American Family Mutual Insurance Company and Subsidiaries

Consolidated Financial Statements
December 31, 2015 and 2014

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

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

We have audited the accompanying consolidated financial statements of American Family Mutual Insurance Company and Subsidiaries (the "Companies"), which comprise the consolidated balance sheets as of December 31, 2015 and 2014, 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.

Auditor's 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 Companies' preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Companies' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2015 and December 31, 2014, 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 29, 2016

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American Family Mutual Insurance Company and Subsidiaries
Consolidated Balance Sheets
December 31, 2015 and 2014

(in thousands of dollars)	2015	2014
Assets		
Bonds, available-for-sale	$ 12,533,875	$ 12,414,275
Common stocks, available-for-sale	2,138,049	2,208,948
Mortgage loans	527,179	483,404
Real estate	7,778	6,892
Policy loans	212,987	218,498
Cash and cash equivalents	669,123	522,828
Short-term investments	252,196	166,072
Other invested assets	764,361	663,525
Total cash and investments	17,105,548	16,684,442
Property and casualty premiums receivable and agents' balances	1,413,956	1,284,187
Accrued investment income	128,084	127,367
Deferred policy acquisition costs	735,345	644,671
Property and equipment (net of accumulated depreciation of $902,655 and $838,358)	661,978	595,389
Reinsurance recoverable	263,471	272,136
Prepaid reinsurance premium	56,938	83,722
Goodwill	221,627	221,627
Intangible assets	176,076	209,334
Deferred tax assets	130,187	21,994
Other assets	277,944	89,123
Separate account assets	292,429	318,096
Total assets	$ 21,463,583	$ 20,552,088

	2015	2014
Liabilities		
Property and casualty loss and loss adjustment expense reserve	$ 3,772,873	$ 3,725,441
Liabilities for life policies and deposit contracts	4,080,261	4,008,620
Property and casualty unearned premiums	3,178,995	2,922,530
Life policyholders' dividends payable	9,479	9,678
Drafts outstanding	77,502	87,053
Income tax payable	9,380	68,968
Agent contract termination payments	660,007	675,164
Employee pension and other benefits	373,671	376,901
Long-term debt (includes $599,994 and $624,021 at fair value, respectively)	636,077	660,104
Accrued expenses	306,726	314,137
Ceded premiums payable	39,329	92,101
Other liabilities	664,357	328,187
Separate account liabilities	292,429	318,096
Total liabilities	14,101,086	13,586,980
Policyholders' Equity		
Retained earnings	6,987,963	6,294,043
Accumulated other comprehensive income (loss)	374,534	671,065
Total policyholders' equity	7,362,497	6,965,108
Total liabilities and policyholders' equity	$ 21,463,583	$ 20,552,088

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, 2015 and 2014

(in thousands of dollars)	2015	2014
Revenues		
Property and casualty premiums earned	$ 7,020,172	$ 6,563,709
Life insurance premiums, fees and other considerations	306,752	308,190
Net investment income	562,410	376,829
Net impairment losses recognized in earnings	(76,748)	(17,106)
Other realized capital gain (loss)	294,743	558,480
Other income	178,733	142,664
Total revenues	8,286,062	7,932,766
Benefits and expenses		
Property and casualty losses and loss adjustment expenses incurred	4,453,707	4,610,965
Life insurance claims and other benefits	189,091	177,559
Life insurance dividends to policyholders	17,535	21,825
Change in future life policy benefits	98,628	101,438
Other property and casualty underwriting expenses	2,340,544	2,111,889
Other expenses	172,425	164,392
Total benefits and expenses	7,271,930	7,188,068
Income (loss) before income tax expense (benefit)	1,014,132	744,698
Income tax expense (benefit)		
Current	259,491	206,271
Deferred	60,721	23,233
Total income tax expense (benefit)	320,212	229,504
Net income (loss)	693,920	515,194
Other comprehensive income (loss)		
Changes in unrealized gains and losses on securities (net of tax of ($280,672) and $175,643 and deferred policy acquisition cost adjustments of ($31,435) and $15,497 in 2015 and 2014, respectively)	(120,631)	310,144
Less: reclassification adjustment for net gains (losses) included in other realized capital gain (loss) (net of tax of $106,228 and $160,412 in 2015 and 2014, respectively)	185,598	281,915
Changes in defined benefit obligations (net of tax of $5,531 and $(90,914) in 2015 and 2014, respectively)	9,698	(156,282)
Other comprehensive income (loss)	(296,531)	(128,053)
Comprehensive income (loss)	$ 397,389	$ 387,141

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, 2015 and 2014

(in thousands of dollars)	**2015**	**2014**
Retained earnings		
Balance at beginning of year	$6,294,043	$5,781,836
Net income (loss)	693,920	515,194
Acquisition of noncontrolling interest	-	(2,987)
Balance at end of year	6,987,963	6,294,043
Accumulated other comprehensive income (loss)		
Net unrealized gain (loss) on investments		
Balance at beginning of year	845,838	807,641
Change in unrealized gains (losses) on common stocks, bonds, and other assets	(512,109)	58,955
Income tax benefit (expense)	185,676	(20,758)
Balance at end of year	519,405	845,838
Net unrealized gain (loss) on deferred acquisition costs		
Balance at beginning of year	(28,185)	(18,225)
Change in period, net of income tax (expense) benefit	20,204	(9,960)
Balance at end of year	(7,981)	(28,185)
Change in pension and other post-retirement benefit obligations		
Balance at beginning of year	(146,588)	9,694
Change in period, net of income tax (expense) benefit	9,698	(156,282)
Balance at end of year	(136,890)	(146,588)
Total accumulated other comprehensive income (loss)	374,534	671,065
Total policyholders' equity	$7,362,497	$6,965,108

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, 2015 and 2014

(in thousands of dollars)	**2015**	**2014**
Cash flows from operating activities		
Net income (loss)	$ 693,920	$ 515,194
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	214,562	183,886
Fair value option of long-term debt	(24,027)	127,845
Net realized (gains) losses on sales of investments	(217,995)	(541,860)
Change in value of trading securities	-	14,331
Change in value of derivatives	21,917	56,114
Earnings of equity method investments	(50,307)	(42,012)
Unearned premiums	262,161	(102,239)
Deferred policy acquisition costs	(59,239)	(41,347)
Deferred income tax provision	66,394	23,233
Insurance reserves	171,231	205,598
Other changes in operating assets and liabilities	(145,691)	232,456
Net cash provided by (used in) operating activities	932,926	631,199
Cash flows from investing activities		
Proceeds from sales, maturities or calls of bonds	7,523,973	5,647,618
Purchases of bonds	(7,987,928)	(5,990,802)
Proceeds from sales of common stocks	868,378	1,022,965
Purchases of common stocks	(836,358)	(1,095,774)
Proceeds from sales of mortgages	112,718	58,049
Purchases of mortgages	(156,541)	(117,231)
Proceeds from sales of other investments	3,361,630	344,746
Purchases of other investments	(3,475,796)	(399,187)
Net purchases and sales of short-term investments	(65,641)	(27,541)
Net (increase) decrease in finance receivables	1,122	1,061
Purchase of property and equipment	(126,466)	(59,054)
Acquisition of businesses, net of cash acquired	-	(4,692)
Other investing activities	5,938	5,338
Net cash provided by (used in) investing activities	(774,971)	(614,504)
Cash flows from financing activities		
Deposits to investments-type and universal life contracts	80,440	83,450
Withdrawals from investment-type and universal life contracts	(92,100)	(90,726)
Net cash provided by (used in) financing activities	(11,660)	(7,276)
Net change in cash and cash equivalents	146,295	9,419
Cash and cash equivalents		
Beginning of year	522,828	513,409
End of year	$ 669,123	$ 522,828
Income taxes paid (received)	$ 317,334	$ 119,911
Interest paid (received)	27,303	27,281

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

AFMIC and AFIC are engaged principally in the writing of automobile insurance, homeowners insurance, commercial insurance, and other property and casualty insurance. ASIC and ASICO are engaged principally in the writing of non-standard automobile and cycle insurance. ASIC also assumes property reinsurance mainly outside the Companies' existing geographic operating territory in order to diversify the Companies' risk. AFLIC principally markets whole life, term life, and universal life products to provide financial protection for qualified individuals, families and business enterprises and also supports a small amount of group life insurance and structured settlement business primarily as a service to its affiliates. AFLIC cedes 100% of its variable universal life (VUL) and variable annuity (VA) business, which the Company no longer sells, under a 100% reinsurance agreement with Kansas City Life Insurance Company. These companies sell these lines of business predominantly through a multi-line, exclusive agency force in nineteen states.

