American Family Mutual Insurance Company and Subsidiaries

Consolidated Financial Statements
December 31, 2016 and 2015

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Contents
December 31, 2016 and 2015

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Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of American Family Mutual Insurance Company and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, 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 Mutual Insurance Company and Subsidiaries as of December 31, 2016 and 2015, 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 24, 2017

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American Family Mutual Insurance Company and Subsidiaries
Consolidated Balance Sheets
Years Ended December 31, 2016 and 2015
(in thousands of dollars)

	2016	2015
Assets		
Bonds, available-for-sale	$ 13,349,669	$ 12,596,913
Common stocks, available-for-sale	2,423,872	2,138,049
Mortgage loans	575,213	527,179
Real estate	8,269	7,778
Policy loans	205,237	212,987
Cash and cash equivalents	739,184	669,123
Short-term investments	110,029	252,196
Other invested assets	859,030	764,361
Total cash and investments	18,270,503	17,168,586
Property & casualty premiums receivable and agents' balances	1,542,477	1,413,956
Accrued investment income	130,563	128,084
Deferred policy acquisition costs	763,488	735,345
Property and equipment (net of accumulated depreciation of $967,205 and $902,655)	703,190	661,978
Reinsurance recoverable	254,316	263,471
Prepaid reinsurance premium	42,182	56,938
Income tax recoverable	12,388	-
Goodwill	221,627	221,627
Intangible assets	151,658	176,076
Deferred tax assets	83,174	130,187
Other assets	190,331	214,906
Separate account assets	295,743	292,429
Total assets	22,661,640	21,463,583
Liabilities		
Property & casualty loss and loss adjustment expense reserve	4,085,485	3,772,873
Liabilities for life policies and deposit contracts	4,157,412	4,080,261
Property & casualty unearned premiums	3,451,664	3,178,995
Life policyholders' dividends payable	9,281	9,479
Drafts outstanding	73,007	77,502
Income tax payable	-	9,380
Agent contract termination payments	697,175	660,007
Employee pension and other benefits	355,331	373,671
Long-term debt (includes $601,855 and $599,994 at fair value)	637,938	636,077
Accrued expenses	382,484	306,726
Ceded premiums payable	15,967	39,329
Other liabilities	740,196	664,357
Separate account liabilities	295,743	292,429
Total liabilities	14,901,683	14,101,086
Policyholders' Equity		
Retained earnings	7,313,542	6,987,963
Accumulated other comprehensive income (loss)	446,415	374,534
Total policyholders' equity	7,759,957	7,362,497
Total liabilities and policyholders' equity	$ 22,661,640	$ 21,463,583

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

American Family Mutual Insurance Company and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2016 and 2015
(in thousands of dollars)

	2016	2015
Revenues		
Property & casualty premiums earned	$ 7,601,888	$ 7,020,172
Life insurance premiums, fees and other considerations	427,510	306,752
Net investment income	520,588	562,410
Net impairment losses recognized in earnings	(41,295)	(76,748)
Other realized capital gains (losses)	144,590	294,743
Other income	175,524	178,733
Total revenues	8,828,805	8,286,062
Benefits and expenses		
Property & casualty losses and loss adjustment expenses incurred	5,207,412	4,453,707
Life insurance claims and other benefits	293,023	189,091
Life insurance dividends to policyholders	17,957	17,535
Change in future life policy benefits	111,923	98,628
Other property & casualty underwriting expenses	2,514,353	2,340,544
Other expenses	247,953	172,425
Total benefits and expenses	8,392,621	7,271,930
Income (loss) before income tax expense (benefit)	436,184	1,014,132
Income tax expense (benefit)		
Current	104,954	259,491
Deferred	5,651	60,721
Total income tax expense (benefit)	110,605	320,212
Net income (loss)	325,579	693,920
Other comprehensive income (loss)		
Changes in unrealized gains and losses on securities (net of tax of $34,791 and ($280,672) and deferred policy acquisition cost adjustments of $8,153 and ($31,435) in 2016 and 2015, respectively)	122,832	(120,631)
Less: reclassification adjustment for net gains (losses) included in other realized capital gain (loss) (net of tax of $17,572 and $106,228 in 2016 and 2015, respectively)	31,502	185,598
Changes in defined benefit obligations (net of tax of ($11,001) and $5,531 in 2016 and 2015, respectively)	(19,449)	9,698
Other comprehensive income (loss)	71,881	(296,531)
Comprehensive income (loss)	$ 397,460	$ 397,389

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

American Family Mutual Insurance Company and Subsidiaries
Consolidated Statements of Changes in Policyholders' Equity
Years Ended December 31, 2016 and 2015
(in thousands of dollars)

	2016	2015
Retained earnings		
Balance at beginning of year	$6,987,963	$6,294,043
Net income (loss)	325,579	693,920
Balance at end of year	7,313,542	6,987,963
Accumulated other comprehensive income (loss)		
Net unrealized gain (loss) on investments		
Balance at beginning of year	519,405	845,838
Change in unrealized gains (losses) on common stocks, bonds, and other assets	151,846	(512,109)
Income tax benefit (expense)	(55,267)	185,676
Balance at end of year	615,984	519,405
Net unrealized gain (loss) on deferred acquisition costs		
Balance at beginning of year	(7,981)	(28,185)
Change in period, net of income tax (expense) benefit	(5,249)	20,204
Balance at end of year	(13,230)	(7,981)
Change in pension and other post-retirement benefit obligations		
Balance at beginning of year	(136,890)	(146,588)
Change in period, net of income tax (expense) benefit	(19,449)	9,698
Balance at end of year	(156,339)	(136,890)
Total accumulated other comprehensive income (loss)	446,415	374,534
Total policyholders' equity	$7,759,957	$7,362,497

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

American Family Mutual Insurance Company and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015
(in thousands of dollars)

	2016	2015
Cash flows from operating activities		
Net income (loss)	$ 325,579	$ 693,920
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation, amortization and other noncash items	227,924	214,562
Fair value option of long-term debt	1,861	(24,027)
Net realized (gains) losses on sales of property and equipment	16,828	3,197
Net realized (gains) losses on sales of investments	(103,866)	(217,995)
Change in value of derivatives	13,140	21,917
Earnings of equity method investments	(34,201)	(50,307)
Change in unearned premiums	259,332	262,161
Change in deferred policy acquisition costs	(36,298)	(59,239)
Change in deferred income tax provision	(4,688)	66,394
Change in insurance reserves	417,121	171,231
Other changes in operating assets and liabilities	(45,977)	(145,691)
Net cash provided by (used in) operating activities	1,036,755	936,123
Cash flows from investing activities		
Proceeds from sales, maturities or calls of bonds	10,015,353	9,058,934
Purchases of bonds	(10,820,056)	(9,522,086)
Proceeds from sales of common stocks	512,400	868,378
Purchases of common stocks	(568,090)	(836,358)
Proceeds from collections on mortgage loans	136,190	112,718
Purchases of mortgage loans	(184,270)	(156,541)
Proceeds from sales of other investments	1,106,315	1,826,669
Purchases of other investments	(1,203,904)	(1,941,638)
Net purchases and sales of short-term investments	147,196	(65,641)
Net (increase) decrease in finance receivables	407	1,122
Net purchases and sales of property and equipment	(111,050)	(129,663)
Other investing activities	8,465	5,938
Net cash provided by (used in) investing activities	(961,044)	(778,168)
Cash flows from financing activities		
Deposits to investments-type and universal life contracts	77,475	80,440
Withdrawals from investment-type and universal life contracts	(83,125)	(92,100)
Net cash provided by (used in) financing activities	(5,650)	(11,660)
Net change in cash and cash equivalents	70,061	146,295
Cash and cash equivalents		
Beginning of year	669,123	522,828
End of year	$ 739,184	$ 669,123
Income taxes paid (received)	$ 121,918	$ 317,334
Interest paid (received)	27,553	27,303

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

1. Nature of Operations and Significant Accounting Policies

American Family Mutual Insurance Company (AFMIC) and its wholly-owned subsidiaries 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, depending on the product and the state of business. AFMIC and its consolidated subsidiaries are herein referred to collectively as the “Companies” or the “Company”.

