American Family Mutual Insurance Company and Subsidiaries

Consolidated Financial Statements
December 31, 2013 and 2012

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Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of American Family Mutual Insurance Company and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2013 and 2012, 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 did not audit the financial statements of Homesite Group, Inc., an indirect wholly-owned subsidiary of American Family Mutual Insurance Company acquired on December 31, 2013, which statements reflect total assets constituting 4.9 percent of consolidated total assets at December 31, 2013. The financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Homesite Group, Inc., is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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Opinion

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Family Mutual Insurance Company and Subsidiaries at December 31, 2013 and 2012 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 28, 2014

American Family Mutual Insurance Company and Subsidiaries
Consolidated Balance Sheets
December 31, 2013 and 2012

(in thousands of dollars)	2013	2012
Assets		
Bonds, available-for-sale and trading	$ 11,733,949	$ 11,507,119
Common stocks, available-for-sale	1,950,648	1,599,756
Mortgage loans on real estate	424,217	407,407
Real estate	6,792	6,784
Policy loans	224,696	240,695
Cash and cash equivalents	513,409	470,136
Short-term investments	114,284	89,838
Other invested assets	618,977	438,100
Total cash and investments	15,586,972	14,759,835
Property and casualty premiums receivable and agents' balances	1,188,865	1,080,948
Accrued investment income	122,188	116,663
Deferred policy acquisition costs	618,821	570,260
Property and equipment (net of accumulated depreciation of $790,455 and $779,122)	565,889	478,960
Reinsurance recoverable	264,103	198,552
Prepaid reinsurance premium	166,824	77,054
Goodwill	219,208	85,246
Intangible assets	282,139	68,810
Deferred tax assets	-	142,546
Other assets	156,263	84,029
Separate account assets	319,028	276,227
Total assets	$ 19,490,300	$ 17,939,130

	2013	2012
Liabilities		
Property and casualty losses and loss adjustment expenses	$ 3,692,509	$ 3,553,469
Liabilities for life policies and contracts	3,999,524	3,898,708
Property and casualty unearned premiums	2,768,832	2,300,080
Life policyholders' dividends payable	12,933	13,004
Drafts outstanding	93,422	118,488
Income tax payable	13,570	26,672
Agent termination benefits	575,156	684,705
Employee pension and other benefits	187,743	353,112
Long-term debt (includes $496,176 and $0 at fair value, respectively)	532,259	36,083
Deferred tax liabilities	33,461	-
Accrued expenses	333,759	236,608
Other liabilities	347,158	305,146
Separate account liabilities	319,028	276,227
Total liabilities	12,909,354	11,802,302
Policyholders' Equity		
Retained earnings	5,781,836	5,403,001
Accumulated other comprehensive income (loss)	799,110	733,827
Total policyholders' equity	6,580,946	6,136,828
Total liabilities and policyholders' equity	$ 19,490,300	$ 17,939,130

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

American Family Mutual Insurance Company and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2013 and 2012

(in thousands of dollars)	**2013**	**2012**
Revenues		
Property and casualty premiums earned	$ 5,786,539	$ 5,304,359
Life insurance premiums, fees and other considerations	314,561	325,936
Net investment income	558,006	527,554
Net impairment losses recognized in earnings	(11,035)	(12,982)
Other realized capital gain (loss)	151,767	231,702
Other income	154,377	80,213
Total revenues	6,954,215	6,456,782
Benefits and expenses		
Property and casualty losses and loss adjustment expenses incurred	4,197,470	3,879,278
Life insurance claims and other benefits	183,848	173,374
Life insurance dividends to policyholders	25,524	29,817
Change in future life policy benefits	74,410	125,061
Commissions	603,397	588,636
Other property and casualty underwriting expenses	1,166,842	1,026,740
Other expenses	176,764	145,563
Total benefits and expenses	6,428,255	5,968,469
Income (loss) before income tax expense (benefit)	525,960	488,313
Income tax expense (benefit)		
Current	66,204	71,470
Deferred	80,921	56,332
Total income tax expense (benefit)	147,125	127,802
Net income (loss)	378,835	360,511
Other comprehensive income (loss)		
Changes in unrealized gains (losses) on securities (net of tax of $4,837 and $145,191 and deferred policy acquisition cost adjustments of $(55,243) and $12,389 in 2013 and 2012, respectively)	3,912	253,702
Less: reclassification adjustment for net gains included in net income (net of tax of $68,483 and $49,458 in 2013 and 2012, respectively)	119,643	86,327
Change in defined benefit obligations (net of tax of $103,847 and $29,414 in 2013 and 2012, respectively)	181,014	51,216
Other comprehensive income (loss)	65,283	218,591
Comprehensive income (loss)	$ 444,118	$ 579,102

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

American Family Mutual Insurance Company and Subsidiaries
Consolidated Statements of Changes in Policyholders' Equity
Years Ended December 31, 2013 and 2012

(in thousands of dollars)	**2013**	**2012**
Retained earnings		
Balance at beginning of year	$5,403,001	$5,042,490
Net income (loss)	378,835	360,511
Balance at end of year	5,781,836	5,403,001
Accumulated other comprehensive income (loss)		
Net unrealized gain (loss) on investments		
Balance at beginning of year	958,977	784,059
Change in unrealized gains (losses) on common stocks, bonds, and other assets	(234,620)	275,494
Income tax benefit/(expense)	83,284	(100,576)
Balance at end of year	807,641	958,977
Net unrealized gain (loss) on deferred acquisition costs		
Balance at beginning of year	(53,830)	(46,287)
Change in period, net of income tax (expense) benefit	35,605	(7,543)
Balance at end of year	(18,225)	(53,830)
Change in pension and other post-retirement benefit obligations		
Balance at beginning of year	(171,320)	(222,536)
Change in period, net of income tax (expense) benefit	181,014	51,216
Balance at end of year	9,694	(171,320)
Total accumulated other comprehensive income (loss)	799,110	733,827
Total policyholders' equity	$6,580,946	$6,136,828

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

American Family Mutual Insurance Company and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2013 and 2012

(in thousands of dollars)	2013	2012
Cash flows from operating activities		
Net income (loss)	$ 378,835	$ 360,511
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	101,801	124,239
Net realized (gains) losses on sales of investments	(138,971)	(219,560)
Unearned premiums	107,903	136,417
Deferred income tax provision	80,921	56,332
Deferred policy acquisition costs	6,679	(10,761)
Earnings of equity method investments	(40,871)	(14,985)
Change in value of trading securities	17,091	(13,747)
Change in value of derivatives	(51,669)	8,522
Insurance reserves	79,812	(53,355)
Other changes in operating assets and liabilities	(36,394)	51,887
Net cash provided by (used in) operating activities	505,137	425,500
Cash flows from investing activities		
Proceeds from sales, maturities or calls of bonds	4,765,692	4,834,145
Purchases of bonds	(5,070,644)	(5,223,291)
Proceeds from sales of common stocks	323,068	634,193
Purchases of common stocks	(174,025)	(423,646)
Net (increase) decrease in finance receivables	2,365	4,857
Net purchases and sales of short term investments	(24,359)	(5,362)
Purchases of other investments	(371,194)	(181,714)
Proceeds from sales of other investments	281,682	57,767
Proceeds from sales of mortgages	82,646	43,964
Purchases of mortgages	(99,461)	(92,743)
Purchases of property and equipment	(92,925)	(76,503)
Acquisition of businesses, net of cash acquired	(601,062)	(207,087)
Other investing activities	15,688	(2,237)
Net cash provided by (used in) investing activities	(962,529)	(637,657)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	500,000	-
Deposits to investments-type and universal life contracts	90,129	122,846
Withdrawals from investment-type and universal life contracts	(89,464)	(82,273)
Net issuance (repayment) of short-term bank borrowings	-	(22,000)
Net cash provided by (used in) financing activities	500,665	18,573
Net change in cash and cash equivalents	43,273	(193,584)
Cash and cash equivalents		
Beginning of year	470,136	663,720
End of year	$ 513,409	$ 470,136

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

1. Nature of Operations and Significant Accounting Policies

American Family Mutual Insurance Company (herein referred to as 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), Midvale Indemnity Company (MIC), Homesite Group, Inc. (Homesite) and PGC Holdings Corp. (PGC). In 2013, Lumbermens Casualty Insurance Company was renamed to MIC. AmFam, Inc., a non-insurance holding company, is the managing member and AFLIC is a non-managing member of New Ventures, LLC (NV), an indirect, wholly-owned subsidiary of AFMIC. AFMIC and its 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, health insurance, commercial insurance, and other property and casualty insurance. ASIC and ASICO are engaged principally in the writing of non-standard automobile and cycle insurance. In 2011, ASIC started assuming property reinsurance mainly outside the Companies' existing geographic operating territory in order to diversify the Companies' risk. AFLIC markets whole life, term life, universal life, deferred annuity and fixed annuity products to provide financial protection for qualified individuals, families and business enterprises. AFLIC ceased selling new variable universal life and variable annuities in 2009. AFLIC also supports a small amount of group life insurance and structured settlements business primarily as a service to its affiliates. 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. These companies sell these lines of business predominantly through a multi-line, exclusive agency force in nineteen states. AFIC sells insurance in the states of Ohio, Georgia, and Utah only. ASICO sells insurance in the states of Ohio and Georgia only. AFBI is an insurance agency which provides brokerage services to its affiliates and administers the federal Write Your Own Flood Program on behalf of AFMIC. AFS is a non-clearing registered broker-dealer. NV was formed in 2010 to support the Companies' non-insurance business development efforts. On April 1, 2013, AFLIC ceded 100% of its variable universal life (VUL) and variable annuity (VA) business under a 100% reinsurance agreement with Kansas City Life Insurance Company (see Note 1(i)).