AFFS was substantially engaged in the business of making direct loans to qualified individuals and business enterprises. AFFS ceased issuing new loans on November 1, 2007, and existing loans are in run-off. AFBI is an insurance agency which provides brokerage services to its affiliates and administers the federal Write Your Own Flood Program on behalf of AFMIC. In 2014, articles of dissolution for AFS, a non-clearing registered broker-dealer, were filed with and approved by the state of Wisconsin, at which time the assets were distributed to AFMIC. NV was formed in 2010 to support the Companies' non-insurance business development efforts. MLNY was formed in 2015 and had no activity during the year.

AFMIC owns 100% of the Class A units of AIA and on November 26, 2014, purchased 100% of the Class B units of AIA.

Homesite specializes in direct-to-consumer homeowners, renters and condominium insurance and sells their products primarily through alliances with other insurers, mortgage companies, and real estate companies. Homesite's wholly-owned subsidiary, Homesite Indemnity Company (HIC), is a property and casualty writer domiciled in Kansas. Homesite's other subsidiaries are Homesite General Agent, LLC (HG) and Homesite Securities Company, LLC (HSC). HSC owns Homesite Insurance Agency (HIA) and has seven wholly-owned insurance subsidiaries: Homesite Insurance Company of Georgia (HGA), Homesite Insurance Company of New York (HNY), Homesite Insurance Company of California (HCA), Homesite Insurance Company of the Midwest (HMW), Homesite Insurance Company of Illinois (HIL), Homesite Insurance Company of Florida (HFL), and Homesite Insurance Company (HCT). HSC also owns and controls Texas-South of Homesite, Inc. (HTX), which is the attorney-in-fact for Homesite Lloyds of Texas (HLTX). As of December 31,

2015, Homesite is licensed in all 50 states and the District of Columbia and has policies in force in 48 states and the District of Columbia.

PGC is the ultimate parent of the group of companies referred to generally as the Permanent General Companies. The Permanent General Companies specialize in writing non-standard private passenger personal automobile insurance, primarily to consumers interested in acquiring an insurance policy to comply with state minimum insurance requirements. PGC's business is primarily written online and over the phone. As of December 31, 2015, PGC was licensed in 48 states and the District of Columbia and had policies in force in 42 states and the District of Columbia.

Property and casualty insurance represented 96% of total net premiums written for both 2015 and 2014. Life insurance represented 4% of total net premiums written for both 2015 and 2014.

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 of their bonds and common stocks available-for-sale with the exception of the Company's investment in convertible bonds, which were considered trading securities prior to liquidation of the portfolio during 2014. 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. Trading securities are reported at fair value with unrealized gain or loss reported in earnings as part of net investment income.

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 and Casualty Insurance and Life Insurance

Property and 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. Premiums receivable and agents' balances are net of an allowance for doubtful accounts of $10,095,000 and $10,648,000 at December 31, 2015 and 2014, 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. The Company reported no net premium deficiency reserves as of December 31, 2015 and 2014 after taking into account reinsurance cessions and related deferred acquisition cost (DAC) eliminations.

Term life and whole life insurance premiums are generally recognized as premium income when received. Revenue from immediate annuities and 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

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 and 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 and 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 and Casualty Loss and Loss Adjustment Expense Reserve

The property and 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 are reflected currently. Accordingly, losses and loss adjustment expenses are charged to income as incurred.

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

The 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 $8,276,000 and $8,373,000 of such discounted reserves at December 31, 2015 and 2014, respectively. The Companies' long-term care business is 100% ceded to Ability Insurance Company, a nonaffiliated company.

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 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 2015 and 2014. Interest rates on all other issues are between 2.5% and 5.0% in both 2015 and 2014.

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:

(in thousands of dollars)	2015		2014	
Insurance-type liabilities				
Traditional whole life	$ 2,410,668	59.1 %	$ 2,347,750	58.6 %
Traditional term life	456,077	11.2	440,413	11.0
Payout annuities	49,362	1.2	50,497	1.3
Other insurance reserves	8,549	0.2	8,058	0.2
Deposit-type liabilities				
Universal life	490,132	12.0	491,154	12.3
Deferred annuities	264,784	6.5	263,225	6.6
Dividend accumulations	238,939	5.9	239,430	6.0
Structured settlements	44,827	1.1	48,284	1.2
Variable universal life	14,419	0.4	14,622	0.4
Variable annuities	12,671	0.3	13,127	0.3
Supplemental contracts without life contingencies, retained assets and premium deposits	89,833	2.1	92,060	2.1
Total liabilities for life policies and deposit contracts	$ 4,080,261	100.0 %	$ 4,008,620	100.0 %

h. Life Policyholders Dividends Payable

Approximately 98.2% 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 their exposure to loss on any single insured and to certain aggregate loss limits. This is accomplished by ceding insurance to other insurance companies or reinsurers under quota share, excess of loss 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.

ASIC assumes property reinsurance mainly outside the Companies' existing geographic operating territory in order to diversify the Companies' risk. Property and casualty earned premiums assumed under reinsurance contracts under this program during 2015 and 2014 were $81,653,000 and $76,581,000, respectively.

Property and casualty earned premiums ceded under reinsurance contracts during 2015 and 2014 were $163,008,000 and $320,965,000, respectively. Gross written premiums ceded during 2015 and 2014 were $136,795,000 and $229,428,000, respectively. Unearned premiums ceded under reinsurance contracts were $56,979,000 and $83,192,000 at December 31, 2015 and 2014, respectively. Loss and loss adjustment expenses ceded under reinsurance contracts were $107,480,000 and $74,558,000 for the years ended December 31, 2015 and 2014, respectively.

Life reinsurance premiums ceded were $78,287,000 and $75,814,000 in 2015 and 2014, respectively. Life reserves ceded under reinsurance contracts were $204,023,000 and $194,474,000 at December 31, 2015 and 2014, respectively. Reinsurance commissions and expense allowances were $23,576,000 and $22,684,000 in 2015 and 2014, respectively. Life and Accident and Health insurance benefits on ceded claims were $41,835,000 and $31,478,000 in 2015 and 2014, respectively.

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

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, 2015 and 2014.

k. Property and Equipment

Property and equipment, including 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:

	2015			2014		
(in thousands of dollars)	Gross Cost	Accumulated Depreciation	Net	Gross Cost	Accumulated Depreciation	Net
Property occupied by the Company	$ 470,512	$ (231,611)	$ 238,901	$ 454,175	$ (222,587)	$ 231,588
Furniture and equipment	221,787	(137,412)	84,375	212,913	(133,616)	79,297
Computer software and equipment	872,334	(533,632)	338,702	766,659	(482,155)	284,504
	$ 1,564,633	$ (902,655)	$ 661,978	$ 1,433,747	$ (838,358)	$ 595,389

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 acquisitions of Homesite, PGC and MIC in prior years. 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 a 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.

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 2020 and thereafter. Lease expense for 2015 and 2014 was $38,095,000 and $38,098,000, respectively.