AFMIC’s agency sales distribution channel sells primarily personal lines and commercial products predominantly through an exclusive agency force in AFMIC’s nineteen state operating territory.

Agents also sell life insurance products which are underwritten by the Company’s subsidiary, American Family Life Insurance Company (AFLIC), including term, whole and universal life insurance policies. AFLIC cedes 100% of its variable universal life (VUL) and variable annuity (VA) business, which AFLIC no longer sells, under a 100% reinsurance agreement with a third party.

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

Property & casualty insurance represented 95% and 96% of total net premiums written for 2016 and 2015, respectively. Life insurance represented 5% and 4% of total net premiums written for 2016 and 2015, 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 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 activities are 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 recorded as bonds, available-for-sale in the consolidated balance sheets. Purchase and sale activities of these long positions are recorded to 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 included as securities sold, not yet purchased within other liabilities in the consolidated balance sheets. Purchase and sale activities of these short sale positions are 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 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, are 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 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 $11,435 and $10,095 at December 31, 2016 and 2015, 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-duration and long-duration contracts. With the exception of short-duration contracts written by PGC, anticipated investment income is considered as part of the evaluation. A premium deficiency reserve of $25,603 was recorded as of December 31, 2016 as part of the annual actuarial review of the long-term care business (see Note 1i for further information on the long-term care business recapture). The Company reported no net premium deficiency reserves as of December 31, 2015 after taking into account reinsurance cessions and related deferred policy acquisition cost eliminations.

Term life and whole life insurance premiums are generally recognized as premium income when received. Revenue from supplemental contracts with life contingencies is recognized at the time of issue. 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. Premium income is recorded net of premiums due 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, including health insurance, 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 charged to income as incurred.

Reinsurance recoveries are recorded as a reduction of losses and loss adjustment expenses in accordance with contract terms.

(in thousands of dollars)

The liability for gross long-term care claims has been discounted on a tabular basis using morbidity from the 1982 through 1994 National Long-term Care Surveys and 1985 National Nursing Home Surveys at 4.5%. The liabilities include $12,525 and $8,276 of such discounted reserves at December 31, 2016 and 2015, respectively. Previous to January 1, 2016, the companies' long-term care business was 100% ceded to Ability Insurance Company, a nonaffiliated company (see Note 1i).

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 Company 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 and are based on the 1958, 1980 or 2001 CSO table. The interest rate on current issues is 4.0% in both 2016 and 2015. Interest rates on all other issues are between 2.5% and 5.0% in both 2016 and 2015.

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:

	2016		2015	
Insurance-type liabilities				
Traditional whole life	$ 2,478,281	59.6 %	$ 2,410,668	59.1 %
Traditional term life	467,724	11.3	456,077	11.2
Payout annuities	46,701	1.1	49,362	1.2
Other insurance reserves	9,068	0.2	8,549	0.2
Deposit-type liabilities				
Universal life	494,181	11.9	490,132	12.0
Deferred annuities	267,768	6.4	264,784	6.5
Dividend accumulations	237,720	5.7	238,939	5.9
Structured settlements	41,169	1.0	44,827	1.1
Variable universal life	15,277	0.4	14,419	0.4
Variable annuities	13,833	0.3	12,671	0.3
Supplemental contracts without life contingencies, retained assets and premium deposits	85,690	2.1	89,833	2.1
Total liabilities for life policies and deposit contracts	$ 4,157,412	100.0 %	$ 4,080,261	100.0 %

h. Life Policyholders Dividends Payable

Approximately 98.4% 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 2016 and 2015 were $149,119 and $163,008, respectively. Gross written premiums ceded during 2016 and 2015 were $134,825 and $136,795, respectively. Unearned premiums ceded under reinsurance contracts were $42,685 and $56,979 at December 31, 2016 and 2015, respectively. Loss and loss adjustment expenses ceded under reinsurance contracts were $44,081 and $107,480 for the years ended December 31, 2016 and 2015, respectively.

Life reinsurance premiums ceded were $75,500 (exclusive of the ($105,320) recaptured as described below) and $78,287 in 2016 and 2015, respectively. Life reserves ceded under reinsurance contracts were $214,339 and $204,023 at December 31, 2016 and 2015, respectively. Reinsurance commissions and expense allowances were $24,066 and $23,576 in 2016 and 2015, respectively. Life and accident & health insurance benefits on ceded claims were $33,841 and $41,835 in 2016 and 2015, respectively.

Effective July 1, 2010, AFLIC 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 market value of assets received over GAAP reserve valuations at the point of recapture. The recapture was treated was treated a noncash 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 mainly outside the Companies' existing geographic operating territory in order to diversify the Companies' risk. Property & casualty earned premiums assumed under reinsurance contracts under this program during 2016 and 2015 were $143,178 and $118,339, respectively. Written premiums assumed during 2016 and 2015 were $163,926 and $129,041, respectively.

(in thousands of dollars)

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

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. 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, 2016 and 2015.

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:

	2016			2015		
	Gross Cost	Accumulated Depreciation	Net	Gross Cost	Accumulated Depreciation	Net
Property occupied by the Company	$ 489,078	$ (246,418)	$ 242,660	$ 470,512	$ (231,611)	$ 238,901
Furniture and equipment	212,371	(142,916)	69,455	221,787	(137,412)	84,375
Computer software and equipment	968,946	(577,871)	391,075	872,334	(533,632)	338,702
	$ 1,670,395	$ (967,205)	$ 703,190	$ 1,564,633	$ (902,655)	$ 661,978

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 assets over their estimated useful lives. Indefinite-lived intangible assets are not subject to amortization.

(in thousands of dollars)

The Company at least annually evaluates the remaining useful lives of its intangible assets with a finite life 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 an impairment may have occurred.

See Note 6 for more information on intangible assets.

n. Leases

The Company leases various office equipment and real estate under various noncancelable operating lease agreements with various expiration dates through 2021 and thereafter. Lease expense for 2016 and 2015 was $40,579 and $38,095, respectively.

As of December 31, 2016, the minimum aggregate lease commitments were as follows:

Year ending December 31		Operating Leases
2017	$	32,340
2018		31,589
2019		21,668
2020		13,458
2021 and thereafter		34,577
Total	$	133,632

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

Transition to Equity Method Accounting

In March 2016, the FASB issued amendments which eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment balance, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. Per the amendments, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. The amendments also require that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Early adoption is permitted. The new guidance will principally affect the future accounting for investments that qualify for the equity method of accounting after application of the cost method of accounting. The Company adopted this guidance as of and for the period ending December 31, 2016. The adoption of this guidance did not have a significant impact on the Company's financial position, results of operations, and cash flows.

q. Future 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 guidance is effective retrospectively for non-public entities for accounting reporting periods beginning after December 15, 2016, with early adoption permitted. The Company will adopt this guidance on January 1, 2017. Except for the disclosure requirements, the Company does not expect the adoption of this guidance to have a material impact on the Company's consolidated financial statements.

