense (benefit)		
Current	(125,453)	104,954
Deferred	118,853	5,651
Total income tax expense (benefit)	(6,600)	110,605
Net income (loss)	155,628	325,579
Other comprehensive income (loss)		
Changes in unrealized gains and losses on securities (net of tax of $120,941 and $34,791 and deferred policy acquisition cost adjustments of $11,856 and $8,153 in 2017 and 2016, respectively)	336,732	122,832
Less: reclassification adjustment for net gains (losses) included in other realized capital gain (loss) (net of tax of ($48,825) and $17,572 in 2017 and 2016, respectively)	170,061	31,502
Changes in defined benefit obligations (net of tax of ($23,477) and ($11,001) in 2017 and 2016, respectively)	(30,431)	(19,449)
Other comprehensive income (loss)	136,240	71,881
Comprehensive income (loss)	$ 291,868	$ 397,460

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

American Family Insurance Mutual Holding Company and Subsidiaries
Consolidated Statements of Changes in Policyholders' Equity
Years Ended December 31, 2017 and 2016
(in thousands of dollars)

	2017	2016
Retained earnings		
Balance at beginning of year	$ 7,313,542	$ 6,987,963
Net income (loss)	155,628	325,579
Balance at end of year	7,469,170	7,313,542
Accumulated other comprehensive income (loss)		
Net unrealized gain (loss) on investments		
Balance at beginning of year	615,984	519,405
Change in unrealized gains (losses) on common stocks, bonds, and other assets	250,643	151,846
Income tax benefit (expense)	(76,321)	(55,267)
Balance at end of year	790,306	615,984
Net unrealized gain (loss) on deferred acquisition costs		
Balance at beginning of year	(13,230)	(7,981)
Change in period, net of income tax (expense) benefit	(7,651)	(5,249)
Balance at end of year	(20,881)	(13,230)
Change in pension and other post-retirement benefit obligations		
Balance at beginning of year	(156,339)	(136,890)
Change in period, net of income tax (expense) benefit	(30,431)	(19,449)
Balance at end of year	(186,770)	(156,339)
Total accumulated other comprehensive income (loss)	582,655	446,415
Total policyholders' equity	$ 8,051,825	$ 7,759,957

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

American Family Insurance Mutual Holding Company and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2017 and 2016
(in thousands of dollars)

	2017	2016
Cash flows from operating activities		
Net income (loss)	$ 155,628	$ 325,579
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation, amortization and other noncash items	247,014	227,924
Fair value option of long-term debt	45,711	1,861
Net realized (gains) losses on sales of property and equipment	(356)	16,828
Net realized (gains) losses on sales of investments	(292,069)	(103,866)
Change in value of derivatives	4,737	13,140
Earnings of equity method investments	(60,848)	(34,201)
Change in unearned premiums	219,585	259,332
Change in deferred policy acquisition costs	(45,521)	(36,298)
Change in deferred income tax provision	118,674	(4,688)
Change in insurance reserves	748,494	417,121
Change in reinsurance recoverable	(400,771)	9,155
Change in income tax receivable	(176,020)	(26,283)
Other changes in operating assets and liabilities	(158,245)	(28,849)
Net cash provided by (used in) operating activities	406,013	1,036,755
Cash flows from investing activities		
Proceeds from sales, maturities or calls of bonds	10,674,332	10,015,353
Purchases of bonds	(10,864,802)	(10,820,056)
Proceeds from sales of common stocks	1,432,013	512,400
Purchases of common stocks	(1,265,845)	(568,090)
Proceeds from collections on mortgage loans	86,185	136,190
Purchases of mortgage loans	(198,623)	(184,270)
Proceeds from sales of other investments	761,085	1,106,315
Purchases of other investments	(877,093)	(1,203,904)
Net purchases and sales of short-term investments	(42,906)	147,196
Acquisition of businesses, net of cash acquired	(123,837)	—
Net purchases and sales of property and equipment	(166,655)	(111,050)
Other investing activities	8,342	8,872
Net cash provided by (used in) investing activities	(577,804)	(961,044)
Cash flows from financing activities		
Deposits to investment-type and universal life contracts	76,477	77,475
Withdrawals from investment-type and universal life contracts	(86,704)	(83,125)
Net proceeds (repayments) of Federal Home Loan Bank of Chicago (FHLBC) advances	130,000	—
Net cash provided by (used in) financing activities	119,773	(5,650)
Net change in cash and cash equivalents	(52,018)	70,061
Cash and cash equivalents		
Beginning of year	739,184	669,123
End of year	$ 687,166	$ 739,184
Income taxes paid (received)	$ 50,524	$ 121,918
Interest paid (received)	27,600	27,553

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

1. Nature of Operations and Significant Accounting Policies

American Family Insurance Mutual Holding Company (AFI MHC) and its wholly-owned subsidiaries, primarily American Family Mutual Insurance Company, S.I. (AFMICSI), are engaged principally in the writing of property & casualty and life insurance policies within the United States and distribute products through agency and direct sales channels. On January 1, 2017, both AFI MHC and its wholly-owned subsidiary, AmFam Holdings, Inc. (Holdings), the 100% owner of AFMICSI, were created as part of a corporate reorganization. Additionally, as part of the corporate reorganization, American Family Mutual Insurance Company (AFMIC) was converted to AFMICSI through the issuance of common stock to Holdings. AFI MHC and its consolidated subsidiaries are herein referred to collectively as the “Companies” or the “Company”.

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

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

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

Property & casualty insurance represented 96% and 95% of total net premiums written for 2017 and 2016, respectively.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) which require 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 these estimates.

Significant accounting policies used in the preparation of these consolidated financial statements include:

a. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Companies after elimination of all significant intercompany balances and activities.

b. Cash and Investments

Cash and cash equivalents represent cash and securities that have maturities of three months or less at purchase and consist primarily of money market mutual funds carried at cost, which approximates fair value. Short-term investments represent securities that have maturities of one year or less at purchase and are accounted for in the same manner as long-term bonds.

The Companies may dispose of bonds prior to their scheduled maturity due to changes in market interest rates, tax and credit considerations, liquidity or regulatory capital requirements, or other similar factors. As a result, the Companies consider all bonds and common stocks available-for-sale. Available-for-sale investments are reported at fair value, with unrealized gains and losses, net of applicable deferred taxes, reported as a component of accumulated other comprehensive income until realized. 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 book value of the investment is

reduced to its fair value or present value of expected future cash flows. Certain common stock positions are valued using the cost or equity method.

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

The Company initiates its positions in TBAs through both purchases and sales. Positions outstanding as of the end of the year that were initiated through purchases are classified as bonds, available-for-sale in the consolidated balance sheets. Purchase and sale activity of these long positions is included with purchases of bonds and proceeds from sales, maturities or calls of bonds, respectively, in the consolidated statements of cash flows. Any initial sales are referred to as “short sales” and represent obligations to deliver the applicable TBA(s) by the settlement date. Positions outstanding as of the end of the year that were initiated through short sales are classified as securities sold, not yet purchased within other liabilities in the consolidated balance sheets. Purchase and sale activity of these short sale positions is included within purchases of other investments and proceeds from sales of other investments, respectively, in the consolidated statements of cash flows.

Other invested assets consist primarily of investments in limited partnerships. The limited partnerships are reported in the consolidated financial statements according to the Company’s percentage of equity ownership in the limited partnerships. The Company has determined an ownership percentage of 5% or greater is more than a minor interest in a limited partnership, and these investments are accounted for using the equity method of accounting. The cost method of accounting is generally used to account for limited partnerships with a less than 5% ownership interest, as the Company’s interest is so minor that it exercises virtually no influence over the investee’s operations. Due to the nature and structure of these cost method investments, they do not meet the characteristics of an equity security in accordance with applicable accounting standards. These investments typically reflect a reporting lag of up to three months, dependent upon receipt of the limited partnership financial statements. The Company also holds low income housing tax credits that are recorded at amortized cost.

For the limited partnerships accounted for under the equity method of accounting, all income from these partnerships, including net investment income, realized capital gains and losses, and changes in unrealized gains and losses, is recorded as net investment income on the consolidated statements of comprehensive income.

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

Prepayment assumptions for mortgage-backed and asset-backed securities are obtained from external sources when the securities are purchased. These allow the Company to recognize income using a constant effective yield based on those prepayment assumptions and the economic

life of the securities. Updated prepayment assumptions are obtained on a monthly basis, and the effective yield is recalculated to reflect actual payments received and expected future payments.

Real estate assets consist of land, buildings, and building improvements held for the production of income. 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.

Mortgage loans are carried at their aggregate unpaid principal balances, net of a valuation allowance for estimated uncollectible amounts. Policy loans are reported at their outstanding principal balance and are limited to the cash value of the policy.

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

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 in the accompanying consolidated statements of comprehensive income.

c. Fair Value Measurements

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

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

Level 2 Financial assets and financial liabilities whose values are based on the following:
Quoted prices for similar assets or liabilities in active markets;
Quoted prices for identical or similar assets or liabilities in non-active markets; or
Valuation models whose inputs are observable, directly or indirectly, for substantially the full term of the asset or liability.

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

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

d. Premiums Written on Property & Casualty Insurance and Life Insurance

Property & casualty premiums written are recorded on the effective date of the contract and earned on a pro rata basis over the terms of the policies. Premiums earned include premiums assumed and are presented net of premiums ceded under various reinsurance contracts. Unearned premium represents the portion of written premium applicable to the unexpired portion of insurance in-force. Advance premium represents amounts received prior to policy effective dates. Premiums receivable and agents' balances are net of an allowance for doubtful accounts of $10,614 and $11,435 at December 31, 2017 and 2016, respectively.

The Company 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. The Company generally does not charge interest on delinquent accounts.

The Company annually evaluates whether a premium deficiency exists relating to short- and long-duration contracts. With the exception of short-duration contracts written by PGC, anticipated investment income is considered as part of this evaluation. A premium deficiency reserve of $23,970 and $25,603 was recorded as of December 31, 2017 and 2016, respectively, as part of the annual actuarial review of the long-term care business (see Note 1(i) for further information on the long-term care business recapture).

Term life and whole life insurance premiums are generally recognized as premium income when received. Benefits and expenses are associated with earned premiums so as to result in recognition of profits over the life of the contracts. The association is accomplished by means of the provision for liabilities for future policy benefits and the amortization of deferred policy acquisition costs (see Note 1(e)). Premium income is recorded net of premiums ceded to reinsurers. Commissions and other expenses are recorded net of allowances received from reinsurers.

For investment-type and universal life insurance contracts, premium deposits and benefit payments are recorded as increases or decreases in a liability account, rather than as revenue and expense. Revenue is recognized for any amounts charged against the liability account for the cost of insurance, policy administration, and surrender penalties. Expense is recorded for any interest credited to the liability account and any benefit payments which exceed the contract liability account balance.

e. Deferred Policy Acquisition Costs (DAC)

Costs that are directly related to the successful acquisition of new or renewal insurance contracts are deferred to the extent that such costs are deemed recoverable. These costs include, but are not limited to, commissions, certain costs of policy issuance and underwriting, and certain agency expenses. All other acquisition costs are expensed as incurred. For property & casualty contracts, deferred costs are amortized as the related premiums are earned. For term life insurance contracts, deferred costs are amortized with interest in relation to future anticipated premium revenue, using the same assumptions that are used in calculating the insurance liabilities. For traditional whole life insurance contracts, deferred costs are amortized in relation to the present value of expected gross margins, discounted using the interest rate earned on the underlying assets. For deposit contracts without significant mortality risk (investment-type contracts) and for contracts that permit the Company or the policyholder to make changes in the contract terms (universal life insurance contracts), deferred costs are amortized in relation to the present value of expected gross profits from these contracts, discounted using the interest rate credited to the policy or the expected earnings rate, depending on the type of policy.