As of December 31, 2015, the minimum aggregate lease commitments were as follows:

(in thousands of dollars) **Year ending December 31**	**Operating Leases**
2016	$ 24,101
2017	17,259
2018	15,753
2019	12,092
2020 and thereafter	30,673
Total	$ 99,878

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

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income

In February 2013, the Financial Accounting Standards Board (FASB) issued guidance requiring entities to present either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source and the income statement line items affected by the reclassification. If the component is not required to be reclassified to net income in its entirety, entities would instead cross reference to the related footnote for additional information. The Company adopted this guidance on January 1, 2014. The new guidance affects presentation of accumulated other comprehensive income only; therefore, the adoption of this guidance had no impact on the Company's results of operations or financial position.

q. Future Adoption of New Accounting Guidance

Disclosures about Short-Duration Contracts

In May 2015, the 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.

r. Statements of Cash Flows

Non-cash investing activities include $85,993,000 of acquisitions and disposals of common stock, $180,723,000 and $182,999,000 of acquisitions and disposals of bonds, respectively, and net acquisitions of short-term investments of $2,276,000 in 2015.

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.

The revision of an immaterial error resulted in reclassifications of $6,956,000 from other liabilities to property and casualty loss and loss adjustment expense reserve on the 2014 consolidated balance sheet and $830,000 from insurance reserves to other changes in operating assets and liabilities on the 2014 consolidated statement of cash flows.

t. Subsequent Events

The Company has evaluated events subsequent to December 31, 2015 through February 29, 2016, the date these financial statements were available to be issued. Based on this evaluation, no events have occurred subsequent to December 31, 2015 that require disclosure or adjustment to the financial statements at that date or for the year then ended.

2. Financial Instruments

a. Fair Value of Financial Instruments

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

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

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

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

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

Level 1 Measurements

Bonds: *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.

Common Stocks: 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.

Cash Equivalents: Cash equivalents are valued based on inputs including quoted prices for identical or similar assets in markets that are not active, benchmark yield curves, bid/ask spreads, and credit quality.

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

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

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

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: Includes a bond issued to reimburse costs incurred by the developer (which is the Company) at the Mitchell Avenue Corridor Project 1 TIF location in St. Joseph, Missouri. This is the location of the Company's Missouri regional office building, and the Company is the sole property owner within the TIF boundary. The City of St. Joseph collects TIF property taxes from the Company and is obligated to request that the city council appropriate these tax payments to pay debt service on the bonds. The bond is priced at 100 as the Company is essentially backing this bond through property tax payments. Also includes a bond valued internally using a discounted cash flow model and a bond valued 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.

Derivative Instruments: To-be-announced (TBA) dollar roll securities 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.

Other Valuations

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

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

2015

(in thousands of dollars)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	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	2	-	778,195
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	63,038	-	63,371
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
Long-term debt	-	599,994	-	36,083	636,077
Derivative liabilities	-	1,785	54,782		56,567
Total financial liabilities	$ -	$ 601,779	$ 54,782	$ 36,083	$ 692,644

2014

(in thousands of dollars)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Other Valuations	Balance as of December 31, 2014
Financial assets					
Bonds, available-for-sale:					
U.S. Government	$ 411,995	$ 135,094	$ -	$ -	$ 547,089
Municipals	-	4,950,905	19,191	-	4,970,096
Corporates	-	4,413,476	9,748	-	4,423,224
RMBS	-	1,100,366	2	-	1,100,368
CMBS	-	546,978	287	-	547,265
ABS	-	753,151	73,083	-	826,234
Common stocks, available-for-sale	2,179,397	13,326	-	16,225	2,208,948
Cash equivalents	280,262	3,732	-	-	283,994
Short-term investments	121,065	45,006	-	-	166,071
Derivative assets	-	3,041	-	-	3,041
Separate account assets	-	318,096	-	-	318,096
Total recurring basis assets	2,992,719	12,283,171	102,311	16,225	15,394,426
Valued at cost, amortized cost or using the equity method	-	-	-	1,611,153	1,611,153
Total financial assets	$ 2,992,719	$ 12,283,171	$ 102,311	$ 1,627,378	$ 17,005,579
Long-term debt	-	624,021	-	36,083	660,104
Derivative liabilities	-	18,795	-	-	18,795
Total financial liabilities	$ -	$ 642,816	$ -	$ 36,083	$ 678,899

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 their evaluation or market coverage. In addition, an annual analysis is performed on a sample of securities to further validate the inputs, assumptions, and methodologies used by the primary source to price those securities.

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

All transfers into or out of a particular level are recognized as of the beginning of the reporting period. In 2015, the Company transferred $8,139,000 of ABS securities from Level 2 to Level 3. In 2015, a third party pricing service began pricing these bonds using unobservable inputs. The Company also transferred $4,886,000 of Corporate securities and $25,273,000 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 2015.

In 2014, the Company transferred $7,871,000 of ABS securities from Level 2 to Level 3. These securities were purchased near the end of 2013 and the purchase prices were used to determine year-end prices, resulting in a Level 2 designation. In 2014 a third party pricing service began pricing these securities using unobservable inputs, resulting in a change to Level 3. The Company also transferred $1,574,000 of CMBS securities from Level 2 to Level 3 during 2014. This bond was previously priced by a third party pricing service using observable inputs but is now priced manually through a different third party pricing service using unobservable inputs. In 2014, the Company also transferred $3,900,000 of other invested assets from Other Valuations to Level 3. These partnerships were previously valued using capital account valuations as reported by the various limited partnerships. In the second quarter of 2014 they were valued using agreed-upon sale prices which resulted in their transfer to Level 3. These partnerships were all subsequently sold during 2014. There were no other material transfers between levels in 2014.

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:

2015

		Total Realized and Unrealized Gains (Losses) included in						
(in thousands of dollars)	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	-	-	-	-	-	-	2
CMBS	287	-	-	550	(287)	-	-	550
ABS	73,083	(60)	(399)	84,943	(27,612)	(19,183)	(17,134)	93,638
Total recurring Level 3 financial assets	102,311	78	(206)	85,493	(34,770)	(19,279)	(22,020)	111,607
Derivative assets	-	18	10	75,540	(12,530)	-	-	63,038
Total Level 3 financial assets	$ 102,311	$ 96	$ (196)	$161,033	$(47,300)	$(19,279)	$ (22,020)	$ 174,645
Financial liabilities								
Derivative liabilities	-	(15)	(8)	57,354	(2,549)	-	-	54,782
Total Level 3 financial liabilities	$ -	$ (15)	$ (8)	$ 57,354	$ (2,549)	$ -	$ -	$ 54,782

2014

		Total Realized and Unrealized Gains (Losses) included in						
(in thousands of dollars)	Balance as of January 1, 2014	Net Income	AOCI on Balance Sheet	Purchases	Sales	Settlements	Net Transfers In and/or (Out) of Level 3	Balance as of December 31, 2014
Financial assets								
Bonds, available-for-sale:								
Municipals	$ 17,880	$ -	$ 320	$ 1,702	$ -	$ (711)	$ -	$ 19,191
Corporates	5,365	(20)	148	5,913	-	(1,658)	-	9,748
RMBS	3	-	-	-	-	(1)	-	2
CMBS	-	-	(9)	-	-	(1,278)	1,574	287
ABS	30,926	(68)	(284)	58,033	-	(23,395)	7,871	73,083
Total recurring Level 3 financial assets	54,174	(88)	175	65,648	-	(27,043)	9,445	102,311
Other invested assets	-	(862)	-	478	(3,141)	(375)	3,900	-
Total Level 3 financial assets	$ 54,174	$ (950)	$ 175	$ 66,126	$ (3,141)	$(27,418)	$ 13,345	$ 102,311

There were no gains or losses included in net income for Level 3 instruments still held at December 31, 2015 or 2014.