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 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, results of operations, and cash flows.

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. The expense of operating leases under the new guidance will be recognized in the income statement on a straight-line basis after combining the lease expense components (interest expense on the lease liability and amortization of the right-of-use asset) over the term of the lease. For finance leases, the expense components will be computed separately thereby producing greater up-front expense as interest expense on the lease liability is higher in early years and the right-of-use asset is amortized on a straight-line basis. Lease classification will be based on criteria similar to those currently applied. The accounting model for lessors will be similar to the current model with modifications to reflect definition changes for components such as initial direct costs. 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. The guidance 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, results of operations, and cash flows.

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, results of operations, and cash flows.

r. Statements of Cash Flows

Noncash investing activities include $30,376 and $85,993 of both acquisitions and disposals of common stock in 2016 and 2015, respectively, $249,658 and $180,723 of acquisitions and $256,065 and $182,999 of disposals of bonds in 2016 and 2015, respectively, and net acquisitions of short-term investments of $6,523 and $2,276 in 2016 and 2015, respectively. See Note 2(b) for charitable contributions of common stock which represents additional noncash investing activities. See Note 1(i) regarding additional noncash transactions in relation to the recapture of the long-term care line of business.

s. Reclassifications and Revisions

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.

In 2016, the Company corrected an error related to the classification of the Company's TBAs by revising the 2015 consolidated financial statements. The effect of this correction, which the Company deems immaterial, resulted in reclassifications of $63,038 from other assets to bonds, available-for-sale on the 2015 consolidated balance sheet and $1,534,961 from proceeds from sales of other investments to proceeds from sales, maturities or calls of bonds and $1,534,158 from purchases of other investments to purchases of bonds on the 2015 consolidated statement of cash flows. Various reclassifications and revisions were also performed within the notes to the consolidated financial statements as a result of these corrections (see Note 2).

t. Subsequent Events

The Company has evaluated events subsequent to December 31, 2016 through February 24, 2017, the date these financial statements were available to be issued. Except for the matter described in the next paragraph, no events have occurred subsequent to December 31, 2016 that require disclosure or adjustment to the financial statements at that date or for the year then ended.

Effective January 1, 2017 (the effective date), The Company reorganized its corporate structure (the reorganization). As part of the reorganization, the Company created American Family Insurance Mutual Holding Company, which owns 100% of American Family Holdings (Holdings), an entity created on the effective date. Holdings owns 100% of American Family Mutual Company, S.I., the stock insurer into which AFMIC was converted. The Company does not expect the reorganization to have a material impact on the Company's consolidated financial statements.

2. Financial Instruments

a. Fair Value of Financial Instruments

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

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

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

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

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

Level 1 Measurements

Bonds: *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 valued based on unadjusted quoted prices for identical assets in active markets.

Level 2 Measurements

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

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

Corporates, including privately placed: These securities are principally valued using the market and income approaches. Valued 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.

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.

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.

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.

<u>Common Stocks</u>: Comprised of shares in Federal Home Loan Bank of Chicago (FHLBC) stock as discussed in Note 10. While not actively traded, the valuation for the FHLBC investment is perpetually quoted at $100 by the FHLBC.

<u>Cash Equivalents</u>: 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.

<u>Short-term Investments</u>: 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.

<u>Derivative Instruments</u>: 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.

Long-term 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:

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.

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

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 are 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.

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.

(in thousands of dollars)

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

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					
Long-term debt	$ -	$ 601,855	$ -	$ 36,083	$ 637,938
Derivative liabilities	-	-	-	-	-
Securities sold, not yet purchased	-	-	39,901	-	39,901
Total financial liabilities	$ -	$ 601,855	$ 39,901	$ 36,083	$ 677,839

2015

	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, 2015
Financial assets					
Bonds, available-for-sale:					
U.S. government	$ 703,882	$ 47,920	$ -	$ -	$ 751,802
Municipals	-	4,975,332	17,417	-	4,992,749
Corporates	-	4,533,745	-	-	4,533,745
RMBS	-	778,193	63,040	-	841,233
CMBS	-	613,727	550	-	614,277
ABS	-	769,469	93,638	-	863,107
Common stocks, available-for-sale	2,097,976	12,025	-	28,048	2,138,049
Cash equivalents	448,110	-	-	-	448,110
Short-term investments	208,309	43,887	-	-	252,196
Derivative assets		333	-	-	333
Separate account assets		292,429	-	-	292,429
Total recurring basis assets	3,458,277	12,067,060	174,645	28,048	15,728,030
Valued at cost, amortized cost or using the equity method	-	-	-	1,733,318	1,733,318
Total financial assets	$ 3,458,277	$ 12,067,060	$ 174,645	$ 1,761,366	$ 17,461,348
Financial Liabilities					
Long-term debt	$ -	$ 599,994	$ -	$ 36,083	$ 636,077
Derivative liabilities	-	1,785	-	-	1,785
Securities sold, not yet purchased	-	-	54,782	-	54,782
Total financial liabilities	$ -	$ 601,779	$ 54,782	$ 36,083	$ 692,644

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 pricing services that specialize in difficult-to-value securities to price esoteric or illiquid securities. Material discrepancies between the primary and secondary sources are investigated, reconciled and updated as warranted. This may involve challenging a price from the primary source if the Company determines the price provided does not meet expectations based on observed market, sector, or security trends and activity.

On an annual basis the Company reviews quality control measures and data assumptions from its pricing sources to determine if any significant changes have occurred that may indicate issues or concerns regarding 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 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 corporate securities from Level 2 to Level 3 as the Company manually priced these securities using unobservable inputs as a result of other-than-temporary impairment recorded. Previously, these securities were priced by another pricing vendor using observable inputs.

In 2015, the Company transferred $8,139 of ABS securities from Level 2 to Level 3 as a third party pricing service began pricing these bonds using unobservable inputs. The Company also transferred $4,886 of corporate securities and $25,273 of ABS securities from Level 3 to Level 2. In 2015, a third party pricing service began pricing these bonds using observable inputs. Previously, these securities were priced by another pricing vendor using unobservable inputs.

There were no other material transfers between levels in 2016 or 2015.

(in thousands of dollars)

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

2016

		Total Realized and Unrealized Gains (Losses) included in						
	Balance as of January 1, 2016	Net Income	AOCI on Balance Sheet	Purchases	Sales	Settlements	Net Transfers In and/or (Out) of Level 3	Balance as of December 31, 2016
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
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

2015

		Total Realized and Unrealized Gains (Losses) included in						
	Balance as of January 1, 2015	Net Income	AOCI on Balance Sheet	Purchases	Sales	Settlements	Net Transfers In and/or (Out) of Level 3	Balance as of December 31, 2015
Financial assets								
Bonds, available-for-sale:								
Municipals	$ 19,191	$ 101	$ 92	$ -	$ (1,881)	$ (86)	$ -	$ 17,417
Corporates	9,748	37	101	-	(4,990)	(10)	(4,886)	-
RMBS	2	713	10	1,633,986	(1,571,671)	-	-	63,040
CMBS	287	-	-	550	(287)	-	-	550
ABS	73,083	(276)	(391)	109,372	(51,833)	(19,183)	(17,134)	93,638
Total Level 3 financial assets	$ 102,311	$ 575	$ (188)	$ 1,743,908	$ (1,630,662)	$ (19,279)	$ (22,020)	$ 174,645
Financial liabilities								
Securities sold, not yet purchased	$ -	$ 118	$ (8)	$ 1,689,554	$ (1,634,882)	$ -	$ -	$ 54,782
Total Level 3 financial liabilities	$ -	$ 118	$ (8)	$ 1,689,554	$ (1,634,882)	$ -	$ -	$ 54,782

There was $4,500 and $0 in losses included in net income for Level 3 instruments still held as of December 31, 2016 and 2015, respectively.