The Companies regularly evaluate the recoverability of the unamortized balance of DAC. For property & casualty insurance, if DAC were to exceed the sum of unearned premiums and related anticipated investment income less expected losses and loss adjustment expenses and policy

maintenance costs, the excess cost would be expensed immediately. For term life insurance contracts, the unamortized asset balance is reduced by a charge to income only when the estimated remaining gross premium reserve exceeds the GAAP reserves reduced by unamortized DAC. For traditional whole life insurance contracts, the accumulated amortization is adjusted (whether an increase or a decrease) whenever there is a material change in the estimated gross margins expected over the life of a block of business in order to maintain a constant relationship between the cumulative amortization and the present value (discounted at the rate of interest earned on the underlying assets) of expected gross margins. For universal life and investment-type insurance contracts, the accumulated amortization is adjusted (whether an increase or a decrease) whenever there is a material change in the estimated gross profits expected over the life of a block of business in order to maintain a constant relationship between the cumulative amortization and the present value of expected gross profits.

DAC is also adjusted when bonds are recorded at fair value for traditional whole life, universal life, and investment-type insurance contracts. This adjustment, which is recorded as part of the net appreciation (depreciation) of securities in accumulated other comprehensive income, reflects the change in cumulative amortization that would have been recorded if these bonds had been sold at their fair values and the proceeds were reinvested at current yields.

f. Property & Casualty Loss and Loss Adjustment Expense Reserve

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

Reinsurance recoveries are recorded as a reduction of losses and loss adjustment expenses in accordance with contract terms. The liability for gross long-term care claims has been discounted on a tabular basis using morbidity from industry data including the Society of Actuaries Long-Term Care Experience Studies with a discount rate that varies by claim incurred year, which has been 3.5% since 2013. The liabilities include $13,715 and $12,525 of such discounted reserves at December 31, 2017 and 2016, respectively. Previous to January 1, 2016, the Companies' long-term care business was 100% ceded to Ability Insurance Company, a nonaffiliated company (see Note 1(i)).

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. Liabilities for Life and Deposit-Type Contracts

For term life insurance contracts, reserves are calculated using the net level premium method, based on assumptions as to investment yields, mortality, withdrawals, expenses and policyholder dividends. These assumptions are made at the time the contract is issued and are consistent with assumptions used in the product pricing process. Assumptions are based on projections from past experience and are modified only as necessary to reflect loss recognition. In addition, an allowance is made for possible unfavorable deviations from selected assumptions.

For traditional whole life insurance contracts, reserves are calculated based on the net level policy benefit reserve. Interest assumptions are consistent with the policy dividend formula and mortality assumptions are based on the 1958, 1980 or 2001 CSO table. The interest rate on current issues is 4.0% in both 2017 and 2016. Interest rates on all other issues are between 2.5% and 5.0% in both 2017 and 2016.

For universal life, deposit-type and investment-type insurance contracts, reserves are based on the contract account balance. Reserves for annuities in payout status are calculated as the present value of future benefits using contract interest rates and either the 1971, 1983 or 2000 Immediate Annuity Mortality table.

Gross reserves by type of contract at December 31 are as follows:

	2017		2016	
Insurance-type liabilities				
Traditional whole life	$ 2,545,528	60.1%	$ 2,478,281	59.6%
Traditional term life	478,462	11.3	467,724	11.3
Payout annuities	44,920	1.1	46,701	1.1
Other insurance reserves	9,358	0.2	9,068	0.2
Deposit-type liabilities				
Universal life	497,926	11.8	494,181	11.9
Deferred annuities	269,259	6.4	267,768	6.4
Dividend accumulations	236,072	5.6	237,720	5.7
Structured settlements	36,921	0.9	41,169	1.0
Variable universal life	16,363	0.4	15,277	0.4
Variable annuities	14,432	0.3	13,833	0.3
Supplemental contracts without life contingencies, retained assets and premium deposits	78,554	1.9	85,690	2.1
Total liabilities for life policies and deposit contracts	$ 4,227,795	100.0%	$ 4,157,412	100.0%

h. Life Policyholders Dividends Payable

Approximately 98.5% of the Company's life contracts are considered participating policies. The Company accounts for policyholder dividends based upon dividend scales approved by AFLIC's Board of Directors. The amount of dividends to be paid is determined annually. Participating policyholders generally have the option to direct their dividends to be paid in cash, used to reduce future premiums due, used to purchase additional insurance benefits or left on deposit with the Company to accumulate interest. Dividends used by policyholders to purchase additional insurance benefits are reported as premiums in the consolidated statements of comprehensive income. The Company's annual declaration includes a guarantee of a minimum aggregate amount of dividends to be paid to policyholders as a group in the subsequent year. The portion of the Company's earnings allocated as dividends is included in policyholders' dividends payable.

i. Reinsurance

In the normal course of business, the Companies seek to limit exposure to loss on any single insured and to certain aggregate loss limits. This is accomplished by ceding insurance to other insurance companies or reinsurers under quota share, excess of loss and coinsurance contracts. Liabilities related to insurance contracts are reported gross of the effects of reinsurance. Estimated reinsurance recoverable is recognized in a manner consistent with the liabilities related to the underlying reinsured contracts.

Property & casualty earned premiums ceded under reinsurance contracts during 2017 and 2016 were $160,603 and $149,119, respectively. Gross written premiums ceded during 2017 and 2016 were $216,527 and $134,825, respectively. Unearned premiums ceded under reinsurance contracts were $98,563 and $42,685 at December 31, 2017 and 2016, respectively. Loss and loss

adjustment expenses ceded under reinsurance contracts were $455,977 and $44,081 for the years ended December 31, 2017 and 2016, respectively.

Life reinsurance premiums ceded were $76,212 and $75,550 (exclusive of the ($105,320) recaptured in 2016 as described below) in 2017 and 2016, respectively. Life reserves ceded under reinsurance contracts were $225,468 and $214,339 at December 31, 2017 and 2016, respectively. Reinsurance commissions and expense allowances were $23,877 and $24,066 in 2017 and 2016, respectively. Life and accident & health insurance benefits on ceded claims were $30,849 and $33,841 in 2017 and 2016, respectively. AFLIC cedes 100% of its variable universal life (VUL) and variable annuity (VA) business, which AFLIC no longer sells, under a reinsurance agreement with a third party (see Note 13).

Effective July 1, 2010, the Company ceded 100% of its long-term care business to Ability Insurance Company (Ability) pursuant to a modified coinsurance agreement. In 2016, AFLIC recaptured the business from Ability and recorded premiums of $105,320 and life insurance claims and other benefits of $93,254 as a result. A gain in the amount of $8,426 was recorded within the consolidated statements of comprehensive income, reflecting the excess of carrying value of assets received over the GAAP reserve valuation at the point of recapture. The recapture was treated as a non-cash transaction as it relates to the consolidated statement of cash flows for the year ended December 31, 2016. As of January 1, 2016, the underwriting results of the long-term care business are retained by the Company.

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

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

j. Income Taxes

The Companies file a consolidated federal income tax return and are subject to a tax allocation agreement under which each member's tax liability equals or approximates separate return calculations with current credit for net losses and tax credits utilized by other members of the group. Deferred taxes are established for the future tax effects of temporary differences between the tax and financial reporting bases of assets and liabilities using currently enacted tax rates. The effect on deferred taxes of a change in tax rates is recognized in income in the period of enactment as a component of income tax expense from continuing operations. Deferred tax assets (DTAs) are valued based upon the expectation of future realization on a "more likely than not" basis. A valuation allowance is established for that portion of DTAs which cannot meet this realization standard. Based on all available evidence, a valuation allowance is not needed as of December 31, 2017 and 2016.

k. Property and Equipment

Property and equipment, including capitalized software, is carried at cost less accumulated depreciation. 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 to earnings.

The gross cost, accumulated depreciation and net cost of major classes of property and equipment as of December 31 are as follows:

	2017			2016		
	Gross Cost	Accumulated Depreciation	Net	Gross Cost	Accumulated Depreciation	Net
Property occupied by the Company	$ 535,471	$ (261,514)	$ 273,957	$ 489,078	$ (246,418)	$ 242,660
Furniture and equipment	211,527	(137,749)	73,778	212,371	(142,916)	69,455
Computer software and equipment	1,055,425	(617,831)	437,594	968,946	(577,871)	391,075
	$ 1,802,423	$ (1,017,094)	$ 785,329	$ 1,670,395	$ (967,205)	$ 703,190

l. Goodwill

Goodwill represents the excess of cost over the fair value of net assets acquired in business combinations. Goodwill is not amortized, but is reviewed for impairment at least annually and whenever there is an impairment indicator, using a fair value based approach.

m. Intangible Assets

The establishment of intangible assets and the determination of estimated useful lives are primarily based on valuations received from qualified independent appraisers as a result of the Company's acquisition activity. The calculations of these amounts are based on estimates and assumptions using historical and pro forma data and recognized valuation methods. Different estimates or assumptions could produce different results. Contractual or separable intangible assets that have finite useful lives are amortized against income over their estimated useful lives using either the straight-line method or a weighted-average method based on projected pre-tax income generated by the intangible asset. Indefinite-lived intangible assets are not subject to amortization.

The Company evaluates the remaining useful lives of its intangible assets with a finite life at least annually to determine whether events or circumstances warrant a revision to the remaining period of amortization. The Company evaluates its indefinite-lived intangible assets for impairment on at least an annual basis. The Company evaluates its finite-lived intangible assets for impairment when circumstances indicate impairment may have occurred.

See Note 7 for more information on intangible assets.

n. Leases

The Company leases various office equipment and real estate under noncancelable operating lease agreements with various expiration dates through 2022 and thereafter. Lease expense for 2017 and 2016 was $44,694 and $40,579, respectively.

As of December 31, 2017, the minimum aggregate lease commitments were as follows:

Year ending December 31	Operating Leases
2018	$ 32,325
2019	22,390
2020	13,877
2021	11,523
2022 and thereafter	26,282
Total	$ 106,397

Certain lease commitments have renewal options extending through the year 2034. Some of these renewals are subject to adjustments in future periods.

o. Separate Accounts

Separate account assets include segregated funds invested by the Company as designated by VUL and VA policy owners in shares of mutual funds managed by outside fund managers offered as investment vehicles for American Family Variable Accounts I or II. The assets (investments) and liabilities (to policy owners) of each account are clearly identifiable and distinguishable from other assets and liabilities of the Company. Assets are valued at fair value and liabilities are equal to the amount due to the policy owner without a reduction for surrender charges. The investment income, gains and losses of these accounts generally accrue to the policy owners, and, therefore, are not included in the Company's net income.

p. Adoption of New Accounting Guidance

Disclosures about Short-Duration Contracts

In May 2015, the Financial Accounting Standards Board (FASB) issued guidance requiring expanded disclosures for insurance entities that issue short-duration contracts. The expanded disclosures are designed to provide additional insight into an insurance entity's ability to underwrite and anticipate costs associated with claims. The disclosures include information about incurred and paid claims development by accident year, significant changes in methodologies and assumptions, and a reconciliation of incurred and paid claims development to the carrying amount of the liability for unpaid claims and claim adjustment expenses. The new guidance affects disclosures only and, therefore, the adoption of this guidance as of December 31, 2017 had no impact on the Company's consolidated financial statements.

q. Future Adoption of New Accounting Guidance

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued guidance requiring equity investments, including equity securities and limited partnership interests, that are not accounted for under the equity method of accounting or do not result in consolidation to be measured at fair value with changes in fair value recognized in net income. Equity investments without readily determinable fair values shall be measured at cost minus impairment, if any, plus or minus changes resulting from observable price changes. When a qualitative assessment of equity investments without readily determinable fair values indicates that impairment exists, the carrying value is required to be adjusted to fair value, if lower. The guidance clarifies that an entity should evaluate whether a deferred tax asset related to available-for-sale fixed income securities is realizable in combination with the entity's other deferred tax assets. The guidance also changes certain disclosure requirements. The guidance is effective for reporting periods beginning after December 15, 2018, for non-public companies, with early adoption permitted for reporting periods beginning after December 15, 2017. The guidance is to be applied through a cumulative-effect adjustment to beginning retained

earnings as of the beginning of the period of adoption. The Company expects to adopt this guidance on January 1, 2019, and is currently evaluating the effect that implementation of the new standard will have on its financial position and results of operations.