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

(in thousands of dollars)	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	3,695			
TBAs	63,038			
Financial Liabilities				
TBAs	(54,782)			
Total inputs not available	11,951			
Total Level 3 Securities	$ 119,863			

(in thousands of dollars)	Fair Value at 12/31/2014	Valuation Technique	Unobservable Input	Range
Municipals	$ 13,874	Cash flow modeling	Spread (Discount margin)	581 bps (added to UST with similar maturity)
	3,620	Par value	Backed by property tax payments made by the Company	Priced at par
	1,697	Broker quotes	Bid quotes	70.988
Corporates	4,862	Broker quotes	Bid quotes	97.25
	983	Cash flow modeling	Discount margin	135
	3,903	Cash flow modeling	Spread (Discount margin)	380 bps (added to UST with similar maturity)
CMBS	287	Cash flow modeling	Weighted average life Spread (Discount margin)	<1 year 60 bps
ABS	73,083	Cash flow modeling	Spread (Discount margin) Conditional prepayment rate Severity Bid quotes Ask quotes	20 - 300 0 - 20 30 - 70 99.86 - 100.76 100.17
Significant unobservable inputs not available	2			
Total Level 3 Securities	$ 102,311			

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 2015 and 2014.

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:

	2015		2014	
(in thousands of dollars)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Mortgage loans	$ 527,179	$ 544,706	$ 483,404	$ 520,756
Policy loans	212,987	212,987	218,498	218,498
Financial liabilities				
Deferred annuities	264,784	263,115	263,225	260,974
Structured settlements	58,693	70,060	62,189	74,719

b. Common Stocks

The aggregate cost of common stocks at December 31, 2015 and 2014 was $1,458,255,000 and $1,333,147,000, respectively. Net unrealized appreciation of common stocks stated at fair value includes gross unrealized gains of $713,843,000 and $899,599,000 and gross unrealized losses of $34,049,000 and $23,798,000 at December 31, 2015 and 2014, 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:

	2015							
	Less than 12 Months			12 Months or More			Total	
(in thousands of dollars, except number of issues)	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities:								
Common 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)

	2014							
	Less than 12 Months			12 Months or More			Total	
(in thousands of dollars, except number of issues)	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities:								
Common stocks	521	$ 143,370	$ (17,174)	3	$ 1,990	$ (6,624)	$ 145,360	$ (23,798)
Total	521	$ 143,370	$ (17,174)	3	$ 1,990	$ (6,624)	$ 145,360	$ (23,798)

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.

During 2015 and 2014, the Company recorded other-than-temporary impairments (OTTI) relating to its common stock portfolio of $14,820,000 and $7,932,000, respectively.

Proceeds from sales of stock during 2015 and 2014 were $824,068,000 and $1,002,790,000, respectively. These amounts exclude spin-offs, tax-free exchanges, taxable exchanges and returns of capital. Gross gains of $193,610,000 and $409,030,000 and gross losses of $56,385,000 and $10,592,000 were realized on those sales during 2015 and 2014, 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 $36,272,000 and $1,695,000 during 2015 and 2014, respectively. As a result of these donations, the Company realized gains of $29,707,000 and $1,665,000 during 2015 and 2014, 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. Positions held in master limited partnerships as of December 31, 2014 were liquidated during 2015. Further separation of equity securities by geography or industry concentration is not deemed relevant.

c. Bonds and Short-Term Investments

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

(in thousands of dollars)	2015 Amortized Cost	2015 Gross Unrealized Gains	2015 Gross Unrealized Losses	2015 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	766,395	16,195	(4,396)	778,194
Commercial mortgage-backed securities	615,393	7,332	(8,448)	614,277
Asset-backed securities	862,591	7,954	(5,167)	865,378
Total	$ 12,652,260	$ 268,660	$ (134,849)	$ 12,786,071

(in thousands of dollars)	2014 Amortized Cost	2014 Gross Unrealized Gains	2014 Gross Unrealized Losses	2014 Fair Value
Description of Securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 660,268	$ 8,267	$ (382)	$ 668,153
Obligations of states and political subdivisions	4,809,572	209,909	(6,197)	5,013,284
Corporate	4,247,814	214,162	(38,753)	4,423,223
Residential mortgage-backed securities	1,073,867	31,180	(4,679)	1,100,368
Commercial mortgage-backed securities	528,110	19,468	(313)	547,265
Asset-backed securities	816,306	13,437	(1,689)	828,054
Total	$ 12,135,937	$ 496,423	$ (52,013)	$ 12,580,347

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:

	2015							
	Less than 12 Months			**12 Months or More**			**Total**	
(in thousands of dollars, except number of issues)	**Number of Issues**	**Fair Value**	**Unrealized Losses**	**Number of Issues**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Description of Securities:								
U.S. 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	98	244,118	(1,919)	30	82,949	(2,477)	327,067	(4,396)
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	1,532	$ 4,829,731	$ (99,575)	204	$ 599,331	$ (35,274)	$ 5,429,062	$ (134,849)

	2014							
	Less than 12 Months			**12 Months or More**			**Total**	
(in thousands of dollars, except number of issues)	**Number of Issues**	**Fair Value**	**Unrealized Losses**	**Number of Issues**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Description of Securities:								
U.S. Treasury securities and obligations of U.S. government corporations and agencies	24	$ 277,344	$ (298)	10	$ 6,327	$ (84)	$ 283,671	$ (382)
Obligations of states and political subdivisions	239	863,084	(4,340)	51	149,917	(1,857)	1,013,001	(6,197)
Corporate	250	616,254	(22,322)	125	345,897	(16,431)	962,151	(38,753)
Residential mortgage-backed securities	13	15,526	(57)	67	217,274	(4,622)	232,800	(4,679)
Commercial mortgage-backed securities	14	55,647	(207)	11	12,030	(106)	67,677	(313)
Asset-backed securities	109	325,234	(1,248)	17	32,358	(441)	357,592	(1,689)
Total	649	$ 2,153,089	$ (28,472)	281	$ 763,803	$ (23,541)	$ 2,916,892	$ (52,013)

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 $39,091,000 and $0 during 2015 and 2014, 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 (recorded through the consolidated statements of comprehensive income) and part of the impairment was non-credit-related (recorded through other comprehensive income).

During 2015 and 2014, the Company recorded total OTTI relating to its bond portfolio of $44,278,000 and $0, respectively. These amounts include both credit-related impairments as well as impairments taken due to the intent to sell securities.

Subprime mortgages are residential loans to borrowers with weak credit profiles. Alt A mortgages are residential loans to borrowers who have credit profiles above subprime but do not conform to traditional (prime) mortgage underwriting guidelines. The Company had insignificant exposure to subprime and Alt A mortgages at December 31, 2015 and 2014.

The amortized cost and fair value of bonds and short-term investments at December 31, 2015 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, 2015	
(in thousands of dollars)	Amortized Cost	Fair Value
Due in one year or less	$ 783,716	$ 787,219
Due after one year through five years	4,371,361	4,441,691
Due after five years through ten years	4,087,483	4,087,670
Due after ten years	1,165,321	1,211,642
Subtotal	10,407,881	10,528,222
Mortgage-backed securities	1,381,788	1,392,471
Asset-backed securities	862,591	865,378
Total	$ 12,652,260	$ 12,786,071

Proceeds from sales of long-term bonds during 2015 and 2014 were $6,289,214,000 and $4,401,009,000, respectively. Gross gains of $154,338,000 and $163,698,000 and gross losses of $44,098,000 and $16,607,000 were realized on those sales during 2015 and 2014, respectively. The basis of the securities sold was determined using specific identification.

At December 31, 2015 and 2014, bonds with a fair value of $66,548,000 and $65,302,000, respectively, were on deposit with various regulatory authorities to comply with insurance laws.

d. Other Invested Assets

The Company held $327,150,000 and $276,483,000 in limited partnerships accounted for under the cost method and $437,211,000 and $387,042,000 in limited partnerships accounted for under the equity method at December 31, 2015 and 2014, 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 2015 and 2014, the Company recorded OTTI in the other invested assets portfolio, resulting in a total realized loss of $15,264,000 and $8,671,000, respectively. The other-than-temporarily impaired investments were generally mature partnerships that had completed their initial investment period. Some were in the process of liquidating investment holdings. These partnerships may have experienced losses due to poor performance of a specific investment, poor performance of a particular sector, or unfavorable market conditions in general. As there was no clear indication of full recovery of value of these investments, OTTI losses were realized.