On August 27, 2013, AFMIC acquired AIA (see Note 2). AIA is a managing general agent and utilizes MIC to underwrite policies for small commercial businesses direct to the consumer. On December 31, 2013, AmFam, Inc. acquired 100% of the ownership interest in Homesite (see Note 2). Homesite specializes in direct-to-consumer homeowners, renters and condominium insurance. Homesite sells its products primarily through alliances with other insurers, mortgage companies, and real estate companies. On October 1, 2012, AmFam, Inc. acquired MIC as a shell company (see Note 2). On December 31, 2012, AmFam, Inc. acquired 100% of the ownership interest in PGC (see Note 2). 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.

Property and casualty insurance represented 95.0% and 94.0% of total net premiums written for 2013 and 2012, respectively. Life insurance represented 5.0% and 6.0% of total net premiums

written for 2013 and 2012, respectively. The Companies are licensed in 50 states and the District of Columbia.

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

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 are considered trading securities. 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 cost 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.

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. 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 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 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. 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 on real estate 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.

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.

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 $10,348,000 and $9,515,000 at December 31, 2013 and 2012, 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 contracts for each of its major lines of business. With the exception of short duration contracts written by PGC, anticipated investment income is considered as part of the evaluation. A gross premium deficiency reserve of $3,088,000 and $6,911,000 existed attributable to health lines at December 31, 2013 and 2012, respectively. 50% of the reserve is subject to ceding under a reinsurance contract. GAAP requires that any related DAC is eliminated before a liability is recorded. After taking into account the 50% cession and adjusting for approximately $1,412,000 of related DAC eliminations, net premium deficiency reserves of $132,000 and $2,043,000 were reported as of December 31, 2013 and 2012, respectively.

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

e. Deferred Policy Acquisition Costs (DAC)

Costs that are directly related to the successful acquisition of new or renewal insurance contracts are deferred to the extent that such costs are deemed recoverable. These costs include, but are not limited to, commissions, certain costs of policy issuance and underwriting,

and certain agency expenses. 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 policy holder 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. Liabilities for Losses and Loss Adjustment Expenses

The liability for property and casualty losses and loss adjustment expenses, 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 $7,376,000 and $7,838,000 of such

discounted reserves at December 31, 2013 and 2012, respectively. As of July 1, 2010, the Companies' long-term care business was 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

Benefit payments to policyholders and beneficiaries include death, surrender, and disability benefits, as well as matured endowments and payments on supplementary annuity contracts that include life contingencies. Benefit payments on supplementary annuity contracts without life contingencies are deposit-type contracts and excluded from benefits in the consolidated statements of comprehensive income. Benefit payments are reported net of ceded reinsurance recoveries.

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.

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 2013 and 2012. Interest rates on all other issues are between 2.5% and 5.0% in both 2013 and 2012.

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

(in thousands of dollars)	2013		2012	
Deposit-type liabilities				
Universal life	$ 492,258	12.3 %	$ 493,266	12.7 %
Deferred annuities	256,389	6.4	245,923	6.3
Dividend accumulations	239,149	6.0	237,825	6.1
Structured settlements	51,376	1.3	54,361	1.4
Variable universal life	12,131	0.3	9,677	0.2
Variable annuities	13,846	0.3	13,123	0.3
Supplemental contracts without life contingencies, retained assets and premium deposits	95,450	2.4	95,007	2.4
Accident & health liabilities				
Long-term care	72,657	1.8	65,464	1.7
Insurance-type liabilities				
Traditional whole life	2,284,214	57.1	2,226,313	57.2
Traditional term life	423,342	10.6	401,974	10.3
Payout annuities	50,518	1.3	48,121	1.2
Other insurance reserves	8,194	0.2	7,654	0.2
Total liabilities for life policies and deposit contracts	$ 3,999,524	100.0 %	$ 3,898,708	100.0 %

h. Life Policyholders Dividends Payable

Approximately 97.9% 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 contracts 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.

In 2011, ASIC started assuming 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 2013 and 2012 were $68,478,000 and $66,988,000, respectively.

Property and casualty earned premiums ceded under reinsurance contracts during 2013 and 2012 were $172,243,000 and $185,191,000, respectively. Gross written premiums ceded during 2013 and 2012 were $175,510,000 and $127,557,000, respectively. Unearned

premiums ceded under reinsurance contracts were $167,214,000 and $78,491,000 at December 31, 2013 and 2012, respectively. Loss and loss adjustment expenses ceded under reinsurance contracts were $83,585,000 and $55,017,000 for the years ended December 31, 2013 and 2012, respectively.

Life reinsurance premiums ceded were $68,462,000 and $57,269,000 in 2013 and 2012, respectively. Life reserves ceded under reinsurance contracts were $184,064,000 and $144,025,000 at December 31, 2013 and 2012, respectively. Reinsurance commissions and expense allowances were $46,387,000 and $19,910,000 in 2013 and 2012, respectively. Life and Accident and Health insurance benefits on ceded claims were $22,123,000 and $23,777,000 in 2013 and 2012, respectively.

Effective April 1, 2013, AFLIC ceded all of its VUL and VA in-force block of business under a 100% reinsurance agreement with Kansas City Life Insurance Company (KCL). Pursuant to the agreement, the Company transferred all of the net policy liabilities on the reinsured policies (with an outstanding gross carrying value of $27,596,000 at April 1, 2013) with the exception of the separate account liabilities which are retained by the Company under the modified coinsurance agreement relating to the separate accounts. A corresponding decrease to “change in future policy benefits” was recorded in the consolidated statements of comprehensive income. DAC in the amount of $27,386,000 was written off at the time of the initial transaction. As part of this transaction, former registered representatives were also paid a one-time lump sum commission payment of $5,162,000 which was recorded as commission expense. A ceding commission of $25,016,000 was recorded as a reduction of “salaries and other expenses” in the consolidated statements of comprehensive income. This reinsurance transaction resulted in a total gain of $20,063,000 which has been deferred because the transaction was structured as indemnity reinsurance whereby the Company’s obligation to policyholders was not legally extinguished. The gain is being amortized over the remaining expected life of the policies (28 years for VUL and 26 years for VA). The deferral of this gain was recorded as an increase to “salaries and other expenses” in the consolidated statements of comprehensive income and an increase to “other liabilities” in the consolidated balance sheets. Straight-line amortization of the deferred gain is being utilized. $544,000 of this deferred gain has been recognized during 2013. The total gain was recognized immediately for tax return purposes. However, the increase in current income tax expense was completely offset by an equivalent decrease in deferred tax expense as a deferred income tax asset was recorded for the tax effect of this deferred gain. All legal and consulting expenses as part of the transaction have been expensed in the current year.

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. Federal Income Taxes

The Companies file a consolidated federal income tax return (with the exception of Homesite which will be included starting in 2014) 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, 2013 and 2012.

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:

	2013			2012		
(in thousands of dollars)	Gross Cost	Accumulated Depreciation	Net	Gross Cost	Accumulated Depreciation	Net
Property occupied by the Company	$ 441,677	$ (212,408)	$ 229,269	$ 438,405	$ (202,751)	$ 235,654
Furniture and equipment	231,920	(143,248)	88,672	206,530	(150,346)	56,184
Computer software and equipment	682,747	(434,799)	247,948	613,147	(426,025)	187,122
	$1,356,344	$ (790,455)	$ 565,889	$1,258,082	$ (779,122)	$ 478,960

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. 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 7 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 2018 and thereafter. Lease expense for 2013 and 2012 was $38,673,000 and $39,543,000, respectively.

As of December 31, 2013, the minimum aggregate lease commitments were as follows:

(in thousands of dollars) **Year ending December 31**	**Operating Leases**
2014	$ 43,539
2015	43,483
2016	44,026
2017	42,909
2018 and thereafter	55,885
Total	$ 229,842

Certain lease commitments have renewal options extending through the year 2025. Some of these renewals are subject to adjustments in future periods.

o. Statements of Cash Flows

The Companies paid income taxes of $87,390,000 and $64,974,000 in 2013 and 2012, respectively. Interest paid on borrowings was $2,161,000 and $53,000 in 2013 and 2012, respectively.

p. Separate Accounts

Separate account assets include segregated funds invested by the Company as designated by variable universal life insurance and variable annuity 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.

q. Adoption of New Accounting Guidance

Disclosures about Offsetting Assets and Liabilities

In December 2011 and January 2013, the FASB issued guidance regarding the offsetting of specific assets and liabilities on the statement of financial position. The guidance applies to derivatives that are subject to a master netting arrangement. Under certain conditions, offsetting of the assets and liabilities will continue to be permissible, provided that the Company includes required disclosures to facilitate the reconciliation of the financial statements between U.S. GAAP and IFRSs. The Company adopted the guidance for its year ended December 31, 2013. The new guidance affects disclosures only and, therefore, the adoption had no impact on the Company's results of operations or financial position.

Testing Indefinite-Lived Intangible Assets for Impairment

In July 2012, the FASB issued guidance providing the option to perform a qualitative, rather than quantitative, assessment to determine whether it is more likely than not that indefinite-lived intangible assets are impaired, which would indicate that further quantitative analysis would need to be performed to determine whether an impairment has occurred. The Company adopted this guidance on January 1, 2013 and has elected the option of performing a qualitative assessment. The new guidance did not impact the Company's results of operations or financial position.

r. Future Adoption of New Accounting Guidance

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income

In February 2013, the 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 updated guidance is effective for non-public entities prospectively for accounting reporting periods beginning after December 15, 2013, with early adoption permitted. The Company will adopt this guidance on January 1, 2014. 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.

s. Reclassifications

Certain reclassifications have been made in the accompanying consolidated financial statements to allow for consistent financial reporting.

t. Subsequent Events

The Company has evaluated events subsequent to December 31, 2013 through February 28, 2014, the date these financial statements were available to be issued. Based on this evaluation, no events have occurred subsequent to December 31, 2013 that require disclosure or adjustment to the financial statements at that date or for the year then ended.