(in thousands of dollars)

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

	Fair Value at 12/31/2016	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			

	Fair Value at 12/31/2015	Valuation Technique	Unobservable Input	Range
Municipals	$ 13,957	Cash flow modeling	Spread (Discount margin)	581 bps (added to UST with similar maturity)
	3,460	Par value	Backed by property tax payments made by the Company	Priced at par
Corporates	82,250	Cash flow modeling	Spread (Discount margin) Conditional prepayment rate Severity	70-610 20 30 - 70
	8,245	Par value	Backed by property	Priced at par
Significant unobservable inputs not available				
Financial Assets				
Bonds	66,733			
Financial Liabilities				
Securities sold, not yet purchased	(54,782)			
Total inputs not available	11,951			
Total Level 3 Securities	$ 119,863			

Mortgage Loans
The fair value of mortgage loans 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 2016 and 2015.

(in thousands of dollars)

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:

	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Mortgage loans	$ 575,213	$ 620,420	$ 527,179	$ 544,706
Policy loans	205,237	205,237	212,987	212,987
Financial liabilities				
Deferred annuities	267,768	266,493	264,784	263,115
Structured settlements	54,994	65,273	58,693	70,060

b. Common Stocks

The aggregate cost of common stocks at December 31, 2016 and 2015 was $1,547,225 and $1,458,255, respectively. Net unrealized appreciation of common stocks stated at fair value includes gross unrealized gains of $894,602 and $713,843 and gross unrealized losses of $17,955 and $34,049 at December 31, 2016 and 2015, 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:

	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)

	2015							
	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	492	$ 210,091	$ (27,068)	282	$ 21,364	$ (6,981)	$ 231,455	$ (34,049)
Total	492	$ 210,091	$ (27,068)	282	$ 21,364	$ (6,981)	$ 231,455	$ (34,049)

The Company believes that declines in fair value related to these stocks are temporary. In determining whether the 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.

(in thousands of dollars)

During 2016 and 2015, the Company recorded other-than-temporary impairments (OTTI) relating to its common stock portfolio of $21,430 and $14,820, respectively.

Proceeds from sales of stock during 2016 and 2015 were $493,196 and $824,068, respectively. These amounts exclude spin-offs, tax-free exchanges, taxable exchanges and returns of capital. Gross gains of $85,409 and $193,610 and gross losses of $36,552 and $56,385 were realized on those sales during 2016 and 2015, 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 and $36,272 during 2016 and 2015, respectively. As a result of these donations, the Company realized gains of $7,338 and $29,707 during 2016 and 2015, respectively.

The Company's common stock portfolios are primarily invested in large, mid, and small cap stocks which are managed to their respective indices. A portion of the large cap portfolio is weighted toward dividend paying stocks within the Russell 3000 Index. 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:

	2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Description of Securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 1,314,687	$ 1,592	$ (19,192)	$ 1,297,087
Obligations of states and political subdivisions	4,945,901	79,796	(56,744)	4,968,953
Corporate	4,617,550	122,137	(44,598)	4,695,089
Residential mortgage-backed securities	820,710	10,930	(5,752)	825,888
Commercial mortgage-backed securities	653,511	7,596	(6,944)	654,163
Asset-backed securities	1,017,763	6,041	(5,286)	1,018,518
Total	$ 13,370,122	$ 228,092	$ (138,516)	$ 13,459,698

	2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Description of Securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 968,881	$ 1,852	$ (5,620)	$ 965,113
Obligations of states and political subdivisions	4,885,182	136,201	(6,778)	5,014,605
Corporate	4,553,818	99,126	(104,440)	4,548,504
Residential mortgage-backed securities	829,423	16,218	(4,409)	841,232
Commercial mortgage-backed securities	615,393	7,332	(8,448)	614,277
Asset-backed securities	862,591	7,954	(5,167)	865,378
Total	$ 12,715,288	$ 268,683	$ (134,862)	$ 12,849,109

(in thousands of dollars)

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:

	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. Treasury securities and obligations of U.S. government corporations and agencies	78	$ 1,129,543	$ (19,191)	1	$ 105	$ (1)	$ 1,129,648	$ (19,192)
Obligations of states and political subdivisions	900	2,509,633	(54,743)	28	102,650	(2,001)	2,612,283	(56,744)
Corporate	563	1,567,448	(36,034)	72	174,325	(8,564)	1,741,773	(44,598)
Residential mortgage-backed securities	161	423,596	(5,188)	16	20,370	(564)	443,966	(5,752)
Commercial mortgage-backed securities	98	287,818	(5,760)	23	47,094	(1,184)	334,912	(6,944)
Asset-backed securities	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)

	2015							
	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. Treasury securities and obligations of U.S. government corporations and agencies	71	$ 668,149	$ (4,364)	7	$ 67,011	$ (1,256)	$ 735,160	$ (5,620)
Obligations of states and political subdivisions	301	894,565	(5,572)	46	187,003	(1,206)	1,081,568	(6,778)
Corporate	732	1,998,277	(74,487)	102	230,819	(29,953)	2,229,096	(104,440)
Residential mortgage-backed securities	100	265,757	(1,932)	30	82,949	(2,477)	348,706	(4,409)
Commercial mortgage-backed securities	136	402,799	(8,372)	6	8,865	(76)	411,664	(8,448)
Asset-backed securities	194	621,823	(4,861)	13	22,684	(306)	644,507	(5,167)
Total	1,534	$ 4,851,370	$ (99,588)	204	$ 599,331	$ (35,274)	$ 5,450,701	$ (134,862)

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 $14,756 and $39,091 during 2016 and 2015, 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 credits. 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.

(in thousands of dollars)

During 2016 and 2015, the Company recorded total OTTI relating to its bond portfolio of $16,771 and $44,278, 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, 2016 by contractual maturity are shown as follows. Expected maturities may differ from contractual maturities because borrowers may exercise the right to call or prepay obligations with or without penalties. Because most mortgage-backed and asset-backed securities provide for periodic payments throughout their lives, they are listed in a separate category as follows:

	December 31, 2016	
	Amortized Cost	Fair Value
Due in one year or less	$ 737,856	$ 740,809
Due after one year through five years	4,807,166	4,852,640
Due after five years through ten years	4,123,129	4,093,900
Due after ten years	1,209,987	1,273,780
Subtotal	10,878,138	10,961,129
Mortgage-backed securities	1,474,221	1,480,051
Asset-backed securities	1,017,763	1,018,518
Total	$ 13,370,122	$ 13,459,698

Proceeds from sales of long-term bonds during 2016 and 2015 were $8,889,136 and $7,860,885, respectively. Gross gains of $106,348 and $157,771 and gross losses of $41,049 and $46,817 were realized on those sales during 2016 and 2015, respectively. The basis of the securities sold was determined using specific identification.