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

e. Derivative Instruments

Derivative financial instruments utilized by the Company during 2015 included interest rate swap agreements and TBA dollar roll securities. The Company utilized interest rate swaps but not TBA's in 2014.

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 netted with derivative assets (liabilities) and the net amount is recorded in other assets (liabilities) on the consolidated balance sheets. TBA dollar roll securities are not subject to enforceable master netting agreements and thus there is no netting of derivative asset and derivative liability positions with the same counterparty on the consolidated balance sheets. Also, there is no collateral exchanged related to TBA dollar roll securities.

Derivative instruments as of December 31, 2015 and 2014 are as follows:

	2015					
(in thousands of dollars)			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)
TBAs	60,750	Generate Income	Other assets	63,038	Net investment income	10
Liabilities:						
Interest rate swaps	1,066,200	Manage Duration	Other liabilities	(1,785)	Net investment income	7,378
TBAs	54,475	Generate Income	Other liabilities	(54,782)	Net investment income	8
Total open positions	$1,201,425			$ 6,804		$ 4,688
Closed:						
Interest rate swaps	$ 871,300	Manage Duration	N/A		Net investment income	$ (27,200)
TBAs	3,108,029	Generate Income	N/A		Net investment income	595
Total closed positions						$ (26,605)
Total						$ (21,917)

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

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

(in thousands of dollars)

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	$ 70,542	$ (7,171)	$ -	$ 63,371	$ -	$ 63,371
Liabilities	(63,738)	7,171	332	(56,235)	918	(55,317)
Total	$ 6,804	$ -	$ 332	$ 7,136	$ 918	$ 8,054

(in thousands of dollars)

2014						
					Amounts Not Offset on Balance Sheet	
Derivatives Designated as:	Gross Amount	Counterparty Netting	Cash Collateral (Received) Pledged	Net Amount on Balance Sheet	Securities Collateral (Received) Pledged	Net Amount
Assets	$ 4,147	$ (1,106)	$ (2,610)	$ 431	$ -	$ 431
Liabilities	(19,900)	1,106	20,436	1,642	14,291	15,933
Total	$ (15,753)	$ -	$ 17,826	$ 2,073	$ 14,291	$ 16,364

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, 2015 and 2014, the Company pledged bonds with a fair value of $918,000 and $14,291,000, 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, 2015 and 2014. The Company pledged cash of $240,000 and $656,000 as collateral to counterparties and counterparties pledged $0 and $2,610,000 in cash collateral to the Company as of December 31, 2015 and 2014, respectively. Cash collateral pledged to (by) the Company is netted with derivative 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, 2015 and 2014, the Company pledged initial margin of $849,000 and $50,000 in cash and bonds with a fair value of $5,432,000 and $0, respectively, to the CME. In addition, the Company pledged $93,000 and $19,781,000 in cash as variation margin to the CME as of December 31, 2015 and 2014, respectively. The CME posted no cash or securities as variation margin to the Company as of December 31, 2015 and 2014. Cash pledged as variation margin by (to) the Company is netted with derivative 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.

The Company does not exchange collateral with counterparties in relation to TBA dollar roll securities.

Counterparty credit exposure by counterparty credit rating as it relates to open derivative positions as of December 31, 2015 and 2014, is as follows:

(in thousands of dollars)

	2015			
Rating	**Number of Counterparties**	**Notional (Par) Value**	**Credit Exposure**	**Exposure, Net of Collateral**
Centrally Cleared	1	$ 991,200	$ -	$ -
AA-	1	500	-	-
A+	3	67,140	-	-
A	6	92,985	40,263	40,263
A-	2	36,080	14,393	14,393
BBB+	1	13,520	8,715	8,715
Total	14	$ 1,201,425	$ 63,371	$ 63,371

(in thousands of dollars)

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

f. Net Investment Income

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

(in thousands of dollars)	2015	2014
Bonds	$ 397,166	$ 426,331
Common stocks	58,459	45,287
Real estate	44,378	44,289
Mortgage loans	28,088	24,631
Policy loans	15,521	15,958
Limited partnerships and joint ventures	107,247	116,935
Other	(79)	(13,806)
Total gross investment income	650,780	659,625
Change in value of convertible bonds	-	(14,339)
Change in value of derivatives	(21,917)	(56,114)
Change in fair value of long-term debt	24,027	(127,845)
Investment expenses	(90,480)	(84,498)
Net investment income	$ 562,410	$ 376,829

g. Mortgage Loans

The minimum and maximum lending rates for commercial mortgage loans issued during 2015 and 2014 ranged from 3.25% to 5.80% and 3.42% to 6.10%, respectively. During 2015 and 2014, 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 72%.

Significant concentrations of mortgage loans amounting to $193,184,000 and $196,470,000 exist for properties located in the Midwest region at December 31, 2015 and 2014, respectively. In addition significant concentrations by state include the following:

(in thousands of dollars)	2015	2014
Texas	$ 125,485	$ 112,336
Ohio	74,505	71,328

The Company considers any loan that is one or more days delinquent to be past due. At December 31, 2015 and 2014, the Company had no past due commercial mortgage loans, and the average recorded investment in impaired loans was $0 during both 2015 and 2014. As of December 31, 2015 and 2014, all loans in the portfolio were in good standing, and no loans had been modified or restructured.

A loan is considered to be in good standing if all payments are current. When reviewing loans for impairment and making the determination to increase the valuation allowance or to charge off a loan, the Company individually monitors and analyzes loans and does not utilize portfolio segments or classes for monitoring purposes. The Company considers delinquency or default of payments, the mortgage loan unpaid principal balance as a percent of the fair value of the

mortgage loan collateral, present value of expected payments compared to the current carrying value of the mortgage, current rent rolls of the property, financial condition of major tenants, and local economic conditions that would impact individual loans when reviewing potential loan impairment.

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

The Company had $527,179,000 and $483,404,000 of loans outstanding as of December 31, 2015 and 2014, respectively, of which $17,150,000 and $47,905,000 were on the watchlist. There were no non-performing loans held as of December 31, 2015 and 2014. There were no charge-offs recorded in the mortgage loan portfolio in 2015 and 2014.

The Company did not carry a valuation allowance for credit losses on mortgage loans as of December 31, 2015 and 2014.

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, 2015 and 2014 and no loans were restructured during 2015 or 2014.

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, 2015 and 2014. 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).

(in thousands of dollars)

Liabilities:	2015	2014
Contractual principal balance	$ 500,000	$ 500,000
Difference between estimated fair value and contractual principal balance	99,994	124,021
Carrying value at estimated fair value	$ 599,994	$ 624,021

Changes in fair value of these liabilities of $24,027,000 and $(127,845,000) are recognized in net investment income for the years ended December 31, 2015 and 2014, 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).

3. Deferred Policy Acquisition Costs

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

(in thousands of dollars)	2015	2014
Property and Casualty		
Balance, beginning of year	$ 358,775	$ 328,951
Costs deferred during year	1,080,875	962,822
Amortization related to operations during year	(1,029,669)	(932,998)
Balance, end of year	$ 409,981	$ 358,775
Life		
Balance, beginning of year	$ 285,887	$ 289,860
Costs deferred during year	24,406	23,013
Amortization related to operations during year	(15,672)	(14,696)
Net adjustment due to assumption revisions	(701)	3,207
Amounts related to change in fair value adjustment of available-for-sale bonds	31,435	(15,497)
Balance, end of year	$ 325,355	$ 285,887
AFFS		
Balance, end of year	$ 9	$ 9
Total DAC	$ 735,345	$ 644,671

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, 2015 and 2014 were $56,163,000 and $58,723,000, 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, 2015 and 2014, AFMIC was obligated to contribute $435,983,000 and $352,947,000, respectively, in additional capital to various limited partnerships. These contributions are callable under the commitments to the partnerships over the lives of the partnerships.