Accounting for Leases
In February 2016, the FASB issued guidance that revises the accounting for leases. Under the new guidance, lessees will be required to recognize a right-of-use asset and lease liability for all leases other than those that meet the definition of a short-term lease. The lease liability will be equal to the present value of lease payments. A right-of-use asset will be based on the lease liability adjusted for qualifying initial direct costs. Under the new guidance, operating lease expense will be recognized in the income statement on a straight-line basis over the term of the lease, while finance lease expense will be front-loaded due to higher interest expense on the lease liability in early contract years. Lease classification will be based on criteria similar to those currently applied. The new accounting model for lessors will be similar to the current model with modifications to reflect certain definitional changes. Lessors will continue to classify leases as operating, direct financing, or sales-type. The guidance is effective for reporting periods beginning after December 15, 2019, for non-public companies, with early adoption permitted, and is to be applied using a modified retrospective approach applied at the beginning of the earliest period presented. The Company expects to adopt this guidance on January 1, 2020, and is currently evaluating the effect that implementation of the new standard will have on its financial position and results of operations.

Measurement of Credit Losses on Financial Instruments
In June 2016, the FASB issued guidance which revises the credit loss recognition criteria for certain financial assets measured at amortized cost as well as for those classified as available-for-sale. For financial assets measured at amortized cost, the new guidance replaces the existing incurred loss recognition model with an expected loss recognition model in which the reporting entity recognizes its estimate of expected credit losses for affected financial assets in a valuation allowance and presents the net carrying value of the financial assets at the amount expected to be collected. The reporting entity must consider all available relevant information when estimating expected credit losses, including details about past events, current conditions, and reasonable and supportable forecasts over the contractual life of an asset. Credit losses on available-for-sale debt securities are limited to the amount by which fair value is below amortized cost, with any adjustment in book value recognized through an allowance and not as a direct write-down. The guidance is effective for annual periods beginning after December 15, 2020, for non-public companies, with early adoption permitted for reporting periods beginning after December 15, 2018. The guidance, for most affected instruments, must be adopted using a modified retrospective approach, with a cumulative-effect adjustment recorded to beginning retained earnings. The Company expects to adopt this guidance on January 1, 2021, and is currently evaluating the effect that implementation of the new standard will have on its financial position and results of operations.

Presentation of Net Periodic Pension and Postretirement Benefits Costs
In March 2017, the FASB issued guidance that requires the service cost component of net periodic pension and postretirement benefits costs to be reported in operating expenses together with other employee compensation costs, and all other components of net periodic pension and postretirement benefits costs reported in non-operating expenses. The Company does not separately report operating and non-operating expenses on the statement of operations and, therefore, will be required to disclose the financial statement line item in which the components of net periodic pension and postretirement benefits costs are presented. The new guidance permits only the service cost component to be eligible for capitalization where applicable. The guidance is effective for annual periods beginning after December 15, 2018 and for interim periods within those annual periods. The guidance is to be applied on a prospective basis for capitalization of service costs where applicable and on a retrospective basis for the presentation of the service cost and other components of net periodic pension benefit costs in disclosures. The Company

expects to adopt this guidance on January 1, 2019, and the impact of adoption will not be material to the Company's financial position or results of operations.

Revenue from Contracts with Customers
In May 2014, the FASB issued guidance which revises the criteria for revenue recognition and provides for additional disclosure requirements in order to enable the users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The core principle of the new standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance includes a five-step approach to recognizing revenue in accordance with this core principle. Contracts related to insurance products and financial instruments are not in scope of the new standard and, thus, the primary revenue streams of the Company are not impacted by the new standard. However, revenue from non-insurance contracts fall within scope of the updates. The guidance is effective for the year ending December 31, 2019, and the Company plans to utilize the simplified adoption approach as allowed under the update, which requires a cumulative effect adjustment to retained earnings as of January 1, 2019. Based on the Company's assessment, the total impact of adoption will not be material to the Company's financial position, results of operations, or cash flows as those contracts that are in-scope of this new guidance are insignificant in relation to total revenue.

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income
In February 2018, the FASB issued guidance that allows a reclassification of the stranded tax effects in accumulated other comprehensive income (AOCI) resulting from the Tax Cuts and Jobs Act of 2017 (the Act). Current guidance requires the effect of a change in tax laws or rates on deferred tax balances to be reported in income from continuing operations in the accounting period that includes the period of enactment, even if the related income tax effects were originally charged or credited directly to AOCI. The amount of the reclassification would include the effect of the change in the U.S. federal corporate income tax rate on the gross deferred tax amounts and related valuation allowances, if any, at the date of the enactment of the Act related to items in AOCI. The updated guidance is effective for reporting periods beginning after December 15, 2018, and is to be applied retrospectively to each period presented or as an adjustment to AOCI at the beginning of the period of adoption. Early adoption is permitted. The Company expects to adopt this guidance on January 1, 2018, and the impact of adoption will not be material to the Company's financial position or results of operations.

r. Other Income
Other income on the consolidated statements of comprehensive income consists primarily of policy fee and commission income of $157,184 and $143,011 in 2017 and 2016, respectively.

s. Statements of Cash Flows
Non-cash investing activities include $38,479 of acquisitions and $35,484 of disposals of common stock in 2017 and $30,376 of both acquisitions and disposals of common stock in 2016; $571,323 and $249,658 of acquisitions and $578,650 and $256,065 of disposals of bonds in 2017 and 2016, respectively; and $4,468 and $6,523 of net acquisitions of short-term investments in 2017 and 2016, respectively. See Note 2(b) for charitable contributions of common stock which represents additional non-cash investing activities. See Note 1(i) for additional non-cash transactions related to the recapture of the long-term care line of business.

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

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

2. Financial Instruments

a. Fair Value of Financial Instruments

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

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

When available, the Company uses the market approach to estimate the fair value of its financial instruments, which is based on quoted prices in active markets that are readily and regularly available. 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: *U.S. government*: Comprised of U.S. Treasuries valued based on unadjusted quoted prices for identical assets in active markets.

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

Cash Equivalents: Comprised of actively traded money market funds that have daily quoted net asset values for identical assets that the Company can access and U.S. Treasuries valued based on unadjusted quoted prices for identical assets in active markets.

Short-term Investments: Comprised of 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:

U.S. government: 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, and bid/ask spreads.

Municipals: 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, and credit quality.

Corporates, including privately placed: These securities are principally valued using the market and income approaches based on inputs including quoted prices for identical or similar assets in markets that are not active, or using matrix pricing or other similar techniques that use standard market observable inputs such as benchmark yield curves, bid/ask spreads, and credit quality. Privately placed securities are valued using internal matrix pricing and discounted cash flow methodologies using standard market observable inputs including taxable and tax-exempt yield curves and market observable ratings from external parties. Due to the relative illiquidity of private placements, illiquidity premiums of 25 and 100 basis points are factored into the yield curve inputs for investment grade and below investment grade securities, respectively.

Asset-Backed Securities (ABS), Residential Mortgage-backed Securities (RMBS), and Commercial Mortgage-backed Securities (CMBS): 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, default assumptions, projected cash flows, collateral performance, deal structure, and tranche characteristics.

Common Stocks: Comprised of shares in FHLBC stock as discussed in Note 11. While not actively traded, the valuation for the FHLBC investment is perpetually quoted at $100 by the FHLBC.

Cash Equivalents: Cash equivalents are 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.

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

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

Separate Account Assets: Comprised of mutual funds traded in non-active markets that have daily quoted net asset values for identical assets that the Company can access. Net asset values for the actively traded mutual funds in which the separate account assets are invested are obtained daily from the fund managers.

Debt: Comprised of an FHLBC fixed-rate advance, for which daily published interest rates are available. See Note 2(h) for additional valuation methodology.

Level 3 Measurements

Bonds:

Municipals: Valued internally using a discounted cash flow model and par value and externally using broker quotes.

Corporates: Valued using cash flow modeling and the mid-point of actual bid and ask market quotes from global and regional banks, broker/dealers, and exchanges.

ABS, RMBS and CMBS: Valued using cash flow modeling and non-binding broker quotes received from brokers who are familiar with these generally illiquid investments. The cash flow model uses prepayment, default and severity assumptions, benchmark yields and spreads and weighted average lives as inputs. A portion of securities is valued using trader-marked bid side dollar prices and spreads to updated swaps curves from a third party pricing vendor. A small segment is valued from non-binding external sources where unobservable inputs are not readily available. TBAs are valued using the market and income approaches by leading, nationally recognized providers of market data and analytics. When available, recent trades of identical or similar assets are used to price these securities.

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

Short-term Investments: Valued using the market and income approaches by leading, nationally recognized providers of market data and analytics. When available, recent trades of identical or similar assets are used to price these securities.

Securities Sold, Not Yet Purchased: Valued using the market and income approaches by leading, nationally recognized providers of market data and analytics. When available, recent trades of identical or similar assets are used to price these securities. Securities sold, not yet purchased are included with other liabilities within the consolidated balance sheets.

Other Valuations

Includes private equity and common stock investments presented using equity and cost methods of accounting, policy loans carried at their outstanding principal balance, mortgage loans carried at their outstanding principal amount and cash. Also includes trust preferred debentures carried at their outstanding principal balance.