2. Acquisitions

On December 31, 2013, AmFam Inc. acquired 100% of the ownership interest in Homesite for $658,600,000 in cash. The purpose of this acquisition was to broaden distribution channels and to spread the concentration of risk. Homesite's wholly-owned subsidiary, Homesite Indemnity Corporation, is a property and casualty writer domiciled in Kansas. Homesite's other subsidiary, Homesite Securities Company, LLC, owns Homesite Insurance Agency and has seven wholly-owned insurance subsidiaries: Homesite Insurance Company of Georgia, Homesite Insurance Company of New York, Homesite Insurance Company of California, Homesite Insurance Company of the Midwest, Homesite Insurance Company of Illinois, Homesite Insurance Company of Florida, and Homesite Insurance Company. Homesite Securities Company, LLC, also owns and controls Texas-South of Homesite, Inc., which is the attorney-in-fact for Homesite Lloyd's of Texas. Homesite specializes in direct-to-consumer homeowners, renters and condominium insurance. Homesite sells its products primarily through alliances with other insurers, mortgage companies, and real estate companies. As of December 31, 2013, Homesite had policies in force in 46 states and the District of Columbia.

The transaction was accounted for under the acquisition method using Homesite's historical financial information and applying fair value estimates to the acquired assets and liabilities as of the acquisition date. The excess of the purchase price over the fair value of the assets acquired and liabilities assumed at the acquisition date have been allocated to goodwill and intangible assets. The Company recognized $135,025,000 of goodwill, which is primarily attributable to future growth potential, an assembled workforce with industry-wide technical expertise and synergies that will bring more value to customers through better operating efficiencies.

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

(in thousands of dollars)		December 31, 2013
Assets		
Cash and investments	$	693,954
Reinsurance recoverable		38,496
Premiums receivable		66,362
Accrued investment income		3,659
Prepaid reinsurance premium		85,456
Intangible assets		228,900
Property and equipment		4,551
Other assets		47,948
Total assets	$	1,169,326
Liabilities		
Losses and loss adjustment expenses	$	159,346
Unearned premiums		359,913
Deferred income tax liability		56,619
Accrued expenses		57,183
Other liabilities		12,690
Total liabilities	$	645,751
Total identified net assets acquired	$	523,575
Goodwill	$	135,025

The acquired intangible assets of $228,900,000 are comprised of partner relationships, referral relationships, software, state insurance licenses, value of business acquired, and renewal rights. Useful lives for finite-lived intangible assets range from one to twelve years. The goodwill will not be deductible for tax purposes.

On August 27, 2013, the Company acquired 100% of the Class A units of AIA for $4,000,000 in cash and its existing investment in Business Insurance Direct, LLC (BID). No goodwill was recorded as a result of this acquisition. The class A units of AIA entitle the Company to 100% voting capital interest and 80% nonvoting profits interest. The Company acquired 100% of the Class A units of BID on January 14, 2013 for $1,500,000 in cash. In exchange for 100% of the Class B units of AIA, BID contributed all of its net assets to AIA (principally computer software, prepaid assets and cash). AIA is a managing general agent and utilizes MIC to underwrite policies for small commercial businesses direct to the consumer. As of December 31, 2013, AIA had four policies in force in one state and had a carrying value of $13,666,000.

On December 31, 2012, AmFam, Inc. acquired 100% of the ownership interest in PGC for $239,000,000 in cash. PGC wholly-owns, directly or indirectly, a holding company (Permanent General Companies, Inc.), three statutory insurance entities (Permanent General Assurance Corp of OH; The General Automobile Insurance Company, Inc.; and Permanent General Assurance Corporation), a premium finance company (PGA Service Corporation), two statutory trusts (PGC Holdings Corp. Statutory Trust I; PGC Holdings Corp. Statutory Trust II), and five insurance

agencies (The General Automobile Insurance Services of Texas, Inc.; The General Automobile Insurance Services of Ohio, Inc.; The General Automobile Insurance Services of Georgia, Inc.; The General Automobile Insurance Services, Inc.; and The General Automobile Insurance Services of Louisiana, Inc.). The Permanent General Companies specialize in non-standard private passenger personal automobile insurance, primarily to consumers interested in acquiring an insurance policy to comply with state minimum insurance requirements. As of December 31, 2013, PGC had policies in force in 27 states. PGC's business is primarily written on a direct basis (e.g. online and over the phone). PGC also generates business through independent insurance agencies and referral partners.

The transaction was accounted for under the acquisition method using PGC's historical financial information and applying fair value estimates to the acquired assets and liabilities as of the acquisition date. The excess of the purchase price over the fair value of the assets acquired and liabilities assumed at the acquisition date have been allocated to goodwill and intangible assets.

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

(in thousands of dollars)		December 31, 2012
Assets		
Cash and investments	$	254,154
Premiums receivable		98,334
Accrued investment income		2,239
Property and equipment		11,347
Intangible assets		62,500
Other assets		6,848
Income tax receivable		8,842
Total assets	$	444,264
Liabilities		
Losses and loss adjustment expenses	$	94,480
Unearned premiums		110,400
Deferred income tax liability		15,636
Long-term debt		36,083
Accrued expenses		21,388
Other liabilities		12,523
Total liabilities	$	290,510
Total identified net assets acquired	$	153,754
Goodwill	$	85,246

The acquired intangible assets of $62,500,000 are comprised of trade name and trademarks, software, state insurance licenses, value of business acquired, referral relationships, and partner relationships. Useful lives for finite-lived intangible assets range from one to ten years. Goodwill is attributable to an assembled workforce with industry-wide technical expertise and synergies that will bring more value to customers through better operating efficiencies. The goodwill will not be deductible for tax purposes. In 2013, there was a measurement period adjustment of $1,063,000 to increase DTAs and decrease goodwill, which was the result of utilization of a NOL from PGC.

On October 1, 2012, AmFam, Inc. acquired 100% of the ownership interest in MIC, as a shell company, for $14,670,000. In connection with the acquisition, MIC and Lumbermens Mutual Casualty Company (LMC, MIC's former parent) entered into a reinsurance agreement pursuant to which LMC assumes via a 100% quota share reinsurance basis all of the gross liabilities and obligations relating to MIC's pre-closing insurance business. AmFam, Inc.'s goal in the transaction was to obtain the 41 full state insurance licenses permitting MIC to write property and casualty insurance in various states. The transaction was accounted for under the acquisition method using MIC's historical financial information and applying fair value estimates to the acquired assets and liabilities as of the acquisition date. The acquired intangible assets of $6,310,000 are comprised of state insurance licenses, which are considered indefinite-lived intangible assets.

Acquisition related expenses of $7,898,000 and $5,896,000 were incurred during 2013 and 2012, respectively, and are included in other expenses in the consolidated statements of comprehensive income.

3. 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 markets that are generally active.

Common Stocks: Comprised of actively traded, exchange listed U.S. and international equity securities and mutual funds. 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.

Short-term Investments: Comprised of U.S. Treasuries with valuations based on unadjusted quoted prices for identical assets in markets that are generally active.

Level 2 Measurements

Bonds: The 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. Also includes privately placed securities totaling $233,844,000 and $232,241,000 in 2013 and 2012, respectively, that 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 a 25 basis point illiquidity premium is factored into the yield curve inputs.

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 and Agencies and Obligations of Foreign Governments: 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 non-actively traded mutual fund investments priced by the fund manager using observable inputs primarily consisting of quoted prices of the underlying stocks. Also includes shares in Federal Home Loan Bank of Chicago (FHLBC) stock as discussed in Note 11.

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 3(a).

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 3(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.

ABS and RMBS: 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 weighted average lives as inputs.

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 on a recurring basis as of December 31:

2013

(in thousands of dollars)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Other Valuations	Balance as of December 31, 2013
Financial assets					
Bonds, available-for-sale and trading:					
U.S. Government	$ 376,305	$ 142,128	$ -	$ -	$ 518,433
Obligations of Foreign Governments	-	3,788	-	-	3,788
Municipals	-	4,604,671	17,880	-	4,622,551
Corporates	-	4,247,240	5,365	-	4,252,605
RMBS	-	1,186,964	3	-	1,186,967
CMBS	-	507,430	-	-	507,430
ABS	-	611,249	30,926	-	642,175
Common stocks, available-for-sale	1,841,715	97,426	-	11,507	1,950,648
Cash equivalents	329,167	1,376	-	-	330,543
Short-term investments	88,846	25,438	-	-	114,284
Derivative assets	-	37,406	-	-	37,406
Separate account assets	-	319,028	-	-	319,028
Total recurring basis assets	2,636,033	11,784,144	54,174	11,507	14,485,858
Valued at cost, amortized cost or using the equity method	-	-	-	1,457,530	1,457,530
Total financial assets	$ 2,636,033	$ 11,784,144	$ 54,174	$ 1,469,037	$ 15,943,388
Long-term debt	-	496,176	-	36,083	532,259
Derivative liabilities	-	505	-	-	505
Total financial liabilities	$ -	$ 496,681	$ -	$ 36,083	$ 532,764

2012

(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, 2012
Financial assets					
Bonds, available-for-sale and trading:					
U.S. Government	$ 146,262	$ 40,865	$ -	$ -	$ 187,127
Municipals	-	4,661,210	4,500	-	4,665,710
Corporates - Bank Loans	-	-	-	-	-
Corporates - Other	-	3,921,471	17,152	-	3,938,623
RMBS	-	1,644,561	-	-	1,644,561
CMBS	-	597,116	2,950	-	600,066
ABS	-	439,367	31,665	-	471,032
Common stocks, available-for-sale	1,529,186	66,051	-	4,519	1,599,756
Cash equivalents	195,255	-	-	-	195,255
Short-term investments	72,703	17,135	-	-	89,838
Derivative assets	-	955	-	-	955
Separate account assets	-	276,227	-	-	276,227
Total recurring basis assets	1,943,406	11,664,958	56,267	4,519	13,669,150
Valued at cost, amortized cost or using the equity method	-	-	-	1,367,867	1,367,867
Total financial assets	$ 1,943,406	$ 11,664,958	$ 56,267	$ 1,372,386	$ 15,037,017
Long-term debt	-	-	-	36,083	36,083
Derivative liabilities	-	10,960	-	-	10,960
Total financial liabilities	$ -	$ 10,960	$ -	$ 36,083	$ 47,043

As part of its pricing procedures, the Company obtains quotes from a leading provider of pricing data, and the Company's internal pricing policy is to use a consistent source for individual securities in order to maintain the integrity of its valuation process. These primary quotes are validated on a quarterly basis via comparison to a secondary pricing source, which may include quotes received from a different third party pricing data provider or recent trade

activity obtained from reputable online trading sites. Investment managers may be consulted to corroborate prices received from outside sources based on their knowledge of market trends and activity. As necessary, the Company utilizes a pricing service that specializes in difficult-to-value securities to price esoteric or illiquid securities. Material discrepancies between the primary and secondary sources are investigated, reconciled and updated as warranted. This may involve challenging a price from the primary source if the Company determines the price provided does not meet expectations based on observed market, sector, or security trends and activity.