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

The Companies are liable for mandatory assessments that are levied by the property and casualty and life and 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, 2015 and 2014, were $25,123,000 and $29,848,000, respectively. Corresponding assets related to future premium tax credits have also been recorded and were $15,744,000 and $16,093,000 as of December 31, 2015 and 2014, 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:

(in thousands of dollars)	2015	2014
Deferred tax assets		
Life reserves	$ 104,768	$ 113,070
Unearned premium	89,929	82,565
Reserve discounting, net of salvage and subrogation	50,885	57,969
Deferred compensation	333,163	327,958
Pension accrual	66,462	77,613
Policyholder dividends	3,694	4,136
Fair Value Option of Long Term Debt	36,318	45,063
AMT credit carryover	-	38,765
Net operating loss carryforward	4,444	1,920
Other	738	7,532
Total deferred tax assets	690,401	756,591
Deferred tax liabilities		
Investments	(309,276)	(498,359)
Deferred policy acquisition costs	(62,965)	(62,810)
Depreciation basis differences	(125,820)	(99,271)
Intangibles	(62,153)	(74,157)
Total deferred tax liabilities	(560,214)	(734,597)
Net deferred tax assets (liabilities)	$ 130,187	$ 21,994

As of December 31, 2015, the Company has net operating loss carryforwards of $8,603,000 which will expire at various times through 2035.

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:

	2015	2014
Federal statutory tax rate	35.0 %	35.0 %
Tax-exempt income, net of proration	(2.3)	(4.3)
Dividend received deduction	(1.2)	(1.6)
State tax expense (net of federal tax)	0.8	1.5
Change in prior year's taxes	(0.5)	-
Other	(0.2)	0.2
Effective tax rate	31.6 %	30.8 %

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 $1,371,216,000 and $1,323,885,000 at December 31, 2015 and 2014, respectively. The Company's Policyholders' Surplus Account was $5,149,000 at December 31, 2015 and 2014. At current corporate income tax rates, the associated tax is $1,802,000. 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 $441,000 and $536,000 as of December 31, 2015 and 2014, respectively. The Company does not expect to have a significant change in unrecognized tax benefits in the next twelve months.

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

6. Goodwill and Intangible Assets

The Company's business acquisitions of Homesite, PGC and MIC 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 eight years at both December 31, 2015 and 2014. 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 October 31 and there were no indications of goodwill or intangible asset impairment. The following presents a summary of the Company's goodwill and intangible assets at December 31:

	2015		2014	
(in thousands of dollars)	Gross Balance	Accumulated Amortization	Gross Balance	Accumulated Amortization
Total goodwill	$ 221,627	$ -	$ 221,627	$ -
Trade name and trademarks	25,900	7,770	25,900	5,180
Partner relationships	97,100	5,354	97,100	1,634
Referral relationships	11,100	8,972	11,100	5,842
Software	23,000	19,744	23,000	12,388
Renewal rights	56,500	23,994	56,500	7,532
Value of business acquired	52,350	52,350	52,350	52,350
Total finite life intangible assets	265,950	118,184	265,950	84,926
State insurance licenses	28,310	-	28,310	-
Total indefinite life intangible assets	28,310	-	28,310	-
Total goodwill and intangible assets	$ 515,887	$ 118,184	$ 515,887	$ 84,926

The Company recorded $33,258,000 and $69,355,000 of amortization expense related to intangible assets during the years ended December 31, 2015 and 2014, respectively.

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

(in thousands of dollars)	
2016	$ 24,418
2017	22,761
2018	19,594
2019	18,800
2020	14,252
Total	$ 99,825

7. Employee Benefit Plans

The Company has non-contributory pension plans (herein referred to as the "Plans") 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 Plans). For employees hired on or after January 1, 2009, and Agency Sales Managers hired on or after January 1, 2010, benefits are determined under a cash balance formula (as defined in the Plans). The asset valuation method used in 2015 for the funding calculation was the Two-Year Smoothed Value method. The new benefit restrictions, required under the Pension Protection Act of 2006, do not apply in 2015 given the funded status of the Plans.

The Company's two qualified pension plans merged as of December 31, 2015. This merger does not impact the valuation of the qualified 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.

The following table reflects the Plans' 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	
(in thousands of dollars)	**2015**	**2014**	**2015**	**2014**
Change in benefits obligation				
Projected benefit obligation, beginning of year	$ 1,070,535	$ 869,609	$ 55,707	$ 50,061
Service cost	48,956	40,043	3,336	3,059
Interest cost	40,242	38,653	2,097	2,248
Plan participant contributions	-	-	-	-
Amendments	-	-	-	-
Actuarial (gain)/loss	(13,401)	176,920	(2,864)	1,675
Benefits paid	(60,184)	(54,690)	(2,184)	(1,336)
Liability (gain)/loss due to curtailment/settlement	-	-	-	-
Projected benefit obligation, end of year	$ 1,086,148	$ 1,070,535	$ 56,092	$ 55,707
Change in plan assets				
Fair value of plan assets, beginning of year	$ 749,341	$ 731,927	$ -	$ -
Actual return on plan assets	(3,225)	68,205	-	-
Employer contribution	82,637	3,899	2,184	1,336
Plan participant contributions	-	-	-	-
Benefits paid	(60,184)	(54,690)	(2,184)	(1,336)
Fair value of plan assets, end of year	$ 768,569	$ 749,341	$ -	$ -
Net amount recognized	$ (317,579)	$ (321,194)	$ (56,092)	$ (55,707)
Net periodic cost				
Service cost	$ 48,955	$ 40,043	$ 3,336	$ 3,059
Interest cost	40,242	38,653	2,097	2,248
Expected return on plan assets	(48,636)	(51,854)	-	-
Amortization of				
Prior service cost	(6,789)	(6,787)	(1,331)	(1,331)
Actuarial (gain)/loss	22,762	8,263	111	105
Curtailment/settlement expense/(income)	837	1,376	-	-
Net periodic cost	$ 57,371	$ 29,694	$ 4,213	$ 4,081
Accumulated other comprehensive income (loss)	$ (281,409)	$ (259,760)	$ 14,464	$ 12,820

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 $837,000 and $1,376,000 for 2015 and 2014, respectively.

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

	Pension Benefits		Other Benefits	
(in thousands of dollars)	**2015**	**2014**	**2015**	**2014**
Liability for benefits	$ 317,579	$ 321,194	$ 56,092	$ 55,707
Deferred income taxes	115,345	116,706	20,373	20,241
Liabilities (net of tax)	$ 202,234	$ 204,488	$ 35,719	$ 35,466
Accumulated other comprehensive income (loss) (net of tax)	$ (13,786)	$ (100,410)	$ 1,047	$ (1,847)

Components of Periodic Benefit Cost
That Make up Other Comprehensive Income
December 31, 2015

	Pension Benefits			Postretirement Benefits		
(in thousands of dollars)	**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)	$ (38,460)	$ 13,969	$ (24,491)	$ 2,864	$ (1,040)	$ 1,824
Less: Amortization of actuarial gain (loss)	22,762	(8,267)	14,495	111	(40)	71
Prior service cost	-	-	-	-	-	-
Less: Amortization of prior service cost	(6,789)	2,466	(4,323)	(1,331)	483	(848)
Actuarial gain (loss) recognized due to settlement	-	-	-	-	-	-
Less: Amortization of actuarial gain (loss) due to settlement	837	(304)	533	-	-	-
Prior service cost recognized due to settlement	-	-	-	-	-	-
Less: Amortization of prior service cost due to settlement	-	-	-	-	-	-
Net recognized in other comprehensive income	$ (21,650)	$ 7,864	$ (13,786)	$ 1,644	$ (597)	$ 1,047
Estimated items to be amortized in next year's periodic pension cost from accumulated other comprehensive income						
Amortization of net actuarial loss (gain)	$ 20,074			$ 60		
Amortization of prior service cost (credit)	(6,800)			(1,331)		
Amortization of transition obligation (asset)	-			-		
Total	$ 13,274			$ (1,271)		

The pension accumulated benefit obligation at December 31, 2015 and 2014 was $922,003,000 and $927,580,000, respectively.