At December 31, 2016 and 2015, bonds with a fair value of $57,598 and $66,548, respectively, were on deposit with various regulatory authorities to comply with insurance laws.

d. Other Invested Assets

The Company held $390,887 and $327,150 in limited partnerships accounted for under the cost method and $468,143 and $437,211 in limited partnerships accounted for under the equity method at December 31, 2016 and 2015, 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 2016 and 2015, the Company recorded OTTI in the other invested assets portfolio, resulting in a total realized loss of $3,029 and $15,264, 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.

(in thousands of dollars)

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.

Derivative instruments as of December 31, 2016 and 2015 are as follows:

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)

2015

			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	$ 20,000	Manage duration	Other assets	$ 333	Net investment income	$ (2,708)
Liabilities:						
Interest rate swaps	1,066,200	Manage duration	Other liabilities	(1,785)	Net investment income	7,378
Total open positions	$1,086,200			$ (1,452)		$ 4,670
Closed:						
Interest rate swaps	$ 871,300	Manage duration	N/A		Net investment income	$ (27,200)
Total closed positions						$ (27,200)
Total						$ (22,530)

(in thousands of dollars)

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

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)

2015						
					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	$ 7,504	$ (7,171)	$ -	$ 333	$ -	$ 333
Liabilities	(8,956)	7,171	332	(1,453)	918	(535)
Total	$ (1,452)	$ -	$ 332	$ (1,120)	$ 918	$ (202)

Collateral pledged as initial margin to the Chicago Mercantile Exchange (CME) is not subject to a master netting agreement and is therefore excluded from collateral (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. As of December 31, 2016 and 2015, the Company pledged bonds with a fair value of $0 and $918, respectively, as collateral to counterparties. 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, 2016 and 2015. The Company pledged cash of $0 and $240 as collateral to counterparties and counterparties pledged $680 and $0 in cash collateral to the Company as of December 31, 2016 and 2015, 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, 2016 and 2015, the Company pledged initial margin of $1,163 and $849 in cash and bonds with a fair value of $2,998 and $5,432, respectively, to the CME. In addition, the Company pledged $0 and $93 in cash as variation margin to the CME as of December 31, 2016 and 2015, respectively. The CME posted $3,827 and $0 in cash as variation margin to the Company as of December 31, 2016 and 2015, 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.

(in thousands of dollars)

Counterparty credit exposure by counterparty credit rating as it relates to open derivative positions as of December 31, 2016 and 2015, is as follows:

	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	$ -

	2015			
Rating	**Number of Counterparties**	**Notional (Par) Value**	**Credit Exposure**	**Exposure, Net of Collateral**
Centrally cleared	1	$ 991,200	$ -	$ -
A+	1	60,000	-	-
A	1	20,000	333	333
A-	1	15,000	-	-
Total	4	$ 1,086,200	$ 333	$ 333

f. Net Investment Income

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

	2016	**2015**
Bonds	$ 398,879	$ 397,166
Common stocks	55,702	58,459
Real estate	45,258	44,378
Mortgage loans	28,579	28,088
Policy loans	15,189	15,521
Limited partnerships and joint ventures	93,086	107,247
Other	(1,152)	(79)
Total gross investment income	635,541	650,780
Change in value of derivatives	(13,140)	(21,917)
Change in fair value of long-term debt	(1,861)	24,027
Investment expenses	(99,952)	(90,480)
Net investment income	$ 520,588	$ 562,410

(in thousands of dollars)

g. Mortgage Loans

The minimum and maximum lending rates for commercial mortgage loans issued during 2016 and 2015 ranged from 3.21% to 5.11% and 3.25% to 5.80%, respectively. During 2016 and 2015, the Company did not reduce interest rates on any 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 $129,110 and $193,184 exist for properties located in the Midwest region at December 31, 2016 and 2015, respectively. In addition, significant concentrations of mortgage loans by state include the following as of December 31:

	2016	2015
Texas	$ 121,889	$ 125,485
California	58,953	*
Ohio	*	74,505

*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, 2016 and 2015, the Company had no past due commercial mortgage loans, and the average recorded investment in impaired loans was $0 during both 2016 and 2015. As of December 31, 2016 and 2015, 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.

(in thousands of dollars)

The Company had $575,213 and $527,179 of loans outstanding as of December 31, 2016 and 2015, respectively, of which $5,259 and $17,150 were on the watchlist. There were no non-performing loans held as of December 31, 2016 and 2015. There were no charge-offs recorded in the mortgage loan portfolio in 2016 and 2015.

The Company did not carry a valuation allowance for credit losses on mortgage loans as of December 31, 2016 and 2015.

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, 2016 and 2015 and no loans were restructured during 2016 or 2015.

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

The following table presents information for certain liabilities which are accounted for under the FVO at December 31, 2016 and 2015. These liabilities are comprised of the entire balance of the FHLBC long-term debt which was measured at fair value upon receipt of the advance (see Note 10)**.**

Liabilities:	**2016**	**2015**
Contractual principal balance	$ 500,000	$ 500,000
Difference between estimated fair value and contractual principal balance	101,855	99,994
Carrying value at estimated fair value	$ 601,855	$ 599,994

Changes in fair value of these liabilities of $1,861 and ($24,027) are recognized as a decrease (increase) in net investment income for the years ended December 31, 2016 and 2015, respectively.

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

The Company has not elected the FVO for the long-term debt associated with PGC (see Note 10).

(in thousands of dollars)

3. Deferred Policy Acquisition Costs

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

	2016	2015
Property & Casualty		
Balance, beginning of year	$ 409,981	$ 358,775
Costs deferred during year	1,078,351	1,080,875
Amortization related to operations during year	(1,051,380)	(1,029,669)
Balance, end of year	436,952	409,981
Life		
Balance, beginning of year	325,355	285,887
Costs deferred during year	27,579	24,406
Amortization related to operations during year	(17,154)	(15,672)
Net adjustment due to assumption revisions	(1,100)	(701)
Amounts related to change in fair value adjustment of available-for-sale bonds	(8,153)	31,435
Balance, end of year	326,527	325,355
Other		
Balance, end of year	9	9
Total DAC	$ 763,488	$ 735,345

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.

AFMIC has purchased annuities for which the claimant is the payee, but for which AFMIC is contingently liable. The carrying values of all such annuities purchased from nonaffiliated life insurers at December 31, 2016 and 2015 were $55,042 and $56,163, respectively.

AFMIC 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, AFMIC will have commitments to the partnerships that have not yet been funded. As of December 31, 2016 and 2015, AFMIC was obligated to contribute $581,012 and $435,983, respectively, in additional capital to various limited partnerships. These contributions are callable under the commitments to the partnerships over the lives of the partnerships.

(in thousands of dollars)

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' financial statements.

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, 2016 and 2015, were $26,130 and $25,123, respectively. Corresponding assets related to future premium tax credits have also been recorded and were $16,057 and $15,744 as of December 31, 2016 and 2015, respectively. Such estimates are subject to change as the associations determine more precisely the losses that have occurred and how such losses will be assessed to insurance companies.

5. Income Taxes

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

	2016	2015
Deferred tax assets		
Life reserves	$ 100,783	$ 104,768
Unearned premium	119,116	89,929
Reserve discounting, net of salvage and subrogation	49,875	50,885
Deferred compensation	366,491	333,163
Pension accrual	59,103	66,462
Policyholder dividends	3,973	3,694
Fair value option of long term debt	36,799	36,318
Net operating loss carryforward	3,318	4,444
Other	-	738
Total deferred tax assets	739,458	690,401
Deferred tax liabilities		
Investments	(374,084)	(309,276)
Deferred policy acquisition costs	(75,991)	(62,965)
Depreciation basis differences	(141,371)	(125,820)
Intangible assets	(54,244)	(62,153)
Valuation allowance	(4,586)	-
Other	(6,008)	-
Total deferred tax liabilities	(656,284)	(560,214)
Net deferred tax assets (liabilities)	$ 83,174	$ 130,187

As of December 31, 2016, the Company has net operating loss carryforwards of $6,473 which will expire at various times through 2036.