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

During the course of the valuation process, if it is determined the material inputs used to price a security are unobservable, the Company will transfer that security to Level 3. Level 3 securities have historically represented a nominal percentage of the total investment portfolio and have generally consisted of illiquid or thinly traded CDO and private placement deals, bonds of issuers in the process of restructuring or bankruptcy, or other esoteric or difficult-to-price securities with little liquidity.

All transfers into or out of a particular level are recognized as of the beginning of the reporting period. In 2013, the Company transferred a $14,000,000 municipal bond from Level 2 to Level 3. This bond was initially valued based on its December 2012 purchase price but has subsequently been valued internally using a discounted cash flow model utilizing unobservable inputs. The Company transferred $4,328,000 of corporate bonds from Level 2 to Level 3 in 2013. These bonds were previously priced by a third party pricing service using observable inputs but pricing for these securities was discontinued in 2013. The bonds are now priced manually using unobservable inputs. The Company transferred a $17,152,000 corporate bond from Level 3 to Level 2 during 2013. This bond was previously priced manually using unobservable inputs but is now priced by a third party pricing service using observable inputs. In 2013, the Company transferred $2,333,000 and $7,748,000 of CMBS and ABS securities from Level 3 to Level 2, respectively. These securities were previously priced using unobservable inputs, but are currently either priced manually using observable trade data or by the Company's primary pricing vendor using observable inputs. There were no other material transfers between levels in 2013.

In 2012, the Company transferred $2,439,000 of ABS – CDO securities from Level 3 to Level 2. The CDO's valuation was derived from that of the underlying strip, a zero coupon municipal bond that had been accreting to par and which matured in early 2013. The strip was valued using recent observable trade activity, which was deemed to be a reasonable proxy of the value of the CDO. The Company also transferred $16,546,000 of Corporate securities from Level 2 to Level 3 during 2012 as a result of the Company's primary pricing source no longer providing valuations for this bond. This illiquid corporate bond is now priced through a third-party vendor that specializes in difficult-to-price securities, and significant spread assumptions used to value the bond are not observable. There were no other material transfers between levels in 2012.

The Company obtained $13,433,000 of Level 3 CMBS and ABS securities in 2012 as a result of the PGC acquisition described in Note 2. This acquisition was recognized as of the purchase date.

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

2013

(in thousands of dollars)	Balance as of January 1, 2013	Total Realized and Unrealized Gains (Losses) included in Net Income	OCI on Balance Sheet	Purchases	Obtained in Acquisition	Sales	Settlements	Net Transfers In and/or (Out) of Level 3	Balance as of December 31, 2013
Financial assets									
Bonds, available-for-sale & trading:									
Municipals	$ 4,500	$ -	$ (455)	$ -	$ -	$ -	$ (165)	$ 14,000	$ 17,880
Corporates	17,152	-	(210)	1,432	-	-	(185)	(12,824)	5,365
RMBS	-	-	-	-	-	-	(5)	8	3
CMBS	2,950	243	-	-	-	(860)	-	(2,333)	-
ABS	31,665	588	(452)	16,765	-	-	(9,892)	(7,748)	30,926
Total recurring Level 3 financial assets	$ 56,267	$ 831	$ (1,117)	$ 18,197	$ -	$ (860)	$ (10,247)	$ (8,897)	$ 54,174

2012

(in thousands of dollars)	Balance as of January 1, 2012	Total Realized and Unrealized Gains (Losses) included in Net Income	OCI on Balance Sheet	Purchases	Obtained in Acquisition	Sales	Settlements	Net Transfers In and/or (Out) of Level 3	Balance as of December 31, 2012
Financial assets									
Bonds, available-for-sale & trading:									
Municipals	$ 4,660	$ -	$ -	$ -	$ -	$ -	$ (160)	$ -	$ 4,500
Corporates	7,486	4,717	(443)	-	-	-	(11,154)	16,546	17,152
CMBS	-	-	-	-	2,950	-	-	-	2,950
ABS	22,376	4,646	(2,110)	13,865	10,483	(2,656)	(12,500)	(2,439)	31,665
Short-term investments	4,991	-	-	-	-	-	(4,991)		-
Total recurring Level 3 financial assets	$ 39,513	$ 9,363	$ (2,553)	$ 13,865	$ 13,433	$ (2,656)	$ (28,805)	$ 14,107	$ 56,267

There were no gains or losses included in net income for Level 3 instruments still held at December 31, 2013 or 2012.

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 12/31/2013	Valuation Technique	Unobservable Input	Range
Municipals	$ 4,335	Par value	Backed by property tax payments made by the Company	Priced at par
	13,545	Cash flow modeling	Spread (Discount Margin)	581 bps (added to UST with similar maturity)
Corporates	2,397	Broker quotes	Bid and ask quotes	99.349 - 107.250
	2,968	Cash flow modeling	Spread (Discount Margin)	120 bps (added to 5 year UST)
ABS	30,926	Cash flow modeling	Weighted Average Life	0.5 yr
			Yield	3.00%
			Ask quotes	99 - 101
			Discount Margin	30 - 240
			Conditional Prepayment Rate	0 - 20
			Conditional Prepayment Rate	2 - 15%
			Severity	30 - 70
Significant unobservable inputs not available	3			
Total Level 3 Securities	$ 54,174			

(in thousands of dollars)	Fair Value at 12/31/2012	Valuation Technique	Unobservable Input	Range
Municipals	$ 4,500	Par value	Backed by property tax payments made by the Company	Priced at par
Corporates	17,152	External vendor	Spread	120 bps (added to 5 year UST)
ABS	21,182	Cash flow modeling	Weighted Average Life	0.2 - 2.0 yr
			Principal Recovery	100%
			Yield	3.25 - 8.20%
			Conditional Prepayment Rate	3%
			Swap Curve	N+110
			Prospectus prepayment curve	100%
			Spread (Discount Margin)	151 bps (added to 3 month LIBOR)
			New issue in 2012 - priced at par	N/A
Significant unobservable inputs not available	13,433			
Total Level 3 Securities	$ 56,267			

The tables do not include quantitative information for $3,000 and $13,433,000 of securities whose Level 3 fair values are obtained from non-binding external sources where unobservable inputs are not reasonably available to the Company as of December 31, 2013 and 2012, respectively. Due to the relative size of these securities' fair values compared to the total portfolio's fair value, any changes in pricing methodology would not have a significant change in valuation that would materially impact other comprehensive income.

Mortgage Loans on Real Estate

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

Policy Loans

Policy loans represent amounts borrowed from the Company by life insurance policyholders, secured by the cash value of the related policies, and are reported at unpaid principal balance. Policy loans have no stated maturity dates and are an integral part of the related insurance

contract. The carrying value of policy loans approximates the fair value. The interest rate for policy loans on current issues was 8% in both 2013 and 2012.

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:

	2013		2012	
(in thousands of dollars)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Mortgage loans on real estate	$ 424,217	$ 453,863	$ 407,407	$ 449,252
Policy loans	224,696	224,696	240,695	240,695
Financial liabilities				
Deferred annuities	256,389	254,080	245,923	243,623
Structured settlements	65,290	79,063	67,641	83,359

b. Common Stocks
The aggregate cost of common stocks at December 31, 2013 and 2012 was $865,805,000 and $870,651,000, respectively. Net unrealized appreciation of common stocks stated at fair value includes gross unrealized gains of $1,089,648,000 and $731,876,000 and gross unrealized losses of $4,805,000 and $2,771,000 at December 31, 2013 and 2012, 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:

	2013							
	Less than 12 Months			12 Months or More			Total	
(in thousands of dollars, except number of issues)	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities:								
Common stocks	18	$ 5,843	$ (452)	1	$ 2,549	$ (4,353)	$ 8,392	$ (4,805)
Total	18	$ 5,843	$ (452)	1	$ 2,549	$ (4,353)	$ 8,392	$ (4,805)

	2012							
	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	100	$ 11,495	$ (365)	13	$ 4,616	$ (2,406)	$ 16,111	$ (2,771)
Total	100	$ 11,495	$ (365)	13	$ 4,616	$ (2,406)	$ 16,111	$ (2,771)

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

During 2013 and 2012, the Company recorded other-than-temporary impairments (OTTI) relating to its common stock portfolio of $1,686,000 and $1,034,000, respectively.

Proceeds from sales of stock during 2013 and 2012 were $300,934,000 and $610,129,000, respectively. These amounts exclude spin-offs, tax-free exchanges, taxable exchanges and returns of capital. Gross gains of $65,518,000 and $57,360,000 and gross losses of $5,318,000 and $22,074,000 were realized on those sales during 2013 and 2012, respectively. The basis of the securities sold was determined using specific identification.