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

2017					
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Other Valuations	Balance as of December 31, 2017
Financial assets					
Bonds, available-for-sale:					
U.S. government	$ 711,233	$ 299,086	$ —	$ —	$ 1,010,319
Municipals	—	5,063,645	17,039	—	5,080,684
Corporates	—	4,974,433	2,483	—	4,976,916
RMBS	—	621,374	116,232	—	737,606
CMBS	—	718,154	9,347	—	727,501
ABS	—	959,201	80,513	—	1,039,714
Common stocks, available-for-sale	2,575,481	13,515	2	57,818	2,646,816
Cash equivalents	474,803	—	—	—	474,803
Short-term investments	136,453	20,811	—	—	157,264
Separate account assets	—	331,049	—	—	331,049
Total recurring basis assets	3,897,970	13,001,268	225,616	57,818	17,182,672
Valued at cost, amortized cost or using the equity method	—	—	—	2,102,183	2,102,183
Total financial assets	$ 3,897,970	$ 13,001,268	$ 225,616	$ 2,160,001	$ 19,284,855
Financial Liabilities					
Debt	$ —	$ 647,566	$ —	$ 166,439	$ 814,005
Derivative liabilities	—	2,374	—	—	2,374
Securities sold, not yet purchased	—	—	4,415	—	4,415
Total financial liabilities	$ —	$ 649,940	$ 4,415	$ 166,439	$ 820,794

2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Other Valuations	Balance as of December 31, 2016
Financial assets					
Bonds, available-for-sale:					
U.S. government	$ 1,103,128	$ 130,837	$ —	$ —	$ 1,233,965
Municipals	—	4,922,452	17,314	—	4,939,766
Corporates	—	4,676,252	4,500	—	4,680,752
RMBS	—	702,205	123,684	—	825,889
CMBS	—	654,163	—	—	654,163
ABS	—	868,815	146,319	—	1,015,134
Common stocks, available-for-sale	2,363,927	16,543	—	43,402	2,423,872
Cash equivalents	479,376	451	—	—	479,827
Short-term investments	63,121	46,713	195	—	110,029
Derivative assets	—	3,513	—	—	3,513
Separate account assets	—	295,743	—	—	295,743
Total recurring basis assets	4,009,552	12,317,687	292,012	43,402	16,662,653
Valued at cost, amortized cost or using the equity method	—	—	—	1,907,106	1,907,106
Total financial assets	$ 4,009,552	$ 12,317,687	$ 292,012	$ 1,950,508	$ 18,569,759
Financial Liabilities					
Debt	$ —	$ 601,855	$ —	$ 36,083	$ 637,938
Securities sold, not yet purchased	—	—	39,901	—	39,901
Total financial liabilities	$ —	$ 601,855	$ 39,901	$ 36,083	$ 677,839

As part of its pricing procedures, the Company obtains quotes from leading providers of pricing data, and the Company's internal pricing policy is to use consistent sources for individual securities based on security type in order to maintain the integrity of its valuation process. These primary quotes are validated on a quarterly basis via comparison to a secondary pricing source, which may include quotes received from a different third party pricing data provider or recent trade activity obtained from reputable online trading sites. 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 the evaluation or market coverage. In addition, an annual analysis is performed on a sample of securities to further validate the inputs, assumptions, and methodologies used by the primary source to price those securities.

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

All transfers into or out of a particular level are recognized as of the beginning of the reporting period. In 2017, the Company transferred the following securities from Level 2 to Level 3: $18,575 of ABS securities due to a third party pricing service pricing these bonds using unobservable inputs and $5,293 of Corporates as a result of an impairment of a matrix priced security where observable inputs were no longer available. The Company also transferred $19,758 of ABS securities from Level 3 to Level 2. In 2017, a third party pricing service began pricing these bonds using observable

inputs. Previously, these securities were priced by another pricing vendor using unobservable inputs.

In 2016, the Company transferred $1,155 of ABS securities from Level 3 to Level 2 as a third party pricing service priced these securities using observable inputs. Previously, these securities were priced by another vendor using unobservable inputs. In 2016, the Company transferred $8,188 of Corporates from Level 2 to Level 3 as the Company manually priced these securities using unobservable inputs as a result of other-than-temporary impairment (OTTI) recorded. Previously, these securities were priced by another pricing vendor using observable inputs.

There were no other material transfers between levels in 2017 or 2016.

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

2017

	Balance as of January 1, 2017	Total Realized and Unrealized Gains (Losses) included in		Purchases	Sales	Settlements	Net Transfers In and/or (Out) of Level 3	Balance as of December 31, 2017
		Net Income	AOCI on Balance Sheet					
Financial assets								
Bonds, available-for-sale:								
Municipals	$ 17,509	$ —	$ (95)	$ —	$ (375)	$ —	$ —	$ 17,039
Corporates	4,500	(1,779)	(293)	3,750	(8,988)	—	5,293	2,483
RMBS	123,684	1,061	103	1,883,735	(1,892,351)	—	—	116,232
CMBS	—	7	(8)	10,321	(973)	—	—	9,347
ABS	146,319	356	(471)	66,224	(130,732)	—	(1,183)	80,513
Common stocks	—	—	(10)	4	—	—	8	2
Total Level 3 financial assets	$ 292,012	$ (355)	$ (774)	$ 1,964,034	$ (2,033,419)	$ —	$ 4,118	$ 225,616
Financial liabilities								
Securities sold, not yet purchased	$ 39,901	$ 834	$ 30	$ 547,458	$ (583,808)	$ —	$ —	$ 4,415
Total Level 3 financial liabilities	$ 39,901	$ 834	$ 30	$ 547,458	$ (583,808)	$ —	$ —	$ 4,415

2016

	Balance as of January 1, 2016	Total Realized and Unrealized Gains (Losses) included in		Purchases	Sales	Settlements	Net Transfers In and/or (Out) of Level 3	Balance as of December 31, 2016
		Net Income	AOCI on Balance Sheet					
Financial assets								
Bonds, available-for-sale:								
Municipals	$ 17,417	$ —	$ 67	196	$ (171)	$ —	$ —	$ 17,509
Corporates	—	(4,500)	812	—	—	—	8,188	4,500
RMBS	63,040	753	(36)	2,355,285	(2,295,358)	—	—	123,684
CMBS	550	—	—	—	—	—	(550)	—
ABS	93,638	(1,347)	787	160,266	(105,870)	—	(1,155)	146,319
Common stocks	—	—	—	—	—	—	—	—
Total Level 3 financial assets	$ 174,645	$ (5,094)	$ 1,630	$ 2,515,747	$ (2,401,399)	$ —	$ 6,483	$ 292,012
Financial liabilities								
Securities sold, not yet purchased	$ 54,782	$ 1,123	$ (15)	$ 924,488	$ (940,477)	$ —	$ —	$ 39,901
Total Level 3 financial liabilities	$ 54,782	$ 1,123	$ (15)	$ 924,488	$ (940,477)	$ —	$ —	$ 39,901

There was $2,482 and $4,500 in losses included in net income for Level 3 instruments still held as of December 31, 2017 and 2016, respectively.

The following table summarizes quantitative information about significant unobservable inputs used to value Level 3 securities as of December 31:

		Fair Value At 12/31/2017	Valuation Technique	Unobservable Input	Range
Municipals	$	13,928	Cash flow modeling	Spread (Discount Margin)	581 bps (added to UST with similar maturity)
		3,110	Par value	Backed by property tax payments made by the Company	Priced at par
RMBS		2	Cash flow modeling	Spread (Discount Margin)	320
CMBS		9,347	Cash flow modeling	Spread (Discount Margin)	82-220
ABS		80,513	Cash flow modeling	Spread (Discount Margin)	45-300
Significant unobservable inputs not available					
Financial Assets					
Bonds		118,716			
Financial Liabilities					
Securities sold, not yet purchased		(4,415)			
Total inputs not available		114,301			
Total Level 3 Securities	$	221,201			

		Fair Value At 12/31/2016	Valuation Technique	Unobservable Input	Range
Municipals	$	14,024	Cash flow modeling	Spread (Discount Margin)	581 bps (added to UST with similar maturity)
		3,290	Par value	Backed by property tax payments made by the Company	Priced at par
ABS		93,920	Cash flow modeling	Spread (Discount Margin)	80-610
		17,868	Par Value	Backed by property	Priced at Par
Significant unobservable inputs not available					
Financial Assets					
Bonds		162,910			
Financial Liabilities					
Securities sold, not yet purchased		(39,901)			
Total inputs not available		123,009			
Total Level 3 Securities	$	252,111			

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

Policy Loans
Policy loans represent amounts borrowed from the Company by life insurance policyholders, secured by the cash value of the related policies, and are reported at unpaid principal balance. Policy loans have no stated maturity dates and are an integral part of the related insurance contract. The carrying value of policy loans approximates the fair value. The interest rate for policy loans on current issues was 8% in both 2017 and 2016.

Deferred Annuities and Structured Settlements

Fair values for deferred annuities are based on the cash surrender value of the policies. Fair values for structured settlements are based on the present value of expected payments using current crediting interest rates.

Fair Value

The fair values of the Companies' significant financial instruments that are carried on the consolidated balance sheets at a value other than fair value or are not disclosed on the face of the consolidated balance sheets or elsewhere in the notes at December 31 are as follows:

	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Mortgage loans	$ 687,606	$ 700,059	$ 575,213	$ 620,420
Policy loans	196,759	196,759	205,237	205,237
Financial liabilities				
Deferred annuities	269,259	268,335	267,768	266,493
Structured settlements	50,585	59,864	54,994	65,273

b. Common Stocks

The aggregate cost of common stocks at December 31, 2017 and 2016 was $1,656,456 and $1,547,225, respectively. Net unrealized appreciation of common stocks stated at fair value includes gross unrealized gains of $1,008,454 and $894,602 and gross unrealized losses of $18,094 and $17,955 at December 31, 2017 and 2016, 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:

	2017							
	Less than 12 Months			12 Months or More			Total	
	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities:								
Common stocks	226	$123,434	$ (9,159)	354	$ 18,426	$ (8,935)	$141,860	$ (18,094)
Total	226	$123,434	$ (9,159)	354	$ 18,426	$ (8,935)	$141,860	$ (18,094)

	2016							
	Less than 12 Months			12 Months or More			Total	
	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities:								
Common stocks	115	$ 93,676	$ (7,504)	480	$ 45,513	$ (10,451)	$139,189	$ (17,955)
Total	115	$ 93,676	$ (7,504)	480	$ 45,513	$ (10,451)	$139,189	$ (17,955)

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

During 2017 and 2016, the Company recorded OTTI in its stock portfolio, resulting in a total realized loss of $12,284 and $21,430, respectively.

Proceeds from sales of stock during 2017 and 2016 were $1,437,652 and $493,196, respectively. These amounts exclude spin-offs, tax-free exchanges, taxable exchanges and returns of capital. Gross gains of $333,157 and $85,409 and gross losses of $43,441 and $36,552 were realized on those sales during 2017 and 2016, respectively. The basis of the securities sold was determined using specific identification.

The Company made charitable contributions of common stock with a fair value of $10,026 during 2016. As a result of these donations, the Company realized gains of $7,338 during 2016. No such contributions were made during 2017.