(in thousands of dollars)

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. The more significant differences, their effect on the statutory tax rate, and the resulting effective tax rates are summarized as follows:

	2016	**2015**
Federal statutory tax rate	35.0 %	35.0 %
Tax-exempt income, net of proration	(4.9)	(2.3)
Dividend received deduction	(2.9)	(1.2)
State tax expense (net of federal tax)	(0.5)	0.8
Change in prior year's taxes	(0.7)	(0.5)
Other	(0.6)	(0.2)
Effective tax rate	25.4 %	31.6 %

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. Any distributions are deemed to be first made from another tax memorandum account known as the "Shareholder's Surplus Account." The Company's undistributed taxable Shareholder's Surplus Account was $1,425,499 and $1,371,216 at December 31, 2016 and 2015, respectively. The Company's Policyholders' Surplus Account was $5,149 at December 31, 2016 and 2015. At current corporate income tax rates, the associated tax is $1,802. The Company has not recorded this DTL because it does not expect to make any taxable distributions.

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 separate operating expense. The total amount of interest accrued was $831 and $441 as of December 31, 2016 and 2015, respectively, in relation to uncertain tax positions. The Company does not expect to have a significant change in unrecognized tax benefits in the next twelve months.

The examinations of the Company's consolidated federal income tax returns for the years 2011 and prior are closed, and the years 2012 through 2015 remain open under the IRS statute of limitations. The examinations of the Homesite and Subsidiaries' federal income tax return (filed separately until 2014) for the years 2012 and prior are closed, and the year 2013 remains open under the IRS statute of limitations. Homesite and its subsidiaries are currently under federal audit for tax year 2013.

(in thousands of dollars)

6. Goodwill and Intangible Assets

The Company's previous 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 seven and eight years at December 31, 2016 and 2015, respectively. Intangible assets with indefinite lives 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. There were no indications of goodwill or intangible asset impairment in 2016 or 2015. The following presents a summary of the Company's goodwill and intangible assets at December 31:

	2016		2015	
	Gross Balance	Accumulated Amortization	Gross Balance	Accumulated Amortization
Total goodwill	$ 221,627	$ -	$ 221,627	$ -
Trade name and trademarks	25,900	10,360	25,900	7,770
Partner relationships	97,100	12,605	97,100	5,354
Referral relationships	11,100	9,391	11,100	8,972
Software	23,000	21,372	23,000	19,744
Renewal rights	56,500	36,524	56,500	23,994
Value of business acquired	52,350	52,350	52,350	52,350
Total finite life intangible assets	265,950	142,602	265,950	118,184
State insurance licenses	28,310	-	28,310	-
Total indefinite life intangible assets	28,310	-	28,310	-
Total goodwill and intangible assets	$ 515,887	$ 142,602	$ 515,887	$ 118,184

The Company recorded $24,418 and $33,258 of amortization expense related to intangible assets during the years ended December 31, 2016 and 2015, respectively.

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

2017	$ 22,761
2018	19,594
2019	18,800
2020	14,252
2021	13,639
Total	$ 89,046

(in thousands of dollars)

7. Employee Benefit Plans

The Company has a non-contributory qualified pension plan (herein referred to as the Plan) covering substantially all employees except for those employees of PGC or Homesite. For AFMIC employees hired before January 1, 2009, and Agency Sales Managers hired before January 1, 2010, 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 Agency Sales Managers 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 2016 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 2016 given the funded status of the Plan.

Prior to December 31, 2015 the Company maintained two qualified pension plans. These two plans merged as of December 31, 2015, and the merger did not impact the valuation of the Plan's net assets or benefit obligation.

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	
	2016	2015	2016	2015
Change in benefits obligation				
Projected benefit obligation, beginning of year	$ 1,086,148	$ 1,070,535	$ 56,092	$ 55,707
Service cost	49,106	48,956	3,049	3,336
Interest cost	44,162	40,242	2,238	2,097
Plan participant contributions	-	-	-	-
Amendments	-	-	-	-
Actuarial (gain)/loss	30,921	(13,401)	322	(2,864)
Benefits paid	(69,078)	(60,184)	(2,193)	(2,184)
Liability (gain)/loss due to curtailment/settlement	-	-	-	-
Projected benefit obligation, end of year	$ 1,141,259	$ 1,086,148	$ 59,508	$ 56,092

(in thousands of dollars)

	Pension Benefits		Other Benefits	
	2016	2015	2016	2015
Change in plan assets				
Fair value of plan assets, beginning of year	$ 768,569	$ 749,341	$ -	$ -
Actual return on plan assets	61,371	(3,225)	-	-
Employer contribution	84,574	82,637	2,193	2,184
Plan participant contributions	-	-	-	-
Benefits paid	(69,078)	(60,184)	(2,193)	(2,184)
Fair value of plan assets, end of year	$ 845,436	$ 768,569	$ -	$ -
Net amount recognized	$ (295,823)	$ (317,579)	$ (59,508)	$ (56,092)
Net periodic cost				
Service cost	$ 49,106	$ 48,956	$ 3,049	$ 3,336
Interest cost	44,162	40,242	2,238	2,097
Expected return on plan assets	(52,461)	(48,636)	-	-
Amortization of				
Prior service cost	(6,800)	(6,789)	(1,331)	(1,331)
Actuarial (gain)/loss	21,056	22,762	48	111
Curtailment/settlement expense/(income)	1,093	837	-	-
Net periodic cost	$ 56,156	$ 57,371	$ 4,004	$ 4,213

The Company recognized additional pension expenses in connection with settlement accounting, which resulted from lump sum distributions exceeding service and interest cost during the year, of $1,093 and $837 for 2016 and 2015, respectively.

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

	Pension Benefits		Other Benefits	
	2016	2015	2016	2015
Liability for benefits	$ 295,823	$ 317,579	$ 59,508	$ 56,092
Deferred income taxes	106,877	115,345	21,499	20,373
Liabilities (net of tax)	$ 188,946	$ 202,234	$ 38,009	$ 35,719
Accumulated other comprehensive income (loss) (net of tax)	$ (4,259)	$ (13,786)	$ (1,025)	$ 1,047

(in thousands of dollars)

Components of Periodic Benefit Cost
That Make up Other Comprehensive Income
December 31, 2016

	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)	$ (22,018)	$ 7,955	$ (14,063)	$ (322)	$ 116	$ (206)
Less: Amortization of actuarial gain (loss)	21,056	(7,607)	13,449	48	(17)	31
Prior service cost	-	-	-	-	-	-
Less: Amortization of prior service cost	(6,800)	2,457	(4,343)	(1,331)	481	(850)
Actuarial gain (loss) recognized due to settlement	-	-	-	-	-	-
Less: Amortization of actuarial gain (loss) due to settlement	1,093	(395)	698	-	-	-
Prior service cost recognized due to settlement	-	-	-	-	-	-
Less: Amortization of prior service cost due to settlement	-	-	-	-	-	-
Net recognized in other comprehensive income	$ (6,669)	$ 2,410	$ (4,259)	$ (1,605)	$ 580	$ (1,025)
Estimated items to be amortized in next year's periodic pension cost from accumulated other comprehensive income						
Amortization of net actuarial loss (gain)	$ 20,418			$ 130		
Amortization of prior service cost (credit)	(6,800)			(1,331)		
Amortization of transition obligation (asset)	-			-		
Total	$ 13,618			$ (1,201)		

The pension accumulated benefit obligation at December 31, 2016 and 2015 was $979,174 and $922,003 respectively.