The Company's common stock portfolio is primarily invested in and managed to a modified Russell 3000 Index. A portion of the stock portfolio is weighted toward dividend paying stocks within the Russell 3000 Index and the Company maintains a small allocation to mutual funds. 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:

	2013			
(in thousands of dollars)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Description of Securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 613,280	$ 2,322	$ (8,323)	$ 607,279
Obligations of foreign governments	3,788	-	-	3,788
Obligations of states and political subdivisions	4,586,613	107,326	(64,345)	4,629,594
Corporate	4,155,257	174,808	(63,795)	4,266,270
Residential mortgage-backed securities	1,183,814	24,244	(21,091)	1,186,967
Commercial mortgage-backed securities	483,749	26,675	(2,994)	507,430
Asset-backed securities	629,747	18,965	(1,807)	646,905
Total	$ 11,656,248	$ 354,340	$ (162,355)	$ 11,848,233

	2012			
(in thousands of dollars)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Description of Securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 251,957	$ 8,068	$ (194)	$ 259,831
Obligations of foreign governments	-	-	-	-
Obligations of states and political subdivisions	4,372,592	309,311	(4,258)	4,677,645
Corporate	3,605,826	342,530	(4,534)	3,943,822
Residential mortgage-backed securities	1,576,431	68,712	(582)	1,644,561
Commercial mortgage-backed securities	547,511	52,604	(49)	600,066
Asset-backed securities	441,180	30,005	(153)	471,032
Total	$ 10,795,497	$ 811,230	$ (9,770)	$ 11,596,957

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:

	2013							
	Less than 12 Months			12 Months or More			Total	
(in thousands of dollars, except number of issues)	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities:								
U.S. Treasury securities and obligations of U.S. government corporations and agencies	51	$ 257,143	$ (7,549)	5	$ 13,127	$ (774)	$ 270,270	$ (8,323)
Obligations of states and political subdivisions	502	1,664,293	(59,681)	30	69,910	(4,664)	1,734,203	(64,345)
Corporate	525	1,282,939	(54,718)	40	109,640	(9,077)	1,392,579	(63,795)
Residential mortgage-backed securities	151	486,022	(18,839)	12	31,903	(2,252)	517,925	(21,091)
Commercial mortgage-backed securities	44	136,659	(2,786)	1	4,196	(208)	140,855	(2,994)
Asset-backed securities	67	204,546	(1,669)	6	11,165	(138)	215,711	(1,807)
Total	1,340	$ 4,031,602	$ (145,242)	94	$ 239,941	$ (17,113)	$ 4,271,543	$ (162,355)

	2012							
	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	10	$ 66,634	$ (194)	-	$ -	$ -	$ 66,634	$ (194)
Obligations of states and political subdivisions	102	319,192	(4,151)	2	5,330	(107)	324,522	(4,258)
Corporate	105	248,599	(4,057)	1	7,149	(477)	255,748	(4,534)
Residential mortgage-backed securities	14	64,502	(551)	4	1,034	(31)	65,536	(582)
Commercial mortgage-backed securities	7	16,173	(49)	-	-	-	16,173	(49)
Asset-backed securities	13	25,299	(53)	2	7,139	(100)	32,438	(153)
Total	251	$ 740,399	$ (9,055)	9	$ 20,652	$ (715)	$ 761,051	$ (9,770)

The Company classifies its convertible bond investments as trading securities, and unrealized gains and losses related to these securities are included in investment income. The fair value of these securities was $251,232,000 and $426,146,000 as of December 31, 2013 and 2012, respectively. The portion of the change in unrealized gains (losses) recorded in income relating to trading securities still held at December 31, 2013 and 2012 is $11,038,000 and $18,810,000, respectively.

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.

In 2013 and 2012, credit-related OTTI of $0 and $2,507,000, respectively, was recorded on bonds (including private placements). No portion of the OTTI loss was included in 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. There were no other credit-related impairments recorded in 2013 or 2012, and 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 2013 and 2012, the Company recorded total OTTI relating to its bond portfolio of $6,926,000 and $4,475,000, 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, 2013 and 2012.

The amortized cost and fair value of bonds and short-term investments at December 31, 2013 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, 2013	
(in thousands of dollars)	**Amortized Cost**	**Fair Value**
Due in one year or less	$ 644,628	$ 652,624
Due after one year through five years	2,992,037	3,087,568
Due after five years through ten years	4,013,436	4,020,306
Due after ten years	1,708,837	1,746,433
Subtotal	9,358,938	9,506,931
Mortgage-backed securities	1,667,563	1,694,397
Asset-backed securities	629,747	646,905
Total	$ 11,656,248	$ 11,848,233

Proceeds from sales of bonds during 2013 and 2012 were $3,755,187,000 and $3,659,505,000, respectively. Gross gains of $140,700,000 and $184,998,000 and gross losses of $62,665,000 and $9,363,000 were realized on those sales during 2013 and 2012, respectively. The basis of the securities sold was determined using specific identification.

At December 31, 2013 and 2012, bonds with a fair value of $61,459,000 and $44,071,000, respectively, were on deposit with various regulatory authorities to comply with insurance laws.

d. Other Invested Assets

The Company held $268,715,000 and $207,101,000 in limited partnerships accounted for under the cost method, $350,262,000 and $229,916,000 in limited partnerships accounted for under the equity method, and $0 and $1,083,000 in non-limited partnership other invested assets at December 31, 2013 and 2012, respectively. See Note 1(b) for a description of specific accounting practices regarding the cost and equity methods.

During 2013 and 2012, the Company recorded OTTI in the other invested assets portfolio, resulting in a total realized loss of $2,424,000 and $4,780,000, 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

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

In order to mitigate interest rate risk with respect to the Company's investment portfolio and general operations, the Company has entered into certain interest rate derivatives. The interest rate derivatives are used to hedge interest rate risk. The Company does not use derivatives for speculative purposes, and did not use derivatives for replication or other income generation purposes during 2013 or 2012.

Derivative instruments are accounted for on a fair value basis on the consolidate balance sheets, and unrealized and realized gains and losses on derivative positions are recognized as net investment income in the consolidated statements of comprehensive income. All derivative instruments are subject to enforceable master netting agreements and the Company elects to net derivative asset and derivative liability positions with the same counterparty on the 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. These derivative instruments are not separately presented on the consolidated balance sheets and consolidated statements of comprehensive income due to their immaterial effect on the Company's financial condition, cash flows, and results of operations.

Derivative instruments as of December 31, 2013 and 2012 are as follows:

	2013					
(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	$ 1,150,000	Manage interest rate risk	Other assets	$ 37,406	Net investment income	$ 36,565
Liabilities:						
Interest rate swaps	50,000	Manage interest rate risk	Other liabilities	(505)	Net investment income	10,326
Total open positions	$1,200,000			$ 36,901		$ 46,891
Closed:						
Interest rate swaps	$ 535,000	Manage interest rate risk	N/A		Net investment income	$ 4,778
Total closed positions						$ 4,778
Total						$ 51,669

	2012					
(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	$ 320,000	Manage interest rate risk	Other assets	$ 955	Net investment income	$ 853
Liabilities:						
Interest rate swaps	880,000	Manage interest rate risk	Other liabilities	(10,960)	Net investment income	(9,378)
Total open positions	$1,200,000			$ (10,005)		$ (8,525)

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

2013

(in thousands of dollars)

					Amounts Not Offset on Balance Sheet	
Derivatives Designated as:	**Gross Amount**	**Counterparty Netting**	**Cash Collateral (Received) Pledged**	**Net Amount on Balance Sheet**	**Securities Collateral (Received) Pledged**	**Net Amount**
Assets	$ 38,542	$ (1,136)	$ (22,084)	$ 15,322	$ (6,115)	$ 9,207
Liabilities	(1,641)	1,136	220	(285)	523	238
Total	$ 36,901	$ -	$ (21,864)	$ 15,037	$ (5,592)	$ 9,445

2012

(in thousands of dollars)

					Amounts Not Offset on Balance Sheet	
Derivatives Designated as:	**Gross Amount**	**Counterparty Netting**	**Cash Collateral (Received) Pledged**	**Net Amount on Balance Sheet**	**Securities Collateral (Received) Pledged**	**Net Amount**
Assets	$ 2,496	$ (1,541)	$ -	$ 955	$ -	$ 955
Liabilities	(12,501)	1,541	4,247	(6,713)	9,470	2,757
Total	$ (10,005)	$ -	$ 4,247	$ (5,758)	$ 9,470	$ 3,712

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 transactions the amount of counterparty exposure depends on the creditworthiness of and collateral provided by the counterparty. The Company actively monitors and evaluates the financial qualifications of counterparties and requires counterparties to provide sufficient collateral security through the execution of a legally enforceable Credit Support Annex (CSA). The CSA requires collateral to be exchanged when predetermined exposure limits are exceeded and permits either party to net collateral transfers due for transactions covered under the agreements. As of December 31, 2013 and 2012, the Company pledged bonds with a fair value of $523,000 and $9,470,000, respectively, as collateral to counterparties. Bonds pledged by the Company as collateral are included in bonds, available-for-sale, on the consolidated balance sheets. As of December 31, 2013, counterparties pledged bonds with a fair value of $6,115,000 to the Company. There were no bonds pledged by counterparties at December 31, 2012. Bonds pledged by counterparties as collateral are not included on the Company's consolidated balance sheets. The Company pledged cash of $220,000 and $4,070,000 as collateral to counterparties and counterparties pledged $16,740,000 and $0 in cash collateral to the Company as of December 31, 2013 and 2012, 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, 2013 and 2012, the Company pledged initial margin in the form of bonds with a fair value of $0 and $974,000 and cash of $12,276,000 and $5,000, respectively, to the CME. In addition, the Company pledged $0 and $177,000 in cash as variation margin to the CME as of December 31, 2013 and 2012, respectively. In return, the CME posted $5,344,000 and $0 in cash as variation margin to the Company as of December 31, 2013 and 2012, respectively. 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.