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

c. Bonds

The amortized cost and fair value of bonds and short-term investments at December 31 are as follows:

	2017			
Description of Securities:	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. government	$ 1,152,010	$ 1,167	$ (6,403)	$ 1,146,774
Municipals	5,010,659	98,589	(20,085)	5,089,163
Corporates	4,845,631	163,691	(21,103)	4,988,219
RMBS	733,786	7,730	(3,910)	737,606
CMBS	723,148	7,796	(3,443)	727,501
ABS	1,039,390	4,531	(3,180)	1,040,741
Total	$ 13,504,624	$ 283,504	$ (58,124)	$ 13,730,004

	2016			
Description of Securities:	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. government	$ 1,314,687	$ 1,592	$ (19,192)	$ 1,297,087
Municipals	4,945,901	79,796	(56,744)	4,968,953
Corporates	4,617,550	122,137	(44,598)	4,695,089
RMBS	820,710	10,930	(5,752)	825,888
CMBS	653,511	7,596	(6,944)	654,163
ABS	1,017,763	6,041	(5,286)	1,018,518
Total	$ 13,370,122	$ 228,092	$ (138,516)	$ 13,459,698

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

	2017							
	Less than 12 Months			12 Months or More			Total	
	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities:								
U.S. government	62	$ 504,335	$ (2,830)	33	$ 298,270	$ (3,573)	$ 802,605	$ (6,403)
Municipals	447	1,174,384	(7,253)	281	768,520	(12,832)	1,942,904	(20,085)
Corporates	442	1,030,028	(9,335)	169	453,692	(11,768)	1,483,720	(21,103)
RMBS	70	203,701	(1,056)	121	178,785	(2,854)	382,486	(3,910)
CMBS	91	186,070	(1,092)	44	104,530	(2,351)	290,600	(3,443)
ABS	127	534,258	(2,582)	24	62,126	(598)	596,384	(3,180)
Total	1,239	$ 3,632,776	$ (24,148)	672	$ 1,865,923	$ (33,976)	$ 5,498,699	$ (58,124)

	2016							
	Less than 12 Months			12 Months or More			Total	
	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities:								
U.S. government	78	$ 1,129,543	$ (19,191)	1	$ 105	$ (1)	$ 1,129,648	$ (19,192)
Municipals	900	2,509,633	(54,743)	28	102,650	(2,001)	2,612,283	(56,744)
Corporates	563	1,567,448	(36,034)	72	174,325	(8,564)	1,741,773	(44,598)
RMBS	161	423,596	(5,188)	16	20,370	(564)	443,966	(5,752)
CMBS	98	287,818	(5,760)	23	47,094	(1,184)	334,912	(6,944)
ABS	98	552,268	(5,184)	7	13,239	(102)	565,507	(5,286)
Total	1,898	$ 6,470,306	$ (126,100)	147	$ 357,783	$ (12,416)	$ 6,828,089	$ (138,516)

If the Company has the intent to sell or will more likely-than-not be required to sell a 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 loss in the consolidated statements of comprehensive income. If the Company does not have the intent to sell but the fixed income security is in an unrealized loss position, the Company determines if any of the decline in value is due to a credit-related loss (the present value of the expected future cash flows (PVCF) is less than amortized cost). Other-than-temporary, credit-related impairments are recorded in earnings when the PVCF is less than the amortized cost. Any non-credit-related impairments, such as those related to movement in interest rates, are included with unrealized gains and losses in other comprehensive income. The Company believes that all other unrealized losses related to bonds are temporary.

Credit-related OTTI losses recorded on bonds were $2,483 and $14,756 during 2017 and 2016, respectively. No portion of the OTTI loss was included in accumulated other comprehensive income.

In determining OTTI, 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. The Company does not hold any impaired fixed income securities where part of the impairment was considered credit-related and part of the impairment was non-credit-related.

During 2017 and 2016, the Company recorded total OTTI relating to its bond portfolio of $2,483 and $16,771, respectively. These amounts include both credit-related impairments as well as impairments taken due to the intent to sell securities.

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

	December 31, 2017	
	Amortized Cost	Fair Value
Due in one year or less	$ 742,976	$ 744,667
Due after one year through five years	4,552,531	4,592,712
Due after five years through ten years	4,429,151	4,483,318
Due after ten years	1,283,642	1,403,459
Subtotal	11,008,300	11,224,156
Mortgage-backed securities	1,456,934	1,465,107
Asset-backed securities	1,039,390	1,040,741
Total	$ 13,504,624	$ 13,730,004

Proceeds from sales of long-term bonds during 2017 and 2016 were $9,384,785 and $8,889,136 and gross gains of $52,533 and $106,348 and gross losses of $52,736 and $41,049 were realized on those sales during 2017 and 2016, respectively. The basis of the securities sold was determined using specific identification.

At December 31, 2017 and 2016, bonds with a fair value of $56,788 and $57,598, respectively, were on deposit with various regulatory authorities to comply with insurance laws.

d. Other Invested Assets

The Company held $508,861 and $390,887 in limited partnerships accounted for under the cost method and $488,790 and $468,143 in limited partnerships accounted for under the equity method at December 31, 2017 and 2016, respectively. See Note 1(b) for a description of specific accounting practices regarding the cost and equity methods and Note 4 for a description of required future contributions to limited partnerships.

During 2017 and 2016, the Company recorded OTTI in the other invested assets portfolio, resulting in a total realized loss of $8,615 and $3,029, 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.

e. Derivative Instruments

In order to mitigate interest rate risk with respect to the Company's investment portfolio and general operations, the Company has entered into certain interest rate derivatives. All interest rate swap instruments are subject to enforceable master netting agreements and the Company elects to net derivative asset and derivative liability positions with the same counterparty on the consolidated balance sheets. Cash collateral payable (receivable) is recorded net within other assets (liabilities) on the consolidated balance sheets. As a result of an amendment in the Chicago Mercantile Exchange (CME) rulebook in 2017, variation margin payments are now legally characterized as settlements of the derivative position as opposed to collateral and, therefore, are no longer included within cash collateral (received) pledged balances. This amendment also results in the fair value of interest rate swaps being shown net of variation margin in the tables below as of December 31, 2017.

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

	2017					
			Balance Sheet		Statement of Comprehensive Income	
Derivatives designated as:	Notional (Par) Value	Purpose	Classification	Fair Value	Classification	Amount Realized
Non-hedging instruments						
Assets:						
Interest rate swaps	$ —	Manage duration	Other assets	$ —	Net investment income	$ —
Liabilities:						
Interest rate swaps	1,255,000	Manage duration	Other liabilities	(2,374)	Net investment income	(4,991)
Total open positions	$ 1,255,000			$ (2,374)		$ (4,991)
Closed:						
Interest rate swaps	$ 316,200	Manage duration	N/A		Net investment income	$ 254
Total closed positions						$ 254
Total						$ (4,737)

	2016					
			Balance Sheet		Statement of Comprehensive Income	
Derivatives designated as:	Notional (Par) Value	Purpose	Classification	Fair Value	Classification	Amount Realized
Non-hedging instruments						
Assets:						
Interest rate swaps	$ 726,200	Manage duration	Other assets	$ 3,513	Net investment income	$ 9,606
Liabilities:						
Interest rate swaps	—	Manage duration	Other liabilities	—	Net investment income	—
Total open positions	$ 726,200			$ 3,513		$ 9,606
Closed:						
Interest rate swaps	$ 500,000	Manage duration	N/A		Net investment income	$ (22,746)
Total closed positions						$ (22,746)
Total						$ (13,140)

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

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

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

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

Counterparty credit risk is evaluated closely to ensure that the party, or collateral, backing the derivative transaction will meet the financial obligations of the contract. For bilateral over-the-counter interest rate swap transactions, the amount of counterparty exposure depends on the creditworthiness of and collateral provided by the counterparty. The Company actively monitors and evaluates the financial qualifications of counterparties to its swap agreements and requires these counterparties to provide sufficient collateral security through the execution of a legally enforceable Credit Support Annex (CSA). The CSA requires collateral to be exchanged when predetermined exposure limits are exceeded and permits either party to net collateral transfers due for transactions covered under the agreements.

There were no bonds pledged by the Company to counterparties as of December 31, 2017 and 2016. Bonds pledged by the Company as collateral are included in bonds, available-for-sale, on the consolidated balance sheets. There were no bonds pledged by counterparties to the Company as of December 31, 2017 and 2016. Bonds pledged by counterparties to the Company as collateral are not recognized by the Company as assets, as they remain in the custody of the party making the pledge.

There was no cash pledged by the Company to counterparties as of December 31, 2017 and 2016. Counterparties pledged $0 and $680 in cash collateral to the Company as of December 31, 2017 and 2016, respectively. Cash collateral pledged to (by) the Company is recorded net within other assets (liabilities) on the consolidated 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 the CME's requirements. Initial margin, which may consist of cash and/or securities, protects against "shock" events and is not used to settle market value variation movements. After initial execution of the swap contract, the CME uses a market-standard model to price (mark to market) accepted trades, and that price serves as the basis for

variation margin requirements. Similar to the movement of collateral between counterparties in a bilateral agreement, centrally cleared swap contracts require variation margin to be posted (received) by the Company as the market value of the swap contract moves further out of (into) the money. As of December 31, 2017 and 2016, the Company pledged initial margin of $0 and $1,163 in cash and bonds with a fair value of $6,450 and $2,998, respectively, to the CME. In addition, the Company posted $0 in cash as variation margin to the CME as of December 31, 2017 and 2016. The CME posted $138 and $3,827 in cash as variation margin to the Company as of December 31, 2017 and 2016, respectively. Cash pledged as variation margin by (to) the Company is recorded net within other assets (liabilities) on the consolidated balance sheets as previously described. Bonds pledged by the Company as margin are included in bonds, available-for-sale, on the consolidated balance sheets.

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

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

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

f. Net Investment Income

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

	2017	2016
Bonds	$ 417,012	$ 398,879
Common stocks	50,689	55,702
Real estate	49,265	45,258
Mortgage loans	30,574	28,579
Policy loans	14,611	15,189
Limited partnerships and joint ventures	123,340	93,086
Other	2,280	(1,152)
Total gross investment income	687,771	635,541
Change in value of derivatives	(4,737)	(13,140)
Change in fair value of long-term debt	(45,711)	(1,861)
Investment expenses	(114,042)	(99,952)
Net investment income	$ 523,281	$ 520,588

g. Mortgage Loans

The minimum and maximum lending rates for commercial mortgage loans issued during 2017 and 2016 ranged from 3.78% to 5.14% and 3.21% to 5.11%, respectively. During 2017 and 2016, the Company did not reduce interest rates on outstanding mortgage loans.

Mortgage loans of the Company are invested primarily in office, retail and industrial properties and are reported and measured at their outstanding principal amount. Fire and extended coverage insurance is required on all properties. The maximum percentage of any one loan to the value of security at the time of the loan, exclusive of insured or guaranteed or purchase money mortgages did not exceed 69%.

Significant concentrations of mortgage loans amounting to $343,488 exist for properties located in the South region at December 31, 2017, and $129,110 for properties located in the Midwest region at December 31, 2016. In addition, significant concentrations of mortgage loans by state include the following as of December 31:

	2017	2016
Texas	$ 108,269	$ 121,889
California	75,199	58,953
Georgia	71,805	*

*Not a significant concentration for this year

The Company considers any loan that is one or more days delinquent to be past due. At December 31, 2017 and 2016, the Company had no past due commercial mortgage loans, and there were no recorded investments in impaired loans during both 2017 and 2016. As of December 31, 2017 and 2016, all loans in the portfolio were in good standing, and no loans had been modified or restructured.

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

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

The Company had $687,606 and $575,213 of loans outstanding as of December 31, 2017 and 2016, respectively, of which $9,724 and $5,259 were on the watchlist. There were no non-

performing loans held as of December 31, 2017 and 2016. There were no charge-offs recorded in the mortgage loan portfolio in 2017 and 2016.

The Company did not carry a valuation allowance for credit losses on mortgage loans as of December 31, 2017 and 2016.

Commercial mortgage loans are placed on nonaccrual status after a default notice has been issued and the borrower has failed to cure the defect in a reasonable amount of time. Once a loan reaches nonaccrual status any accrued interest income is derecognized and future accrual of interest is suspended until the loan is made current. If the ultimate collectability of principal, either in whole or in part, is in doubt, any payment received on a nonaccrual loan shall first be applied to reduce principal to the extent necessary to eliminate such doubt. There were no loans in nonaccrual status at December 31, 2017 and 2016, and no loans were restructured during 2017 or 2016.

h. Fair Value Option (FVO) of Long-Term Debt

The following table presents information for a liability which is accounted for under the FVO at December 31, 2017 and 2016. This liability consists of the balance of the 30-year fixed rate FHLBC debt which was measured at fair value upon receipt of the advance (see Note 11).