	Pension Benefits		Postretirement Benefits	
	2015	2014	2015	2014
Assumptions used to determine projected benefit obligations as of December 31:				
Discount rate				
Qualified plans				
Employee Plan	4.20 %	3.85 %	N/A	N/A
District Manager Plan	*	3.55	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
District Manager Plan	*	N/A	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
Assumptions used to determine net periodic benefit cost as of December 31:				
Discount rate:				
Qualified plans				
Employee Plan	3.85 %	4.65 %	N/A	N/A
District Manager Plan	*	4.15	N/A	N/A
Nonqualified plans				
District Manager Supplementary Plan	3.10	3.50	N/A	N/A
District Manager Expense Reimbursement Plan	3.60	4.20	N/A	N/A
Employee Excess Plan	3.30	4.00	N/A	N/A
District Manager Excess Plan	3.80	4.40	N/A	N/A
Combined Benefit Service Plan	3.75	4.60	N/A	N/A
Prior Service Plan	3.20	3.65	N/A	N/A
Other benefit plans	N/A	N/A	4.10 %	4.90 %
Expected return on plan assets:				
Qualified plans (all plans):	6.75 %	7.50 %	N/A	N/A
Rate of compensation increase:				
Qualified plans				
Employee Plan	3.25 %	3.75 %	N/A	N/A
District Manager Plan	*	N/A	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	3.25	3.75	N/A	N/A
District Manager Excess Plan	N/A	N/A	N/A	N/A
Combined Benefit Service Plan	3.25	3.75	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

* The District Manager Plan merged into the Employee Plan effective December 31, 2015.

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

Annual rates of increase in the per capita costs of 7.25% and 7.50% (Pre-65) and 6.75% and 7.00% (Post-65) of covered health care benefits were assumed for 2015 and 2014, 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% and 7.50% in 2015 and 2014, respectively. The expected rate of return on plan assets is based upon an analysis of historical returns and long-term capital market assumptions for each asset class. The expected returns by asset class contemplate a risk free interest rate 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 plans at the end of 2015 and 2014, by asset category, follow.

(in thousands of dollars)	Target Allocation		Percentage of Plan Assets, Year End		Fair Value of Plan Assets, Year End	
Asset Category	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Equity	55 %	54 %	56 %	55 %	$ 423,811	$ 401,467
Debt	40	40	38	37	292,819	276,147
Private equity	5	5	5	7	37,303	49,090
Commodities	-	1	-	-	-	-
Other (cash and cash equivalents)	-	-	1	1	7,963	9,686
Total	100 %	100 %	100 %	100 %	$ 761,896	$ 736,390

The overall investment objective of the Plans is to maximize the risk adjusted return on assets over a long-term period, while ensuring the Plans are able to meet current and future obligations to plan participants. The primary considerations in developing target asset allocations are the Plans' 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 Plans' equity allocation seeks to provide long-term returns with a diversified basket of domestic and international equity securities and mutual funds. The Plans invest 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 36% and 35% of Plan assets at December 31, 2015 and 2014, respectively. The Plans also invest in a passively managed domestic large cap equity index portfolio that seeks to mirror the risk characteristics and return performance of the Russell 200 Index. This portfolio comprised approximately 20% of Plan assets at both December 31, 2015 and 2014.

The pension bond fund seeks to maximize total return by investing in fixed income securities. The fund offers diverse exposure to the fixed income market by investing in a combination of investment grade bonds including corporate debt securities, U.S. Treasury and agency securities, mortgage-backed securities and asset-backed securities, and cash equivalents. The objective is to outperform Barclays' U.S. Aggregate Index. This fund comprised 34% and 37% of Plan assets at year end 2015 and 2014, respectively. The Plans' bond allocation also includes an investment in a multi-sector fixed income value fund, representing 4% and 0% of Plan assets at year end 2015 and 2014, 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 5% and 7% of Plan assets at year end 2015 and 2014, 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.

The following table summarizes the Plan's financial assets measured at fair value on a recurring basis as of December 31, 2015 and 2014:

	Assets at fair value as of December 31, 2015			
(in thousands of dollars)	**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

	Assets at fair value as of December 31, 2014			
(in thousands of dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Bonds				
U.S Government securities	$ 14,588	$ -	$ -	$ 14,588
Corporate bonds and notes	-	217,200	-	217,200
Municipal bonds	-	1,312	-	1,312
Foreign bonds	-	43,047	-	43,047
Equity securities				
Common stocks	181,752	-	-	181,752
Mutual funds	-	219,715	-	219,715
Short-term investments	9,686	-	-	9,686
Limited partnerships*	-	-	49,090	49,090
Total financial assets at fair value	$ 206,026	$ 481,274	$ 49,090	$ 736,390

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

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

There were no other transfers into or out of Level 1, 2, or 3 during 2015 or 2014.

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, 2015 and 2014:

	Limited Partnerships	
(in thousands of dollars)	**2015**	**2014**
Balance, beginning of year*	$ 49,090	$ 71,554
Purchases, sales, issuance and settlements, net	(11,787)	(22,464)
Balance, end of year*	$ 37,303	$ 49,090

* 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 pension and other postretirement benefits plans follows:

(in thousands of dollars)	**Pension Benefits**	**Postretirement Benefits**
Employer contributions		
2016 (expected)	$3,821 - $588,718	$ 3,354
Expected benefit payments		
2016	75,366	3,354
2017	80,384	3,513
2018	83,284	3,673
2019	86,479	3,971
2020	89,313	4,162
2021 - 2025	472,580	23,985

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 $584,897,000 (maximum contribution) and postretirement contribution of $3,354,000 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 "Plan"). Substantially all employees of AFMIC are eligible to enter into the Plan. Employee participation in the Plan is optional; participants contribute at least 1%, but no more than 30% of base compensation, subject to Internal Revenue Service limitations. 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 $18,514,000 and $18,427,000 related to the Plan in 2015 and 2014, respectively.

PGC sponsors a defined contribution 401(k) plan for which substantially all employees of PGC are eligible to participate. 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. Plan expenses for PGC during 2015 and 2014 amounted to $948,000 and $1,256,000, respectively.

Homesite sponsors a defined contribution 401(k) plan for which substantially all Homesite employees are eligible to participate. Under the Homesite plan, Homesite's matching contribution is equal to 50% of each participant's contribution, subject to a maximum of 5% of the participant's eligible compensation. Expenses related to the Homesite plan of $4,271,000 and $3,620,000 were incurred during 2015 and 2014, respectively.

A liability of $51,397,000 and $48,976,000 was accrued for earned but unused vacation as of December 31, 2015 and 2014, respectively. A liability of $18,715,000 and $17,458,000 was accrued for unused sick leave as of December 31, 2015 and 2014, respectively.

8. Agent Contract Termination Payments

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

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

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

(in thousands of dollars)	**2015**	**2014**
Change in benefits obligation		
Projected benefit obligation, beginning of year	$ 675,164	$ 575,156
Service cost	28,396	24,501
Interest cost	26,034	26,526
Plan participant contributions	-	-
Amendments	-	-
Actuarial (gain) loss	(35,406)	82,588
Benefits paid	(34,181)	(33,607)
Projected benefit obligation, end of year	$ 660,007	$ 675,164
Change in plan assets		
Fair value of plan assets, beginning of year	$ -	$ -
Actual return on plan assets	-	-
Employer contribution	34,181	33,607
Plan participant contributions	-	-
Benefits paid	(34,181)	(33,607)
Fair value of plan assets, end of year	$ -	$ -
Net Amount Recognized	$ (660,007)	$ (675,164)
Net periodic cost		
Service cost	$ 28,396	$ 24,501
Interest cost	26,034	26,525
Expected return on plan assets	-	-
Amortization of		
Transition (asset) obligation	-	-
Prior service cost	-	-
Actuarial (gain) loss	(170)	(3,990)
Net periodic cost	$ 54,260	$ 47,036
Accumulated other comprehensive income (loss)	$ 52,018	$ 16,783