Counterparty credit exposure by counterparty credit rating as it relates to open interest rate derivative contracts as of December 31, 2013 and 2012, is as follows:

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

	2012			
(in thousands of dollars)				
Rating	**Number of Counterparties**	**Notional Value**	**Credit Exposure**	**Exposure, Net of Collateral**
Centrally Cleared	1	$ 100,000	$ -	$ -
A+	2	650,000	955	955
A	2	450,000	-	-
A-	-	-	-	-
Total	5	$ 1,200,000	$ 955	$ 955

f. Net Investment Income

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

(in thousands of dollars)	2013	2012
Bonds	$ 414,824	$ 418,004
Common stocks	38,960	43,414
Real estate	48,039	56,040
Mortgage loans	23,907	23,276
Policy loans	16,586	17,340
Other	57,458	50,684
Total gross investment income	599,774	608,758
Change in value of convertible bonds	(17,091)	13,747
Change in value of derivatives	51,669	(8,522)
Change in mortgage loan valuation allowance	-	2,400
Investment expenses	(76,346)	(88,829)
Net investment income	$ 558,006	$ 527,554

g. Mortgage Loans on Real Estate

The minimum and maximum lending rates for commercial mortgage loans issued during 2013 and 2012 ranged from 4.10 % to 5.52% and 4.25% to 5.50%, respectively. During 2013 and 2012, 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 73%.

Significant concentrations of mortgage loans amounting to $183,794,000 and $186,452,000 exist for properties located in the Midwest region at December 31, 2013 and 2012, respectively. In addition significant concentrations by state include the following:

(in thousands of dollars)	2013	2012
Texas	$ 96,434	$ 99,575
Ohio	52,345	49,946
Minnesota	39,389	59,110

The Company considers any loan that is one or more days delinquent to be past due. At December 31, 2013 and 2012, the Company had no past due commercial mortgage loans, and the average recorded investment in impaired loans was $0 and $5,185,000, respectively. During 2012, there was one impaired loan which was 90 or more days past due, and the property collateralizing the loan was foreclosed upon and transferred to a real estate partnership. As of December 31, 2013 and 2012, 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 $366,296,000 and $363,019,000 of loans in good standing and $57,921,000 and $44,388,000 of loans on the watchlist as of December 31, 2013 and 2012, respectively. There were no non-performing loans held as of December 31, 2013 and 2012. Charge-offs of $0 and $2,693,000 were recorded in the mortgage loan portfolio in 2013 and 2012, respectively.

The Company did not carry a valuation allowance for credit losses on mortgage loans as of December 31, 2013 and 2012. The Company previously carried an allowance as of December 31, 2011 which was reduced to $0 during 2012. Changes in the valuation allowance are recorded through net investment income.

The rollforward of the Company's mortgage valuation allowance is as follows:

(in thousands of dollars)

	2013	2012
Balance, beginning of year	$ -	$ 2,400
Provisions charged to expense	-	-
Losses charged off	-	(2,400)
Recoveries	-	-
Balance, end of year	$ -	$ -

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, 2013 and 2012 and no loans were restructured during 2013 or 2012.

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, 2013. These liabilities were initially measured at fair value.

(in thousands of dollars)	
Liabilities: (1)	2013
Contractual principal balance	$ 500,000
Difference between estimated fair value and contractual principal balance	(3,824)
Carrying value at estimated fair value	$ 496,176

(1) These liabilities are comprised of long-term debt. Changes in estimated value of these liabilities are recognized in net investment income of $3,824 for the year ended December 31, 2013. Interest expense of $782 is recognized in other expenses for the year ended December 31, 2013.

The long-term debt measured at fair value includes the FHLB advance (see Note 11). As of December 31, 2013, the entire long-term debt balance is eligible for the fair value option. The portion of the long-term debt not elected for the FVO includes the long-term debt acquired as part of the PGC acquisition (see Note 2).

Fair value for the FHLB 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 FHLB advance.

4. Deferred Policy Acquisition Costs

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

(in thousands of dollars)	2013	2012
Property and Casualty		
Balance, beginning of year	$ 309,748	$ 290,925
Costs deferred during year	829,740	777,854
Amortization related to operations during year	(810,537)	(759,031)
Balance, end of year	$ 328,951	$ 309,748

(in thousands of dollars)	**2013**	**2012**
Life		
Balance, beginning of year	$ 260,502	$ 280,952
Costs deferred during year	19,245	18,515
Amortization related to operations during year	(14,099)	(12,533)
Net adjustment due to assumption revisions	(3,644)	(14,043)
Amounts related to change in fair value adjustment of available-for-sale bonds	55,242	(12,389)
DAC adjustment for KCL transaction (see note 1(i))	(27,386)	-
Balance, end of year	$ 289,860	$ 260,502
AFFS		
Balance, end of year	$ 10	$ 10

5. 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, 2013 and 2012 were $54,964,000 and $62,219,000, 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, 2013 and 2012, AFMIC was obligated to contribute $410,756,000 and $336,466,000, 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, 2013 and 2012, were $26,684,000 and $27,829,000, respectively. Corresponding assets related to future premium tax credits have also been recorded and were $16,439,000 and $17,177,000 as of December 31, 2013 and 2012, 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.

6. Federal Income Taxes

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

(in thousands of dollars)	**2013**	**2012**
Deferred tax assets		
Life reserves	$ 118,701	$ 132,211
Unearned premium	69,011	44,388
Reserve discounting, net of salvage and subrogation	70,301	79,450
Deferred compensation	274,299	305,868
Pension accrual	17,682	81,005
Policyholder dividends	5,325	5,214
AMT credit carryover	143,127	151,750
Net operating loss carryforward	4,576	1,594
Other	9,724	8,621
Total deferred tax assets	712,746	810,101
Deferred tax liabilities		
Investments	(502,178)	(521,295)
Deferred policy acquisition costs	(59,586)	(66,203)
Depreciation basis differences	(90,891)	(56,353)
Intangibles	(93,552)	(23,704)
Total deferred tax liabilities	(746,207)	(667,555)
Net deferred tax assets (liabilities)	$ (33,461)	$ 142,546

Certain reclassifications have been made to the previously reported amounts in the above deferred tax tables to more accurately reflect classifications of deferred tax assets and liabilities.

As of December 31, 2013, the Company has net operating loss carryforwards of $9,602,000 which will expire at various times through 2033.

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:

	2013	2012
Federal statutory tax rate	35 %	35 %
Tax-exempt income, net of proration	(7)	(8)
Dividend received deduction	(2)	(3)
State tax expense (net of federal tax)	1	2
Other	1	1
Effective tax rate	28 %	27 %

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 $1,253,923,000 and $1,173,153,000 at December 31, 2013 and 2012, respectively. The Company's Policyholders' Surplus Account was $5,149,000 at December 31, 2013 and 2012. 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 $1,396,000 and $1,454,000 as of December 31, 2013 and 2012, 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 2008 and prior are closed, and the years 2009 through 2011 are currently under IRS audit.

7. Goodwill and Intangible Assets

Goodwill acquired during the years ended December 31, 2013 and 2012, which relates to the Company's acquisitions of Homesite and PGC, was $135,025,000 and $85,246,000, respectively.

The Company's business acquisitions resulted in the identification of certain intangible assets. Intangible assets with finite lives are amortized over their estimated useful lives of one to twelve years. Finite-lived intangible assets have a weighted average remaining useful life of approximately seven and six years at December 31, 2013 and 2012, respectively. Intangible assets with indefinite lives are considered to have an infinite life and will not be amortized, but are evaluated at least annually for impairment. The Company completes an annual test for goodwill impairment during the fourth quarter based on the results of operations through October 31. 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:

	2013		2012	
(in thousands of dollars)	**Gross Balance**	**Accumulated Amortization**	**Gross Balance**	**Accumulated Amortization**
Total goodwill	$ 219,208	$ -	$ 85,246	$ -
Trade name and trademarks	25,900	2,590	25,900	-
Partner relationships	97,100	300	1,500	-
Referral relationships	11,100	2,700	8,100	-
Software	23,000	2,381	10,400	-
Renewal rights	56,500	-	-	-
Value of business acquired	55,800	7,600	7,600	-
Total finite life intangible assets	269,400	15,571	53,500	-
State insurance licenses	28,310	-	15,310	-
Total indefinite life intangible assets	28,310	-	15,310	-
Total goodwill and intangible assets	$ 516,918	$ 15,571	$ 154,056	$ -

There was $15,571 and $0 of amortization expense related to intangible assets during the year ended December 31, 2013 and 2012, 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)	
2014	$ 70,804
2015	33,258
2016	24,418
2017	22,761
2018	19,594
Total	$ 170,835

8. Employee Benefit Plans

The Companies have non-contributory pension plans (herein referred to as the "Plans") covering substantially all employees. Employees providing services to the Companies are employees of AFMIC, with the exception of employees providing services to PGC, Homesite, and AIA who continued as employees of PGC, Homesite, and AIA after the respective acquisitions (Note 2). For AFMIC employees hired before January 1, 2009, and Agency Sales Managers hired before

January 1, 2010, the benefits are based on years of credited service and highest average compensation (as defined in the Plans). In 2012, the Company eliminated the cost of living adjustment that had applied to a participant's earned accrued benefit payable upon retirement. This benefit plan change became effective for employees that retire starting on or after January 3, 2013. This benefit plan change was committed to and communicated to impacted employees in 2012, and the impact of which was recognized in the financial statements as of and for the year ended December 31, 2012. The benefit plan change was accounted for as a negative plan amendment and reduced the projected benefit obligation by $72,384,000. 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 2013 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 2013 given the funded status of the Plans.