(in thousands of dollars)

	Pension Benefits		Postretirement Benefits	
	2016	**2015**	**2016**	**2015**
Assumptions used to determine projected benefit obligations 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
Assumptions used to determine net periodic benefit cost as of December 31:				
Discount rate:				
Qualified plans				
Employee Plan	4.20 %	3.85 %	N/A	N/A
Nonqualified plans				
District Manager Supplementary Plan	3.30	3.10	N/A	N/A
District Manager Expense Reimbursement Plan	3.95	3.60	N/A	N/A
Employee Excess Plan	3.90	3.30	N/A	N/A
District Manager Excess Plan	4.10	3.80	N/A	N/A
Combined Benefit Service Plan	4.10	3.75	N/A	N/A
Prior Service Plan	3.40	3.20	N/A	N/A
Other benefit plans	N/A	N/A	4.21 %	4.10 %
Expected return on plan assets:				
Qualified plans (all plans):	6.75 %	6.75 %	N/A	N/A
Rate of compensation increase:				
Qualified plans				
Employee Plan	3.50 %	3.25 %	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	3.25	N/A	N/A
District Manager Excess Plan	N/A	N/A	N/A	N/A
Combined Benefit Service Plan	3.50	3.25	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

(in thousands of dollars)

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 was assumed to be 7.25% (Pre-65) for both 2016 and 2015, and 7.75% and 6.75% (Post-65) for 2016 and 2015, respectively. Rates will gradually decrease to 5.00% by 2022.

The expected long-term rate of return on the funded plan assets was 6.75% in both 2016 and 2015. 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 environment as of the measurement date and then add a risk premium. The risk premium is a range of percentages and is based upon information and other factors such as expected reinvestment returns and asset manager performance. Finally, an underlying inflation assumption is incorporated to determine the overall expected long-term rate of return assumption. The target allocation, asset allocation, and fair value of plan assets for the Company's pension plan at the end of 2016 and 2015, by asset category, follow.

	Target Allocation		Percentage of Plan Assets, Year End		Fair Value of Plan Assets, Year End	
Asset Category	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Equity	55 %	55 %	59 %	56 %	$ 497,733	$ 423,811
Debt	40	40	36	38	302,656	292,819
Private equity	5	5	4	5	30,479	37,303
Cash equivalents	-	-	1	1	7,791	7,963
Total	100 %	100 %	100 %	100 %	$ 838,659	$ 761,896

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 38% and 36% of Plan assets at December 31, 2016 and 2015, 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 21% and 20% of Plan assets at December 31, 2016 and 2015, 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% and 34% of Plan assets at year-end 2016 and 2015, respectively. The Plan's bond allocation also includes an investment in a multi-sector fixed income value fund, representing 5% and 4% of Plan assets at year-end 2016 and 2015, 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 4% and 5% of Plan assets at year-end 2016 and 2015, 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

Equity Securities: *Mutual 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.

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.

Level 3 Measurements

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

(in thousands of dollars)

The following table summarizes the Plan's financial assets measured at fair value on a recurring basis as of December 31, 2016 and 2015:

	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
Mutual funds	-	320,435	-	320,435
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

	Assets at fair value as of December 31, 2015			
	Level 1	Level 2	Level 3	Total
Financial assets				
Bonds				
U.S government securities	$ 58,455	$ -	$ -	$ 58,455
Corporate bonds and notes	-	173,103	-	173,103
Municipal bonds	-	799	-	799
Foreign bonds	-	24,278	-	24,278
Equity securities				
Common stocks	188,330	-	-	188,330
Mutual funds	-	271,665	-	271,665
Short-term investments	7,963	-	-	7,963
Limited partnerships*	-	-	37,303	37,303
Total financial assets at fair value	$ 254,748	$ 469,845	$ 37,303	$ 761,896

* 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 2016 or 2015.

(in thousands of dollars)

The table below sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the year ended December 31, 2016 and 2015:

	Limited Partnerships	
	2016	2015
Balance, beginning of year*	$ 37,303	$ 49,090
Purchases, sales, issuance and settlements, net	(6,824)	(11,787)
Balance, end of year*	$ 30,479	$ 37,303

* 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		
2017 (expected)	$ 3,867 - 604,968	$ 3,489
Expected benefit payments		
2017	85,317	3,489
2018	88,003	3,841
2019	88,300	4,088
2020	91,978	4,247
2021	96,478	4,455
2022 - 2026	483,835	25,443

The above table reflects vested benefits expected to be paid from the Plans.

Expected contributions include qualified pension benefits contributions within the range of $0 (minimum contribution) and $601,101 (maximum contribution) and postretirement contribution of $3,489 expected to be paid from the Companies' assets in 2016.

Other Plans

AFMIC also participates in a qualified contributory 401(k) plan (herein referred to as the 401(k) Plan). Substantially all employees of AFMIC are eligible to enter into the 401(k) Plan. Employee participation in the 401(k) Plan is optional; participants contribute at least 1%, but no more than 30% of base compensation, subject to Internal Revenue Service limitations. AFMIC is required to make contributions each payroll period, as defined, to a trust fund. These contributions are based on a formula with a 100% match on the first 3% of eligible contributions plus 50% on the next 2% of eligible contributions. The maximum annual contribution of AFMIC is 4% of eligible contributions. AFMIC recognized expense of $19,986 and $18,514 related to the 401(k) Plan in 2016 and 2015, respectively.

PGC sponsors a defined contribution 401(k) plan for 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 $1,924 and $948 were incurred during 2016 and 2015, respectively.

Homesite sponsors a defined contribution 401(k) plan for which substantially all Homesite employees 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 $5,496 and $4,271 were incurred during 2016 and 2015, respectively.

A liability of $75,311 and $70,112 was accrued for earned but unpaid compensated absences as of December 31, 2016 and 2015, respectively.

8. 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.

(in thousands of dollars)

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

	2016	2015
Change in benefits obligation		
Projected benefit obligation, beginning of year	$ 660,007	$ 675,164
Service cost	26,051	28,396
Interest cost	27,212	26,034
Plan participant contributions	-	-
Amendments	-	-
Actuarial (gain) loss	21,999	(35,406)
Benefits paid	(38,094)	(34,181)
Projected benefit obligation, end of year	$ 697,175	$ 660,007
Change in plan assets		
Fair value of plan assets, beginning of year	$ -	$ -
Actual return on plan assets	-	-
Employer contribution	38,094	34,181
Plan participant contributions	-	-
Benefits paid	(38,094)	(34,181)
Fair value of plan assets, end of year	$ -	$ -
Net amount recognized	$ (697,175)	$ (660,007)
Net periodic cost		
Service cost	$ 26,051	$ 28,396
Interest cost	27,212	26,034
Expected return on plan assets	-	-
Amortization of		
Transition (asset) obligation	-	-
Prior service cost	-	-
Actuarial (gain) loss	(177)	(170)
Net periodic cost	$ 53,086	$ 54,260
Accumulated other comprehensive income (loss)	$ 29,842	$ 52,018

(in thousands of dollars)