Liabilities:	**2017**	**2016**
Contractual principal balance	$ 500,000	$ 500,000
Difference between estimated fair value and contractual principal balance	147,566	101,855
Carrying value at estimated fair value	$ 647,566	$ 601,855

Changes in fair value of this liability of $45,711 and $1,861 are recognized as a decrease in net investment income for the years ended December 31, 2017 and 2016, respectively.

Fair value for the FHLBC advance is based upon a discounted cash flow analysis using a combination of observable market inputs. Electing the fair value option of this liability better reflects the economic position of the debt instrument due to the prepayment option of the FHLBC advance.

The Company has not elected the FVO for any other debt instrument.

3. Deferred Policy Acquisition Costs

DAC and the related amortization charged to income were as follows:

	2017	2016
Life		
Balance, beginning of year	$ 326,527	$ 325,355
Costs deferred during year	25,726	27,579
Amortization related to operations during year	(13,996)	(17,154)
Net adjustment due to assumption revisions	18,064	(1,100)
Amounts related to change in fair value adjustment of available-for-sale bonds	(11,856)	(8,153)
Balance, end of year	344,465	326,527
Property & Casualty		
Balance, beginning of year	436,952	409,981
Costs deferred during year	1,173,655	1,078,351
Amortization related to operations during year	(1,157,928)	(1,051,380)
Balance, end of year	452,679	436,952
Other		
Balance, end of year	9	9
Total DAC	$ 797,153	$ 763,488

4. Commitments and Contingencies

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

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.

The Company has structured settlements for which the claimant is the payee, but for which the Company is contingently liable. The carrying values of all such structured settlements purchased from nonaffiliated life insurers at December 31, 2017 and 2016 were $56,794 and $55,042, respectively.

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

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

The Company is the defendant in ongoing worker classification class action litigation related to a segment of the Company's past and current exclusive agent population. In the event of a decision in

favor of the plaintiffs, the Company estimates losses ranging between $0 and $75,000 would be incurred. In the Company's judgment, a loss is not probable and, as such, no accrual has been recorded as of December 31, 2017.

The Companies are liable for mandatory assessments that are levied by the property & casualty and life & health guaranty fund associations of states in which the Companies are licensed. These assessments are to cover losses to policyholders of insolvent or rehabilitated insurance companies. Guaranty fund assessment liabilities, as of December 31, 2017 and 2016, were $25,310 and $26,130, respectively. Corresponding assets related to future premium tax credits have also been recorded and were $15,323 and $16,057 as of December 31, 2017 and 2016, respectively. Such estimates are subject to change as the associations determine more precisely the losses that have occurred and how such losses will be allocated to insurance companies.

5. Income Taxes

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

	2017	2016
Deferred tax assets		
Life reserves	$ 58,179	$ 100,783
Unearned premium	84,197	119,116
Reserve discounting, net of salvage and subrogation	30,125	49,875
Deferred compensation	232,171	366,491
Pension accrual	—	59,103
Policyholder dividends	709	3,973
Fair value option of long-term debt	33,465	36,799
Net operating loss carryforward	24,531	3,318
Total deferred tax assets	463,377	739,458
Deferred tax liabilities		
Investments	(299,936)	(374,084)
Deferred policy acquisition costs	(51,361)	(75,991)
Depreciation basis differences	(109,631)	(141,371)
Intangible assets	(31,524)	(54,244)
Valuation allowance	(4,937)	(4,586)
Pension accrual	(19,704)	—
Other	(10,348)	(6,008)
Total deferred tax liabilities	(527,441)	(656,284)
Net deferred tax assets (liabilities)	$ (64,064)	$ 83,174

As of December 31, 2017, the Company has net operating loss carryforwards of $83,302 which will expire at various times through 2037.

On December 22, 2017, the Tax Cuts and Jobs Act (the Act) was enacted into law. As a result, the Company has recognized a tax benefit of $37,369, due to the remeasurement of deferred tax assets and liabilities at lower enacted tax rates.

The effective tax rate used to determine the provision for current and deferred tax expense differs from the expected statutory rate as the result of permanent and other differences between pre-tax income and taxable income determined under existing tax regulations. Significant differences, their effect on the statutory tax rate, and the resulting effective tax rates are summarized as follows:

	2017	2016
Federal statutory tax rate	35.0 %	35.0%
Tax-exempt income, net of proration	(15.2)	(4.9)
Dividend received deduction	(8.3)	(2.9)
State tax expense (net of federal tax)	(0.1)	(0.5)
Change in prior years' tax - return to provision	1.2	(0.7)
Change in enacted rates on deferred taxes	(25.0)	—
Prior year OCI reclassification	7.2	—
Other	0.8	(0.6)
Effective tax rate	(4.4)%	25.4%

Under pre-1984 life insurance company income tax laws, a portion of a company’s gain from operations was not subject to current income taxation but was accumulated for tax purposes in a memorandum account designated as the “Policyholders’ Surplus Account.” A stock life insurance company is subject to tax on any direct or indirect distributions to shareholders from the existing Policyholders’ Surplus Account at the corporate rate in the tax year of the distribution. Historically, the Company did not expect to make any taxable distributions from the Policyholders' Surplus account and, therefore, had not previously recognized a DTL on the consolidated balance sheets.

A provision of the Act imposes a tax on the remaining balance of any existing Policyholders' Surplus Account as of December 31, 2017. Life insurance companies are required to pay tax on the balance of the account ratably over the first eight tax years beginning after December 31, 2017. The Company’s Policyholders’ Surplus Account was $5,149 at December 31, 2017, and the Company recognized a current tax payable in the amount of $1,081 for the tax associated with this Policyholders' Surplus Account in 2017.

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

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

6. Acquisition

On December 14, 2017, the Company acquired 100% of the ownership interest in Networked Insights, Inc. (NI), a data and analytics software company, for $131,696 in total consideration. NI was acquired to increase customer value through use of data, advanced analytics and artificial intelligence.

The transaction was accounted for under the acquisition method using NI historical financial information and applying fair value estimates to the acquired assets and liabilities as of the acquisition date. The excess of the purchase price over the estimated fair value of the assets acquired and liabilities assumed at the acquisition date has been allocated to goodwill and intangible assets. The Company recognized $94,796 of goodwill, which is primarily attributable to an assembled workforce with specialized technical expertise that will enhance the Company's digital transformation efforts.

The following is a summary of the fair values of the tangible and intangible assets acquired and liabilities assumed at the date of acquisition.

	December 31, 2017
Assets	
Cash and cash equivalents	$ 6,146
Intangible assets	12,000
Deferred tax assets	20,800
Property and equipment	980
Other assets	547
Total assets	40,473
Liabilities	
Other liabilities	3,573
Total liabilities	3,573
Total identified net assets acquired	$ 36,900
Goodwill	$ 94,796

The acquired, finite-lived intangible assets of $12,000 are comprised of software and customer relationships and have useful lives of four and three years, respectively. The goodwill will not be deductible for tax purposes.

Acquisition related expenses of $5,778 were incurred during 2017 and are included in other expenses in the consolidated statements of comprehensive income.

7. Goodwill and Intangible Assets

The Company's business acquisitions resulted in the identification of certain intangible assets and goodwill. Intangible assets with finite lives are amortized over their estimated useful lives of one to twelve years. Finite-lived intangible assets have a weighted average remaining useful life of approximately six and seven years at December 31, 2017 and 2016, respectively. Intangible assets with indefinite lives are considered to have an infinite life and will not be amortized, but are evaluated at least annually for impairment. The Company completes an annual test for goodwill impairment during the fourth quarter based on the results of operations through September and concluded that neither goodwill nor intangible assets were impaired in 2017 or 2016.

Goodwill acquired in 2017 was $108,165. Of this amount, $94,796 relates to the acquisition of NI (see Note 6). There was no goodwill acquired in 2016.

The following presents a summary of the Company's goodwill and unamortized intangible assets at December 31:

	2017		2016	
	Gross Balance	**Accumulated Amortization**	**Gross Balance**	**Accumulated Amortization**
Total goodwill	$ 329,792	$ —	$ 221,627	$ —
Trade name and trademarks	25,900	12,950	25,900	10,360
Partner relationships	97,100	21,735	97,100	12,605
Referral relationships	11,100	9,799	11,100	9,391
Software	33,470	23,000	23,000	21,372
Renewal rights	56,500	45,530	56,500	36,524
Other	2,876	—	—	—
Total finite life intangible assets	226,946	113,014	213,600	90,252
State insurance licenses	28,310	—	28,310	—
Total indefinite life intangible assets	28,310	—	28,310	—
Total goodwill and intangible assets	$ 585,048	$ 113,014	$ 463,537	$ 90,252

The Company recorded $22,762 and $24,418 of amortization expense related to intangible assets during the years ended December 31, 2017 and 2016, respectively.

The estimated amortization expense related to intangible assets with a finite life for each of the next five years is as follows:

2018	$ 22,994
2019	22,025
2020	17,477
2021	15,964
2022	12,454
Total	$ 90,914

8. Employee Benefit Plans

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

The Company provides certain health care benefits to substantially all employees and contributes toward eligible employees' postretirement health care using a fixed amount for each year of eligible service. Certain employees may also receive health care benefits upon retirement via conversion of

unused sick days earned prior to 2008. In addition, the Company provides most employees with a life insurance benefit, for which the Company absorbs substantially all of the cost. The Company's portion of the costs of these programs is unfunded. The Company sponsors no other significant postretirement benefit plans and uses a measurement date of December 31 for valuing pension and other postretirement benefit plans (herein referred to as the Plans).

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

	Pension Benefits		Other Benefits	
	2017	**2016**	**2017**	**2016**
Change in benefits obligation				
Projected benefit obligation, beginning of year	$ 1,141,259	$ 1,086,148	$ 59,508	$ 56,092
Service cost	51,079	49,106	3,100	3,049
Interest cost	44,620	44,162	2,309	2,238
Plan participant contributions	—	—	—	—
Amendments	—	—	—	—
Actuarial (gain)/loss	119,165	30,921	3,929	322
Benefits paid	(72,765)	(69,078)	(2,348)	(2,193)
Liability (gain)/loss due to curtailment/settlement	—	—	—	—
Projected benefit obligation, end of year	$ 1,283,358	$ 1,141,259	$ 66,498	$ 59,508

	Pension Benefits		Other Benefits	
	2017	2016	2017	2016
Change in plan assets				
Fair value of plan assets, beginning of year	$ 845,436	$ 768,569	$ —	$ —
Actual return on plan assets	155,350	61,371	—	—
Employer contribution	85,344	84,574	2,348	2,193
Plan participant contributions	—	—	—	—
Benefits paid	(72,765)	(69,078)	(2,348)	(2,193)
Fair value of plan assets, end of year	$ 1,013,365	$ 845,436	$ —	$ —
Net amount recognized	$ (269,993)	$ (295,823)	$ (66,498)	$ (59,508)
Net periodic cost				
Service cost	$ 51,079	$ 49,106	$ 3,100	$ 3,049
Interest cost	44,620	44,162	2,309	2,238
Expected return on plan assets	(52,690)	(52,461)	—	—
Amortization of				
Prior service cost	(6,800)	(6,800)	(1,331)	(1,331)
Actuarial (gain)/loss	22,200	21,056	134	48
Curtailment/settlement expense/(income)	857	1,093	—	—
Net periodic cost	$ 59,266	$ 56,156	$ 4,212	$ 4,004

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 $857 and $1,093 for 2017 and 2016, respectively.