The Companies provide certain health care benefits to certain grandfathered agents and substantially all employees. In addition, the Companies provide most employees with a life insurance benefit. Upon retirement, agents and employees are eligible to continue certain of these benefits. For the life insurance program, the Companies absorb substantially all of the cost. In 2012, the Company decided to eliminate the Company-provided life insurance benefit for retirees. This benefit plan change became effective for employees that retire starting on or after January 3, 2013. This benefit plan change was committed to and communicated to impacted employees in 2012, and the impact of which was recognized in the financial statements as of and for the year ended December 31, 2012. The benefit plan change was accounted for as both a negative plan amendment and a curtailment, and reduced the projected benefit obligation for the plan by $34,059,000. A curtailment gain of $2,665,000 was also recognized in consolidated statements of comprehensive income during 2012. The Company also contributes toward eligible employees' postretirement health care using a fixed amount for each year of eligible service. The Companies' portions of the costs of these programs are unfunded. The Companies sponsor no other significant postretirement benefit plans. The Companies use a measurement date of December 31 for pension and other postretirement benefit plans.

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

	Pension Benefits		Other Benefits	
(in thousands of dollars)	**2013**	**2012**	**2013**	**2012**
Change in benefits obligation				
Projected benefit obligation, beginning of year	$ 977,011	$ 1,013,942	$ 46,404	$ 76,092
Service cost	42,008	47,126	3,252	4,115
Interest cost	36,014	39,539	1,923	2,122
Plan participant contributions	-	-	-	-
Amendments	-	(76,306)	-	(24,135)
Actuarial (gain)/loss	(79,147)	54,321	(299)	(1,003)
Benefits paid	(106,277)	(101,611)	(1,219)	(772)
Liability (gain)/loss due to curtailment/settlement	-	-	-	(10,015)
Projected benefit obligation, end of year	$ 869,609	$ 977,011	$ 50,061	$ 46,404
Change in plan assets				
Fair value of plan assets, beginning of year	$ 670,302	$ 633,590	$ -	$ -
Actual return on plan assets	84,542	67,162	-	-
Employer contribution	83,360	71,161	1,219	772
Plan participant contributions	-	-	-	-
Benefits paid	(106,277)	(101,611)	(1,219)	(772)
Fair value of plan assets, end of year	$ 731,927	$ 670,302	$ -	$ -
Net amount recognized	$ (137,682)	$ (306,708)	$ (50,061)	$ (46,404)
Net periodic cost				
Service cost	$ 42,008	$ 47,126	$ 3,253	$ 4,115
Interest cost	36,014	39,539	1,923	2,122
Expected return on plan assets	(50,663)	(54,758)	-	-
Amortization of				
Prior service cost	(6,766)	(4,755)	(1,331)	(975)
Actuarial (gain)/loss	16,939	14,756	321	160
Curtailment/settlement expense/(income)	21,976	28,931	-	(2,665)
Net periodic cost	$ 59,508	$ 70,839	$ 4,166	$ 2,757
Accumulated other comprehensive income (loss)	$ (102,043)	$ (247,218)	$ 15,721	$ 16,431

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 $21,976,000 and $28,931,000 for 2013 and 2012, 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*)	**2013**	**2012**	**2013**	**2012**
Liability for benefits	$ 137,682	$ 306,708	$ 50,061	$ 46,404
Deferred income taxes	50,192	111,916	18,250	16,933
Liabilities (net of tax)	$ 87,490	$ 194,792	$ 31,811	$ 29,471
Other comprehensive income (loss) (net of tax)	$ 92,251	$ 46,567	$ (451)	$ 20,237

Components of Periodic Benefit Cost That Make up Other Comprehensive Income December 31, 2013

	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)	$ 113,026	$ (41,204)	71,822	$ 299	$ (109)	190
Less: Amortization of actuarial gain (loss)	16,939	(6,175)	10,764	322	(117)	205
Prior service cost	-	-	-	-	-	-
Less: Amortization of prior service cost	(6,766)	2,466	(4,300)	(1,331)	485	(846)
Actuarial gain (loss) recognized due to settlement	-	-	-	-	-	-
Less: Amortization of actuarial gain (loss) due to settlement	21,976	(8,011)	13,965	-	-	-
Prior service cost recognized due to settlement	-	-	-	-	-	-
Less: Amortization of prior service cost due to settlement	-	-	-	-	-	-
Net recognized in OCI	$ 145,175	$ (52,924)	$ 92,251	$ (710)	$ 259	$ (451)
Estimated items to be amortized in next year's periodic pension cost from accumulated other comprehensive income						
Amortization of net actuarial loss (gain)	$ 8,923			$ 110		
Amortization of prior service cost (credit)	(6,787)			(1,331)		
Amortization of transition obligation (asset)	-			-		
Total	$ 2,136			$ (1,221)		

The accumulated benefit obligation at December 31, 2013 and 2012 was $697,536,000 and $807,591,000, respectively.

	Pension Benefits		Postretirement Benefits	
	2013	2012	2013	2012
Assumptions used to determine projected benefit obligations as of December 31:				
Discount rate				
Qualified plans				
Employee Plan	4.65 %	3.80 %	N/A	N/A
District Manager Plan	4.15	3.35	N/A	N/A
Nonqualified plans				
District Manager Supplementary Plan	3.50	2.70	N/A	N/A
District Manager Expense Reimbursement Plan	4.20	3.35	N/A	N/A
Employee Excess Plan	4.00	3.20	N/A	N/A
District Manager Excess Plan	4.95	3.50	N/A	N/A
Combined Benefit Service Plan	4.60	3.70	N/A	N/A
Prior Service Plan	3.65	2.80	N/A	N/A
Other benefit plans	N/A	N/A	4.90 %	4.00 %
Expected return on plan assets				
Qualified plans (all plans)	7.50 %	7.75 %	N/A	N/A
Rate of compensation increase				
Qualified plans				
Employee Plan	3.75 %	3.75 %	N/A	N/A
District Manager Plan	N/A	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	3.75	3.75	N/A	N/A
District Manager Excess Plan	N/A	N/A	N/A	N/A
Combined Benefit Service Plan	3.75	3.75	N/A	N/A
Prior Service Plan	N/A	N/A	N/A	N/A
Other benefit plans	N/A	N/A	3.75 %	3.75 %
Assumptions used to determine net periodic benefit cost as of December 31:				
Discount rate:				
Qualified plans				
Employee Plan	3.80 %	4.05 %	N/A	N/A
District Manager Plan	3.35	3.75	N/A	N/A
Nonqualified plans				
District Manager Supplementary Plan	2.70	3.30	N/A	N/A
District Manager Expense Reimbursement Plan	3.35	3.85	N/A	N/A
Employee Excess Plan	3.20	3.60	N/A	N/A
District Manager Excess Plan	3.50	3.90	N/A	N/A
Combined Benefit Service Plan	3.70	4.05	N/A	N/A
Prior Service Plan	2.80	3.40	N/A	N/A
Other benefit plans	N/A	N/A	4.00 %	4.60 %
Expected return on plan assets:				
Qualified plans (all plans):	7.75 %	8.00 %	N/A	N/A
Rate of compensation increase:				
Qualified plans				
Employee Plan	3.75 %	4.00 %	N/A	N/A
District Manager Plan	N/A	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	3.75	4.00	N/A	N/A
District Manager Excess Plan	N/A	N/A	N/A	N/A
Combined Benefit Service Plan	3.75	4.00	N/A	N/A
Prior Service Plan	N/A	N/A	N/A	N/A
Other benefit plans	N/A	N/A	3.75 %	4.00 %

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 7.75% (Pre-65) and 7.25% (Post-65) of covered health care benefits were assumed for 2013. Rates will gradually decrease to 5.00% by 2022. Annual rates of increase in the per capita costs of 7.75% (Pre-65) and 7.25% (Post-65) of covered health care benefits were assumed for 2012.

The expected long-term rate of return on these plan assets was 7.75% and 8.00% in 2013 and 2012, respectively. The expected rate of return on plan assets is based upon an analysis of historical returns for each asset class. The expected returns by asset class contemplate a risk free interest rate environment as of the measurement date and then add a risk premium. The risk premium is a range of percentages and is based upon information and other factors such as expected reinvestment returns and asset manager performance. Finally, an underlying inflation assumption is incorporated to determine the overall expected long-term rate of return assumption. The target allocation, asset allocation, and fair value of plan assets for the Companies' pension plans at the end of 2013 and 2012, by asset category, follows.

(in thousands of dollars)	Target Allocation		Percentage of Plan Assets, Year End		Fair Value of Plan Assets, Year End	
Asset Category	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Equity	54 %	54 %	56 %	55 %	$ 410,747	$ 368,031
Debt	40	35	33	32	238,608	215,761
Private equity	5	5	10	11	71,554	72,965
Commodities	1	1	1	1	5,225	5,756
Other (cash and cash equivalents)	-	5	-	1	1,157	5,113
Total	100 %	100 %	100 %	100 %	$ 727,291	$ 667,626

The overall investment objective of the Plan is to maximize the risk adjusted return on assets over a long-term period, while ensuring the Plan is able to meet current and future obligations to plan participants. The primary considerations in developing target asset allocations are the Plan's overall investment objective, the investment objectives for the various assets, the necessary level of diversification, and maintaining an acceptable level of risk. In 2013 the Company modified its target asset allocations to improve the risk adjusted return of the plan assets. The existing allocations are within the Company's tolerance for variation from target allocation.

The equity portfolio seeks to provide a solid long-term return with a diversified basket of domestic and international equity securities.

- Northern Trust Russell Top 200 Index Equity Fund
  This passive domestic large cap equity index portfolio fund seeks to mirror the risk characteristics and return performance of the Russell 200 Index. The Fund is composed principally of the individual common stock included in the Russell 200 Index. This fund was added in 2013 and comprised about 20% of the Plan assets at year end 2013.

- Ballie Gifford International Equity Fund
  This actively managed international fund objective is to diversify equity risk through investment in foreign developed market and emerging market equities and to outperform the MSCI All Country World ex-U.S. Index. This fund comprised about 14% and 9% of the Plan assets at year end 2013 and 2012, respectively.

- Silchester International Equity Fund
  This actively managed international fund objective is to diversify equity risk through investment in foreign equities mainly in developed markets and to outperform the MSCI EAFE Index. This fund comprised about 8% and 7% of the Plan assets at year end 2013 and 2012, respectively.