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

	2016	2015
Liability for benefits	$ 697,175	$ 660,007
Deferred income taxes	251,880	239,715
Liabilities (net of tax)	$ 445,295	$ 420,292
Other comprehensive income/(loss) net of tax	$ (14,165)	$ 22,437

**Components of Periodic Benefit Cost
That Make up Other Comprehensive Income
December 31, 2016**

	Agent Contract Termination Payment Program		
	Before Tax Amount	**Tax (Expense) or Benefit**	**Net-of-tax Amount**
Actuarial gain (loss)	$ (21,999)	$ 7,948	$ (14,051)
Less: Amortization of actuarial gain (loss)	(177)	63	(114)
Prior service cost	-	-	-
Less: Amortization of prior service cost	-	-	-
Net transition obligation	-	-	-
Less: Amortization of net transition obligation	-	-	-
Net recognized in other comprehensive income	$ (22,176)	$ 8,011	$ (14,165)

Estimated items to be amortized in next year's periodic pension cost from accumulated other comprehensive income	
Amortization of net actuarial loss (gain)	$ (153)
Amortization of prior service cost (credit)	-
Amortization of transition obligation (asset)	-
Total	$ (153)

(in thousands of dollars)

The accumulated benefit obligation at December 31, 2016 and 2015 was $611,120 and $570,739, respectively.

	2016	2015
Assumptions used to determine projected benefit obligation as of December 31:		
Discount rate	4.00 %	4.30 %
Service fees increase		
AFMIC		
First 8 years after appointment	21.00	21.00
After first 8 years of appointment	3.25	3.25
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	4.30 %	3.95 %
Service fees increase		
AFMIC		
First 8 years after appointment	21.00	21.00
After first 8 years of appointment	3.25	3.25
ASIC		
First 6 years after appointment	8.00	8.00
After first 6 years of appointment	(4.00)	(4.00)
Expected return on plan assets	N/A	N/A

*ASIC is a subsidiary of AmFam, Inc which is a subsidiary of AFMIC

Expected Cash Flows

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

Expected contract termination payments	
2017	$ 38,816
2018	40,224
2019	43,989
2020	46,937
2021	49,481
2022-2026	267,223

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

(in thousands of dollars)

9. Property & Casualty Loss and Loss Adjustment Expense Reserve

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

	2016	2015
Direct and assumed balances as of January 1	$ 3,772,873	$ 3,725,441
Less reinsurance recoverables on unpaid losses and loss adjustment expenses	47,584	99,938
Net balance as of January 1	3,725,289	3,625,503
Incurred losses and loss adjustment expenses related to		
Current year	5,369,589	4,756,738
Prior years	(162,177)	(303,031)
Total incurred	5,207,412	4,453,707
Paid losses and loss adjustment expenses related to		
Current year	3,304,526	2,980,970
Prior year	1,584,733	1,372,951
Total paid	4,889,259	4,353,921
Net balance as of December 31	4,043,442	3,725,289
Plus reinsurance recoverables on unpaid losses and loss adjustment expenses	42,043	47,584
Direct and assumed balance as of December 31	$ 4,085,485	$ 3,772,873

The estimated cost of loss and loss adjustment expenses attributable to insured events of prior years decreased by $162,177 and $303,031 during 2016 and 2015, respectively. The decreases in 2016 and 2015 are the result of re-estimation of unpaid losses and loss adjustment expenses. The line of business primarily affected in 2016 was Private Passenger Auto Liability. The lines of business primarily affected in 2015 were Private Passenger Auto Liability and Homeowners/Farmowners.

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 Companies' exposure to toxic tort and environmental pollution claims. Reported claim activity levels to date have not been material. The Companies are predominantly a personal lines writer and are not subject to significant exposure from toxic tort and environmental pollution claims.

10. Long-Term Debt

In December 2004, PGC invested in two separate trust subsidiaries by purchasing common stock totaling $1,083 from the trusts and then completed two private placements of trust-preferred securities through its newly formed trust subsidiaries. Both placements have a stated term of 30 years redeemable after five years and have a floating interest rate adjusted quarterly based on the 90-day London Interbank Offered Rate (LIBOR), which was 0.998% at December 31, 2016. The trust subsidiaries used the proceeds to acquire $36,083 of long-term subordinated debentures from PGC. The terms of the debentures issued by PGC are identical to the terms of the trust preferred securities issued by the trust subsidiaries. Two supplemental indentures were executed in connection with the acquisition of PGC that resulted in the assumption of the debenture obligations by AmFam, Inc., a subsidiary of AFMIC.

The Company's debentures are reported at the carrying value of $36,083 which approximates fair value, as of December 31, 2016 and 2015. The Company recorded $1,485 and $1,347 in interest expense on the debentures during 2016 and 2015, 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 $26,027 and $25,956 in interest on the advance during 2016 and 2015, respectively, and recorded accrued interest of $2,204 at both December 31, 2016 and 2015.

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

(in thousands of dollars, except share amounts)	**2016**	**2015**
Shares outstanding (50-1 stock)	100,000	100,000
Shares outstanding (20-1 stock)	10,455	20,251
Total shares outstanding	110,455	120,251
Membership stock - Class B	$ 2,114	$ 6,874
Activity stock	8,932	5,151
Aggregate total - carrying value	11,046	12,025
Actual or estimated borrowing capacity	520,910	540,502
Total borrowing	500,000	500,000
Remaining borrowing capacity	20,910	40,502
Collateral pledged - fair value	687,354	703,413
Collateral pledged - carrying value	671,415	686,183

Borrowing capacity is calculated as the book 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 advance is disclosed in Note 2(h).

(in thousands of dollars)

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

	2016	2015
Subordinated debentures (PGC), at book value	$ 36,083	$ 36,083
30-year fixed rate advance (FHLBC), at fair value - see Note 2h	601,855	599,994
Long-term debt	$ 637,938	$ 636,077

11. Accumulated Other Comprehensive Income (Loss)

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

	2016	2015
Unrealized gains (losses) on common stocks	$ 876,008	$ 679,931
Unrealized gains (losses) on bonds	89,580	133,811
Unrealized gains (losses) on other assets	1,008	1,008
Adjustment of DAC relating to fair value adjustment	(20,572)	(12,419)
Employee/agent deferred compensation plan adjustment	(245,377)	(214,927)
Deferred income taxes	(254,232)	(212,870)
Accumulated other comprehensive income (loss)	$ 446,415	$ 374,534

12. 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 by the Company 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:

(in thousands of dollars)

	2016	2015
American Family Variable Account I	$ 869	$ 1,015
American Family Variable Account II	1,746	1,931
	$ 2,615	$ 2,946

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:

	2016	2015
American Family Variable Account I	$ 10,588	$ 11,395
American Family Variable Account II	244	300
	$ 10,832	$ 11,695

13. 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 Ohio Department of Insurance, 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 NAIC states). Prescribed STAT practices include the National Association of Insurance Commissioners' (NAIC) "*Accounting Practices and Procedures Manual*," state laws, regulations, and general administrative rules applicable to all insurance enterprises domiciled in a particular state. In addition, the 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 financials statements prepared in conformity with GAAP. Consolidated net income, determined in accordance with STAT, was $197,733 and $594,461 for the years ended December 31, 2016 and 2015, respectively. Consolidated capital and surplus, determined in accordance with STAT, was $6,866,975 and $6,503,090 as of December 31, 2016 and 2015, respectively.

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 policyholders. However, such distributions as dividends may be subject to prior regulatory approval. The Company accrued $888 and $521 in workers' compensation policyholder dividends in 2016 and 2015, respectively.