Incremental Effect of Applying Pension and Other Postretirement Guidance On Individual Line Items in the Consolidated Balance Sheets

	Pension Benefits		Other Benefits	
	2017	2016	2017	2016
Liability for benefits	$ 269,993	$ 295,823	$ 66,498	$ 59,508
Deferred income taxes	98,076	106,877	24,156	21,499
Liabilities (net of tax)	$ 171,917	$ 188,946	$ 42,342	$ 38,009
Other comprehensive income/(loss) (net of tax)	$ (157)	$ (4,259)	$ (3,264)	$ (1,025)

Components of Periodic Benefit Cost That Make up Other Comprehensive Income December 31, 2017

	Pension Benefits			Postretirement Benefits		
	Before Tax Amount	**Tax (Expense) or Benefit**	**Net-of-tax Amount**	**Before Tax Amount**	**Tax (Expense) or Benefit**	**Net-of-tax Amount**
Actuarial gain (loss)	$ (16,505)	$ 5,996	$ (10,509)	$ (3,929)	$ 1,427	$ (2,502)
Less: Amortization of actuarial gain (loss)	22,200	(8,064)	14,136	134	(49)	85
Prior service cost	—	—	—	—	—	—
Less: Amortization of prior service cost	(6,800)	2,470	(4,330)	(1,331)	484	(847)
Actuarial gain (loss) recognized due to settlement	—	—	—	—	—	—
Less: Amortization of actuarial gain (loss) due to settlement	857	(311)	546	—	—	—
Prior service cost recognized due to settlement	—	—	—	—	—	—
Less: Amortization of prior service cost due to settlement	—	—	—	—	—	—
Net recognized in other comprehensive income	$ (248)	$ 91	$ (157)	$ (5,126)	$ 1,862	$ (3,264)
Estimated items to be amortized in next year's periodic pension cost from accumulated other comprehensive income						
Amortization of net actuarial loss (gain)	$ 26,304			$ 255		
Amortization of prior service cost (credit)	(6,827)			(1,331)		
Amortization of transition obligation (asset)	—			—		
Total	$ 19,477			$ (1,076)		

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

	Pension Benefits		Postretirement Benefits	
	2017	2016	2017	2016
Assumptions used to determine projected benefit obligations as of December 31:				
Discount rate				
Qualified plans				
Employee Plan	3.55%	4.00%	N/A	N/A
Nonqualified plans				
District Manager Supplementary Plan	3.05%	3.20%	N/A	N/A
District Manager Expense Reimbursement Plan	3.45%	3.80%	N/A	N/A
Employee Excess Plan	3.40%	3.70%	N/A	N/A
District Manager Excess Plan	3.50%	3.90%	N/A	N/A
Combined Benefit Service Plan	3.45%	3.85%	N/A	N/A
Prior Service Plan	3.05%	3.30%	N/A	N/A
Other benefit plans	N/A	N/A	3.50%	3.98%
Expected return on plan assets				
Qualified plans (all plans)	6.25%	6.25%	N/A	N/A
Rate of compensation increase				
Qualified plans				
Employee Plan	3.50%	3.50%	N/A	N/A
Nonqualified plans				
District Manager Supplementary Plan	N/A	N/A	N/A	N/A
District Manager Expense Reimbursement Plan	N/A	N/A	N/A	N/A
Employee Excess Plan	3.50%	3.50%	N/A	N/A
District Manager Excess Plan	N/A	N/A	N/A	N/A
Combined Benefit Service Plan	3.50%	3.50%	N/A	N/A
Prior Service Plan	N/A	N/A	N/A	N/A
Other benefit plans	N/A	N/A	N/A	N/A
Assumptions used to determine net periodic benefit cost as of December 31:				
Discount rate				
Qualified plans				
Employee Plan	4.00%	4.20%	N/A	N/A
Nonqualified plans				
District Manager Supplementary Plan	3.20%	3.30%	N/A	N/A
District Manager Expense Reimbursement Plan	3.80%	3.95%	N/A	N/A
Employee Excess Plan	3.70%	3.90%	N/A	N/A
District Manager Excess Plan	3.90%	4.10%	N/A	N/A
Combined Benefit Service Plan	3.85%	4.10%	N/A	N/A
Prior Service Plan	3.30%	3.40%	N/A	N/A
Other benefit plans	N/A	N/A	3.98%	4.21%
Expected return on plan assets				
Qualified plans (all plans):	6.25%	6.75%	N/A	N/A
Rate of compensation increase				
Qualified plans				
Employee Plan	3.50%	3.50%	N/A	N/A
Nonqualified plans				
District Manager Supplementary Plan	N/A	N/A	N/A	N/A
District Manager Expense Reimbursement Plan	N/A	N/A	N/A	N/A
Employee Excess Plan	3.50%	3.50%	N/A	N/A
District Manager Excess Plan	N/A	N/A	N/A	N/A
Combined Benefit Service Plan	3.50%	3.50%	N/A	N/A
Prior Service Plan	N/A	N/A	N/A	N/A
Other benefit plans	N/A	N/A	N/A	N/A

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

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

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

The target allocation, asset allocation, and fair value of plan assets for the Company's pension plan at the end of 2017 and 2016, by asset category, are as follows:

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

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

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

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

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

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

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

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

Level 1 Measurements

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

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

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

Level 2 Measurements

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

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

Level 3 Measurements

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

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

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

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

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

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

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

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

* 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.

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

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

Other Plans

AFMICSI also sponsors a qualified contributory 401(k) plan (the 401(k) Plan) in which substantially all employees are eligible to participate except for those employees of PGC, Homesite or acquired non-insurance companies. Employees who choose to participate in the 401(k) Plan contribute between 1% and 30% of eligible base compensation, subject to IRS limitations. AFMICSI is required to make contributions each payroll period, as defined, to a trust fund. AFMICSI's contributions are based on a formula with a 100% match on the first 3% of eligible contributions plus 50% on the next 2% of eligible contributions for a maximum annual contribution of 4% of participants' eligible compensation. The Company recognized expense of $22,552 and $19,986 related to the 401(k) Plan in 2017 and 2016, respectively.

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

Homesite sponsors a defined contribution 401(k) plan in which substantially all Homesite employees 21 or older are eligible to participate (Homesite Plan). Under the Homesite Plan, Homesite's matching contribution is equal to 50% of each participant's contribution, subject to a maximum of 5% of the

participant's eligible compensation. Expenses related to the Homesite plan of $7,864 and $5,496 were incurred during 2017 and 2016, respectively.

A liability of $74,039 and $75,311 was accrued for earned but unpaid compensated absences as of December 31, 2017 and 2016, respectively.

9. Agent Contract Termination Payments

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

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

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

	2017	2016
Change in benefits obligation		
Projected benefit obligation, beginning of year	$ 697,175	$ 660,007
Service cost	27,555	26,051
Interest cost	27,718	27,212
Plan participant contributions	—	—
Amendments	—	—
Actuarial (gain) loss	48,306	21,999
Benefits paid	(38,407)	(38,094)
Projected benefit obligation, end of year	$ 762,347	$ 697,175
Change in plan assets		
Fair value of plan assets, beginning of year	$ —	$ —
Actual return on plan assets	—	—
Employer contribution	38,407	38,094
Plan participant contributions	—	—
Benefits paid	(38,407)	(38,094)
Fair value of plan assets, end of year	—	—
Net amount recognized	$ (762,347)	$ (697,175)
Net periodic cost		
Service cost	$ 27,555	$ 26,051
Interest cost	27,718	27,212
Expected return on plan assets	—	—
Amortization of		
Transition (asset) obligation	—	—
Prior service cost	—	—
Actuarial (gain) loss	(228)	(177)
Net periodic cost	$ 55,045	$ 53,086
Accumulated other comprehensive income (loss)	$ (18,692)	$ 29,842

Incremental Effect of Applying Pension and Other Postretirement Guidance On Agent Contract Termination Payment Program Individual Line Items in the Consolidated Balance Sheets

	2017	2016
Liability for benefits	$ 762,347	$ 697,175
Deferred income taxes	276,926	251,880
Liabilities (net of tax)	$ 485,421	$ 445,295
Other comprehensive income/(loss) (net of tax)	$ (30,904)	$ (14,165)

Components of Periodic Benefit Cost That Make up Other Comprehensive Income December 31, 2017

	Agent Contract Termination Payment Program		
	Before Tax Amount	**Tax (Expense) or Benefit**	**Net-of-tax Amount**
Actuarial gain (loss)	$ (48,306)	$ 17,547	$ (30,759)
Less: Amortization of actuarial gain (loss)	(228)	83	(145)
Prior service cost	—	—	—
Less: Amortization of prior service cost	—	—	—
Net transition obligation	—	—	—
Less: Amortization of net transition obligation	—	—	—
Net recognized in other comprehensive income	$ (48,534)	$ 17,630	$ (30,904)
Estimated items to be amortized in next year's periodic pension cost from accumulated other comprehensive income			
Amortization of net actuarial loss (gain)	$ (186)		
Amortization of prior service cost (credit)	—		
Amortization of transition obligation (asset)	—		
Total	$ (186)		

The accumulated benefit obligation at December 31, 2017 and 2016 was $673,635 and $611,120, respectively.

	2017	2016
Assumptions used to determine projected benefit obligation as of December 31:		
Discount rate	3.55%	4.00%
Service fees increase		
AFMICSI		
First 8 years after appointment	21.00%	21.00%
After first 8 years of appointment	3.25%	3.25%
American Standard Insurance Company (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	4.00%	4.30%
Service fees increase		
AFMICSI		
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

*ASIC is a subsidiary of AmFam, Inc. which is a subsidiary of AFMICSI

Expected Cash Flows

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

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

The above table reflects vested balances expected to be paid from the Company’s assets.

10. Property & Casualty Loss and Loss Adjustment Expense Reserve

The Company establishes reserves for losses and loss adjustment expenses on reported and unreported claims of insured losses. Data reviewed in estimating ultimate losses for each coverage include development of paid and incurred losses (gross of salvage and subrogation received), salvage and subrogation received, closed and reported claims and paid and incurred average costs on both an accident-year and accident-quarter basis. Other supplemental reserving methodologies are also considered.

Catastrophe losses are determined on a by-peril basis and are reserved for separately. In addition, large storms with losses greater than $25,000 are examined independently of smaller storm events during the reserving process. Data reviewed in estimating ultimate defense and cost containment (D&CC) expenses include incremental paid D&CC expense per exposure triangulations and cumulative paid D&CC expense triangulations on an accident-year basis.

Ultimate claims are determined by examining development of closed and reported claim triangles. Other supplemental reserving methodologies, such as reported claim triangles per exposure or per premium, and incremental claim emergence, are also considered.

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

	2017	2016
Direct and assumed balances as of January 1	$ 4,085,485	$ 3,772,873
Less reinsurance recoverables on unpaid losses and loss adjustment expenses	42,043	47,584
Net balance as of January 1	4,043,442	3,725,289
Incurred losses and loss adjustment expenses related to		
Current year	6,311,710	5,369,589
Prior years	12,763	(162,177)
Total incurred	6,324,473	5,207,412
Paid losses and loss adjustment expenses related to		
Current year	4,069,385	3,304,526
Prior year	1,963,317	1,584,733
Total paid	6,032,702	4,889,259
Net balance as of December 31	4,335,213	4,043,442
Plus reinsurance recoverables on unpaid losses and loss adjustment expenses	415,749	42,043
Direct and assumed balance as of December 31	$ 4,750,962	$ 4,085,485

Property & casualty loss and loss adjustment expenses incurred were increased by $12,763 and decreased by $162,177 during 2017 and 2016, respectively, attributable to re-estimation of unpaid losses and loss adjustment expenses from insured events of prior years. The lines of business primarily affected were Private Passenger Auto Liability, Commercial Multiple Peril and Other Liability in 2017, and Private Passenger Auto Liability in 2016.