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

(in thousands of dollars)	**2015**	**2014**
Liability for benefits	$ 660,007	$ 675,164
Deferred income taxes	239,715	246,132
Liabilities (net of tax)	$ 420,292	$ 429,032
Other comprehensive income/(loss) net of tax	$ 22,437	$ (55,016)

Components of Periodic Benefit Cost That Make up Other Comprehensive Income December 31, 2015

	Agent Contract Termination Payment Program		
(in thousands of dollars)	**Before Tax Amount**	**Tax (Expense) or Benefit**	**Net-of-tax Amount**
Actuarial gain (loss)	$ 35,406	$ (12,859)	$ 22,547
Less: Amortization of actuarial gain (loss)	(171)	61	(110)
Prior service cost	-	-	-
Less: Amortization of prior service cost	-	-	-
Net transition obligation	-	-	-
Less: Amortization of net transition obligation	-	-	-
Net recognized in other comprehensive income	$ 35,235	$ (12,798)	$ 22,437
Estimated items to be amortized in next year's periodic pension cost from accumulated other comprehensive income			
Amortization of net actuarial loss (gain)	$ (183)		
Amortization of prior service cost (credit)	-		
Amortization of transition obligation (asset)	-		
Total	$ (183)		

The accumulated benefit obligation at December 31, 2015 and 2014 was $570,739,000 and $579,689,000, respectively.

	2015	2014
Assumptions used to determine projected benefit obligation 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
Assumptions used to determine net periodic benefit cost as of December 31:		
Discount rate	3.95 %	4.75 %
Service fees increase		
AFMIC		
First 8 years after appointment	21.00	21.00
After first 8 years of appointment	3.25	3.25
ASIC		
First 6 years after appointment	8.00	8.00
After first 6 years of appointment	(4.00)	(4.00)
Expected return on plan assets	N/A	N/A

Expected Cash Flows

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

(in thousands of dollars)	
Expected contract termination payments	
2016	$ 33,085
2017	35,919
2018	38,350
2019	41,489
2020	43,648
2021-2025	245,415

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

9. Property and Casualty Loss and Loss Adjustment Expense Reserve

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

(in thousands of dollars)	2015	2014
Direct and assumed balances as of January 1	$ 3,725,441	$ 3,692,509
Less reinsurance recoverables on unpaid losses and loss adjustment expenses	99,938	53,621
Net balance as of January 1	3,625,503	3,638,888
Incurred losses and loss adjustment expenses related to		
Current year	4,756,738	4,761,926
Prior years	(303,031)	(150,961)
Total incurred	4,453,707	4,610,965
Paid losses and loss adjustment expenses related to		
Current year	2,980,970	3,087,377
Prior year	1,372,951	1,536,973
Total paid	4,353,921	4,624,350
Liability for losses and loss adjustment expenses acquired	-	-
Net balance as of December 31	3,725,289	3,625,503
Plus reinsurance recoverables on unpaid losses and loss adjustment expenses	47,584	99,938
Direct and assumed balance as of December 31	$ 3,772,873	$ 3,725,441

The estimated cost of loss and loss adjustment expenses attributable to insured events of prior years decreased by $303,031,000 and $150,961,000 during 2015 and 2014, respectively. The decreases in 2015 and 2014 are the result of re-estimation of unpaid losses and loss adjustment expenses. The lines of business primarily affected in the current year were Private Passenger Auto Liability and Homeowners/Farmowners. The lines of business primarily affected in the prior year were Private Passenger Auto Liability, Auto Physical Damage and Other Liability.

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 $1,083,000 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 0.613% at December 31, 2015. The trust subsidiaries used the proceeds to acquire $36,083,000 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.

The Company's debentures are reported at the carrying value of $36,083,000, which approximates fair value, as of December 31, 2015 and 2014. The Company paid $1,347,000 and $1,325,000 in interest on the debentures during 2015 and 2014, 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 $500,000,000. The Company pays monthly interest to FHLBC at a fixed annual interest rate of 5.12%, and principal is due in a balloon payment at the end of the advance's 30-year term. The Company paid $25,956,000 in interest on the advance during both 2015 and 2014 and recorded accrued interest of $2,204,000 at both December 31, 2015 and 2014. Interest paid was equal to the amount of interest recorded to other expenses for the years ended December 31, 2015 and 2014.

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

	2015	2014
Shares outstanding (50-1 stock)	100,000	100,000
Shares outstanding (20-1 stock)	20,251	33,261
Total shares outstanding	120,251	133,261
(in thousands of dollars)		
Membership stock - Class B	$ 6,874	$ 8,529
Activity stock	5,151	4,797
Aggregate total - carrying value	12,025	13,326
Actual or estimated borrowing capacity	540,502	566,522
Total borrowing	500,000	500,000
Remaining borrowing capacity	40,502	66,522
Collateral pledged - fair value	703,413	693,721
Collateral pledged - carrying value	686,183	668,437

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 2h.

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

(in thousands of dollars)	**2015**	**2014**
Subordinated debentures (PGC), at book value	$ 36,083	$ 36,083
30-year fixed rate advance (FHLBC), at fair value - see Note 2h	599,994	624,021
Long-term debt	$ 636,077	$ 660,104

11. Accumulated Other Comprehensive Income (Loss)

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

(in thousands of dollars)	**2015**	**2014**
Unrealized gains (losses) on common stocks	$ 679,931	$ 881,443
Unrealized gains (losses) on bonds	133,811	444,408
Unrealized gains (losses) on other assets	1,008	1,007
Adjustment of DAC relating to fair value adjustment	(12,419)	(43,854)
Employee/agent deferred compensation plan adjustment	(214,927)	(230,157)
Deferred income taxes	(212,870)	(381,782)
Accumulated other comprehensive income (loss)	$ 374,534	$ 671,065

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 nine 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 KCL. 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)	**2015**	**2014**
American Family Variable Account I	$ 1,015	$ 1,129
American Family Variable Account II	1,931	2,016
	$ 2,946	$ 3,145

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 KCL. For the years ended December 31 amounts are as follows:

(in thousands of dollars)	**2015**	**2014**
American Family Variable Account I	$ 11,395	$ 12,180
American Family Variable Account II	300	488
	$ 11,695	$ 12,668

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 Kansas Insurance Department, the Connecticut Insurance Department, 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, the North Dakota Insurance Department, 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. The principal differences between financial statements prepared in accordance with STAT and financial statements prepared in accordance with GAAP are disclosed in the reconciliation that follows.

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 their policyholders. However, such distributions as dividends may be subject to prior regulatory approval. The Company accrued $521,000 and $434,000 in dividends related to workers' compensation in 2015 and 2014, respectively.

Consolidated statutory capital and surplus and consolidated net income for AFMIC and its subsidiaries as of and for the years ended December 31, 2015 and 2014 were as follows:

	Surplus/Equity		Net Income	
(in thousands of dollars)	**2015**	**2014**	**2015**	**2014**
Per statutory annual statements	$6,503,090	$6,030,083	$ 594,461	$ 741,369
GAAP adjustments				
Unrealized gains (losses) on bonds	157,493	460,379	(4,602)	(16,122)
P&C deferred policy acquisition costs	409,981	358,775	37,693	7,848
Life deferred policy acquisition costs	325,355	285,887	8,033	11,524
Life and deposit contract liabilities	(45,646)	(59,576)	13,930	15,202
Partnership accounting	(80,755)	(73,963)	19,495	10,453
Contract termination payments	-	-	12,165	10,782
Pension/post-retirement benefits	-	-	(1,050)	(2,960)
Deferred taxes	(400,155)	(415,912)	(60,721)	(23,233)
Nonadmitted assets	463,299	445,040	-	-
Unrealized gains (losses) on derivatives	-	-	(4,670)	(51,972)
Long-term debt fair value adjustment	(99,994)	(124,021)	24,027	(127,845)
Amortization of intangible assets	92,413	49,185	43,227	43,371
Other	37,416	9,231	11,932	(103,223)
Per GAAP financial statements	$7,362,497	$6,965,108	$ 693,920	$ 515,194