Increases or decreases of this nature occur as the result of claim settlements during the current year, and as additional information is received regarding individual claims, causing changes from the original

estimates of individual claims. Recent loss development trends are also taken into account in evaluating the overall adequacy of unpaid losses and loss adjustment expenses.

Management has reviewed the property & casualty companies' exposure to toxic tort and environmental pollution claims. Reported claim activity levels to date have not been material. The property & casualty companies are predominantly writers of personal lines policies and are not subject to significant exposure from toxic tort and environmental pollution claims.

The following presents information about incurred and paid claims development as of December 31, 2017, net of reinsurance, for significant lines of business. The cumulative number of reported claims is identified by coverage and excludes reported claims for industry pools and facilities where information is not available. The information about incurred and paid claims development for the 2013 to 2016 years, and the average annual percentage payout of incurred claims by age as of December 31, 2017, is unaudited and presented as required supplementary information.

Auto Insurance

	Incurred claims and allocated claim adjustment expenses, net of reinsurance					IBNR reserves plus expected development on reported claims	Cumulative number of reported claims
	For the years ended December 31,						
	(unaudited)	(unaudited)	(unaudited)	(unaudited)			
Accident year	2013	2014	2015	2016	2017	As of December 31, 2017	
2013	$ 2,332,050	$ 2,313,535	$ 2,274,672	$ 2,235,324	$ 2,226,328	$ 189	1,014,386
2014	—	2,385,438	2,313,048	2,256,396	2,244,006	478	1,007,853
2015	—	—	2,458,856	2,463,227	2,437,645	1,287	982,444
2016	—	—	—	2,779,510	2,643,324	4,656	1,041,913
2017	—	—	—	—	3,083,237	56,796	1,192,432
					$12,634,540		

	Cumulative paid claims and allocated claims adjustment expense, net of reinsurance				
	For the years ended December 31,				
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	
Accident year	2013	2014	2015	2016	2017
2013	$ 1,214,680	$ 1,814,377	$ 1,985,475	$ 2,087,463	$ 2,161,573
2014	—	1,397,691	1,835,024	1,995,592	2,106,809
2015	—	—	1,443,814	1,979,074	2,158,996
2016	—	—	—	1,620,262	2,122,183
2017	—	—	—	—	1,818,841
				Total	$10,368,402
All outstanding liabilities before 2013, net of reinsurance					75,009
Liabilities for claims and claim adjustment expenses, net of reinsurance					$ 2,341,147

	Average annual percentage payout of incurred claims by age, net of reinsurance, as of December 31, 2017				
	1 year	2 years	3 years	4 years	5 years
Auto insurance	61.0%	20.2%	7.6%	5.1%	3.3%

Homeowners & Farmowners Insurance

	Incurred claims and allocated claim adjustment expenses, net of reinsurance					IBNR reserves plus expected development on reported claims	Cumulative number of reported claims
	For the years ended December 31,						
	(unaudited)	(unaudited)	(unaudited)	(unaudited)			
Accident year	2013	2014	2015	2016	2017	As of December 31, 2017	
2013	$ 1,029,694	$ 1,002,898	$ 996,157	$ 997,043	$ 997,508	$ 43	159,836
2014	—	1,345,801	1,266,466	1,252,626	1,255,907	116	230,601
2015	—	—	1,281,889	1,267,126	1,256,214	250	199,961
2016	—	—	—	1,483,867	1,477,099	698	213,441
2017	—	—	—	—	1,745,623	13,132	184,541
					$ 6,732,351		

	Cumulative paid claims and allocated claims adjustment expense, net of reinsurance				
	For the years ended December 31,				
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	
Accident year	2013	2014	2015	2016	2017
2013	$ 715,924	$ 922,233	$ 956,848	$ 973,910	$ 981,897
2014	—	990,482	1,193,431	1,217,464	1,228,748
2015	—	—	900,686	1,176,470	1,216,076
2016	—	—	—	1,015,198	1,361,166
2017	—	—	—	—	1,420,389
				Total	$ 6,208,276
All outstanding liabilities before 2013, net of reinsurance					29,949
Liabilities for claims and claim adjustment expenses, net of reinsurance					$ 554,024

	Average annual percentage payout of incurred claims by age, net of reinsurance, as of December 31, 2017				
	1 year	2 years	3 years	4 years	5 years
Homeowners & Farmowners Insurance	75.2%	20.1%	2.3%	1.1%	0.7%

The reconciliation of the net incurred and paid claims development tables above to the reserve for property & casualty loss and loss adjustment expense reserve in the consolidated balance sheets as of December 31, 2017 is as follows:

Net outstanding liabilities:		
Auto insurance	$	2,341,147
Homeowners & Farmowners insurance		554,024
Other insurance		1,030,083
A&O loss adjustment expenses		409,959
Net reserve for property & casualty loss and loss adjustment expense reserve		4,335,213
Reinsurance recoverable:		
Auto insurance		49,810
Homeowners & Farmowners insurance		275,135
Other insurance		65,822
A&O loss adjustment expenses		24,982
Total reinsurance recoverable		415,749
Gross reserve for property & casualty loss and loss adjustment expense reserve	$	4,750,962

11. Debt

The Company holds two debenture obligations issued in 2004 with a stated term of 30 years redeemable after five years and a floating interest rate adjusted quarterly based on the 90-day London Interbank Offered Rate (LIBOR), which was 1.690% at December 31, 2017. The carrying value of $36,083 approximates the fair value as of December 31, 2017 and 2016. Since publicly quoted market prices are not available, fair value for the debentures is based upon a discounted cash flow analysis using a combination of observable and unobservable market inputs. The Company recorded $1,666 and $1,485 in interest expense on the debentures during 2017 and 2016, respectively.

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

The Company executed a one-year fixed rate advance of $130,000 from the FHLBC on December 14, 2017 to finance the purchase of NI. The Company pays monthly interest to the FHLBC at a fixed annual interest rate of 1.95%, and the principal is due in a balloon payment at the end of the advance's 1-year term. The Company paid $0 in interest on the advance during 2017 and accrued interest of $127 as of December 31, 2017.

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

(in thousands of dollars, except share amounts)	2017	2016
Shares outstanding (50-1 stock)	126,000	100,000
Shares outstanding (20-1 stock)	9,151	10,455
Total shares outstanding	135,151	110,455
Membership stock - Class B	$ 2,144	$ 2,114
Activity stock	11,371	8,932
Aggregate total - carrying value	13,515	11,046
Actual or estimated borrowing capacity	648,302	520,910
Total borrowing	630,000	500,000
Remaining borrowing capacity	18,302	20,910
Collateral pledged - fair value	757,831	687,354
Collateral pledged - carrying value	742,475	671,415

Borrowing capacity is calculated as the carrying value of FHLBC stock multiplied by the borrowing capacity of the stock held (e.g., 50-1 or 20-1), less any outstanding advances. The shares in FHLBC stock are considered Class B shares and are recorded in common stocks, available-for-sale in the consolidated balance sheets. Fair value for the Company's FHLBC 30-year fixed-rate advance is disclosed in Note 2(h).

The following presents a summary of the Company's outstanding debt at December 31:

	2017	2016
Debenture obligations, at book value	$ 36,083	$ 36,083
1-year fixed rate advance (FHLBC), at book value	130,000	—
30-year fixed rate advance (FHLBC), at fair value - see Note 2(h)	647,566	601,855
Other	356	—
Debt	$ 814,005	$ 637,938

12. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) at December 31 was comprised of the following components:

	2017	2016
Unrealized gains (losses) on common stocks	$ 990,877	$ 876,008
Unrealized gains (losses) on bonds	225,354	89,580
Unrealized gains (losses) on other assets	1,008	1,008
Adjustment of DAC relating to fair value adjustment	(32,428)	(20,572)
Employee/agent deferred compensation plan adjustment	(299,285)	(245,377)
Deferred income taxes	(302,871)	(254,232)
Accumulated other comprehensive income (loss)	$ 582,655	$ 446,415

13. Separate Accounts

Separate account assets include segregated funds invested by the Company for the benefit of VUL and VA policy owners. Policy owners' premium payments, net of applicable loads, are invested in accordance with selections made by the policy owner into the Variable Accounts. The Company records these payments as assets in the separate accounts. Separate account liabilities represent reserves held related to the separate account business.

The Variable Accounts are unit investment trusts registered under the Investment Company Act of 1940. Each Variable Account has ten subaccounts, each of which invests in a non-proprietary mutual fund (the Fund). The shares of the Funds are carried at the net asset value of the Funds, which approximates fair value.

A fixed account is also included as an investment option for variable policy owners. Premiums, net of applicable loads, allocated to the fixed account are invested in the general assets of the Company.

The assets and liabilities of the Variable Accounts are clearly identified and distinguished from the other assets and liabilities of the Company. The assets of the Variable Accounts will not be applied to the liabilities arising out of any other business conducted by the Company.

The Company assumes the mortality and expense risk associated with these contracts and therefore deducts a daily mortality and expense charge from the assets of the separate accounts. Income from these charges is included in premium revenues in the consolidated statements of comprehensive income, and is 100% ceded to a third party. The charges to the separate accounts, shown as follows for the years ended December 31, are based on the average daily net assets at specified annual rates:

	2017	2016
American Family Variable Account I	$ 841	$ 869
American Family Variable Account II	1,846	1,746
	$ 2,687	$ 2,615

In addition, the Company deducts certain amounts from the cash value of the accounts invested in the separate accounts for surrender charges, annual administrative charges and cost of insurance charges. Income from these charges is included in premium revenues in the consolidated statements of comprehensive income, and is 100% ceded to a third party. For the years ended December 31, amounts are as follows:

	2017	2016
American Family Variable Account I	$ 10,001	$ 10,588
American Family Variable Account II	190	244
	$ 10,191	$ 10,832

14. Statutory Financial Data

The Company's insurance subsidiaries also prepare financial statements in accordance with statutory accounting (STAT) practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin, the Illinois Department of Insurance, the California Department of Insurance, the Office of Insurance and Safety Fire Commissioner of the State of Georgia, the Department of Financial Services of the State of New York, and the Texas Department of Insurance (collectively the Companies' operating National Association of Insurance Commissioners (NAIC) states). Prescribed STAT practices include the NAIC's "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 Companies' operating NAIC states have a right to permit other specific practices that may deviate from prescribed practices. No permitted differences in STAT practices between the Companies' operating NAIC states and the NAIC are used in the preparation of the statutory financial statements. Financial statements prepared in accordance with STAT vary materially from financial statements prepared in conformity with GAAP.

The Company's insurance subsidiaries are subject to regulation and supervision by the various state insurance regulatory authorities in the states in which they conduct business. Such regulation is generally designed to protect policyholders and includes such matters as maintenance of minimum statutory capital and surplus, risk-based capital ratios, and restrictions on the payment of policyholder dividends. Generally, a portion of the Company's insurance subsidiaries' statutory surplus may be available for distribution to shareholders. However, such distributions as dividends may be subject to prior regulatory approval.