- Robeco Boston Partners Mid Cap Value Equity Fund
  This actively managed domestic mid-cap fund objective is to generate long-term growth of capital and to outperform the Russell Midcap Value Index. This fund was added in 2013 and comprised about 4% of the Plan assets at year end 2013.

- MFS International Value Equity Fund
  This actively managed international fund's objective is long-term growth of capital appreciation. The Fund is composed principally of equity securities of foreign companies believed to be undervalued relative to their long-term potential. This fund was added in 2013 and comprised about 4% of the Plan assets at year end 2013.

- Northern Trust Active Small Cap Core Equity Fund
  This actively managed domestic small cap fund objective is to focus on small cap domestic equity investments with diversity. The fund seeks to outperform the benchmarked Russell 2000 Index. This fund was added in 2013 and comprised about 3% of the Plan assets at year end 2013.

- Wellington Emerging Markets Equity Fund
  This actively managed international emerging markets fund objective is to diversify equity risk through investment in emerging markets equities and to outperform the MSCI Emerging Markets Index. This fund comprised about 3% and 5% of the Plan assets at year end 2013 and 2012, respectively.

- Schroders Commodities Fund
  The objective of this actively managed commodities fund is to add diversification and to outperform the average returns in the following four commodity indices, equally weighted: (1) the Standard & Poor's Goldman Sachs Total Return Index, (2) the Dow Jones-UBS Commodity Total Return Index, (3) the Reuters/Jeffries Commodity Research Bureau's Total Return Index, and (4) the Rogers International Commodity Index Total Return. This fund comprised about 1% of the Plan assets at year end for both 2013 and 2012.

- Northern Trust Collective Russell 1000 Index Equity Fund
  This passive domestic large cap equity index portfolio fund seeks to mirror the risk characteristics and return performance of the Russell 1000 Index. The Fund is composed principally of the individual common stocks included in the Russell 1000 Index. This fund was eliminated in 2013 and comprised about 25% of the Plan assets at year end 2012.

- Ironbridge Domestic Small Cap Equity Portfolio
  This actively managed small cap equity fund objective is to focus on small cap domestic equity investment and to outperform the Russell 2000 Index. This fund was eliminated in 2013 and comprised about 10% of the Plan assets at year end 2012.

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 33% and 32% of the Plan assets at year end 2013 and 2012, 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 10% and 11% of the Plan assets at year end 2013 and 2012, respectively.

The Companies have no significant concentrations of risk within Plan assets.

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

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

Level 1 Measurements

Equity Securities:

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

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

Bonds:

U.S. Treasuries: Valuation is based on unadjusted quoted prices for identical assets in markets that are generally active.

Level 2 Measurements

Equity Securities:

Mutual funds: Comprised of non-actively traded U.S. and international mutual funds comprised of equity securities that have daily quoted net asset values for identical assets that the Plan can access.

Bonds:

U.S. Government and Agencies: 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 projected cash flows.

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

Short-term Investments:

Commercial paper and other short-term investments are valued based on inputs including amortized cost, which approximates fair value, and quoted prices for identical or similar assets in markets that are not active.

Commodity Funds:

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

Level 3 Measurements

Limited partnerships: Comprised of limited partnership interests in investment funds. 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, 2013 and 2012:

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

(in thousands of dollars)	Assets at fair value as of December 31, 2012 Level 1	Level 2	Level 3	Total
Financial assets				
Bonds				
U.S Government securities	$ 27,351	$ 70,427	$ -	$ 97,778
Corporate bonds and notes	-	96,803	-	96,803
Municipal bonds	-	1,143	-	1,143
Foreign bonds	-	20,037	-	20,037
Equity securities				
Common stocks	61,398	-	-	61,398
Mutual funds	168,909	137,724	-	306,633
Foreign stocks	-	-	-	-
Short-term investments	-	5,113	-	5,113
Commodities	-	5,756	-	5,756
Limited partnerships*	-	-	72,965	72,965
Total financial assets at fair value	$ 257,658	$ 337,003	$ 72,965	$ 667,626

* Limited partnerships were valued using 9/30 capital account valuations provided by the various limited partnerships.

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, 2013 and 2012:

(in thousands of dollars)	Limited Partnerships 2013	2012
Balance, beginning of year*	$ 72,965	$ 71,542
Purchases, sales, issuance and settlements, net	(1,411)	1,423
Balance, end of year*	$ 71,554	$ 72,965

* Based on 9/30 capital account valuations by the various limited partnerships

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		
2014 (expected)	$4,000- $424,000	$ 2,471
Expected benefit payments		
2014	58,347	2,471
2015	63,116	2,784
2016	66,045	2,906
2017	68,245	2,908
2018	70,006	3,129
2019 - 2023	350,602	18,145

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

Expected contributions include qualified pension benefits contributions within the range of $0 (minimum contribution) and $402,000,000 (maximum contribution) and postretirement contribution of $2,471,000 expected to be paid from the Companies' assets in 2014.

Other Plans

The Companies also participate in a qualified contributory 401(k) Plan (herein referred to as the "Plan"). Substantially all employees are eligible to enter into the Plan. Employee participation in the Plan is optional; participants contribute at least 1%, but no more than 30% of base compensation, subject to Internal Revenue Service limitations. The Companies are required to make contributions each payroll period, as defined, to a trust fund. The Companies' contributions are based on a formula with a dollar-for-dollar match on the first 3% of eligible contributions plus 50 cents per dollar on the next 2% of eligible contributions. The maximum annual contribution of the Companies is 4% of eligible contributions. Beginning on January 1, 2011, Agency Sales Managers began receiving an employer fixed match each pay period. The fixed match is the same as the employee match. The Companies recognized expenses of $17,568,000 and $18,285,000 related to the Plan in 2013 and 2012, respectively.

PGC sponsors a defined contribution 401(k) retirement 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 2013 amounted to $1,344,000.

A liability of $44,611,000 and $43,381,000 was accrued for earned but untaken vacation as of December 31, 2013 and 2012, respectively. A liability of $17,291,000 and $16,001,000 was accrued for unused sick leave as of December 31, 2013 and 2012, respectively. In 2012, the Company committed to and communicated a change to the sick leave plan which was treated as a negative plan amendment. The change in the liability was reflected as an offset to the consolidated statement of comprehensive income for 2012.

9. Agent Termination Benefits

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

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

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

(in thousands of dollars)	2013	2012
Change in benefits obligation		
Projected benefit obligation, beginning of year	$ 684,705	$ 631,389
Service cost	33,722	29,809
Interest cost	26,233	24,846
Plan participant contributions	-	-
Amendments	-	-
Actuarial (gain) loss	(140,632)	24,329
Benefits paid	(28,872)	(25,668)
Projected benefit obligation, end of year	$ 575,156	$ 684,705
Change in plan assets		
Fair value of plan assets, beginning of year	$ -	$ -
Actual return on plan assets	-	-
Employer contribution	28,872	25,668
Plan participant contributions	-	-
Benefits paid	(28,872)	(25,668)
Fair value of plan assets, end of year	$ -	$ -
Net Amount Recognized	$ (575,156)	$ (684,705)
Net periodic cost		
Service cost	$ 33,722	$ 29,809
Interest cost	26,233	24,846
Expected return on plan assets	-	-
Amortization of		
Transition (asset) obligation	-	-
Prior service cost	-	-
Actuarial (gain) loss	(236)	(227)
Net periodic cost	$ 59,719	$ 54,428
Accumulated other comprehensive income (loss)	$ 103,361	$ (37,034)

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

(*in thousands of dollars)*	2013	2012
Liability for benefits	$ 575,156	$ 684,705
Deferred income taxes	209,674	249,844
Liabilities (net of tax)	$ 365,482	$ 434,861
Other comprehensive income (net of tax)	$ 89,214	$ (15,596)

Components of Periodic Benefit Cost That Make up Other Comprehensive Income December 31, 2013

	Agent Termination Benefits		
(*in thousands of dollars)*	Before Tax Amount	Tax (Expense) or Benefit	Net-of-tax Amount
Actuarial gain (loss)	$ 140,632	$ (51,267)	$ 89,365
Less: Amortization of actuarial gain (loss)	(237)	86	(151)
Prior service cost	-	-	-
Less: Amortization of prior service cost	-	-	-
Net transition obligation	-	-	-
Less: Amortization of net transition obligation	-	-	-
Net recognized in OCI	$ 140,395	$ (51,181)	$ 89,214
Estimated items to be amortized in next year's periodic pension cost from accumulated other comprehensive income			
Amortization of net actuarial loss (gain)	$ (3,724)		
Amortization of prior service cost (credit)	-		
Amortization of transition obligation (asset)	-		
Total	$ (3,724)		

The accumulated benefit obligation at December 31, 2013 and 2012 was $495,703,000 and $536,128,000, respectively.

	2013	2012
Assumptions used to determine projected benefit obligation as of December 31:		
Discount rate	4.75 %	3.95 %
Service fees increase		
AFMIC		
First 8 years after appointment	21.00	21.00
After first 8 years of appointment	3.25	4.75
ASIC		
First 6 years after appointment	8.00	8.00
After first 6 years of appointment	(4.00)	(3.00)
Expected return on plan assets	N/A	N/A
Assumptions used to determine net periodic benefit cost as of December 31:		
Discount rate	3.95 %	4.20 %
Service fees increase		
AFMIC		
First 8 years after appointment	21.00	21.00
After first 8 years of appointment	4.75	4.75
ASIC		
First 6 years after appointment	8.00	8.00
After first 6 years of appointment	(3.00)	(3.00)
Expected return on plan assets	N/A	N/A

Expected Cash Flows

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

(in thousands of dollars)

Expected benefit payments	
2014	$ 27,055
2015	30,638
2016	33,348
2017	36,950
2018	37,219
2019-2023	214,344

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

10. Liability for Losses and Loss Adjustment Expenses

Activity in the liability for losses and loss adjustment expenses for property and casualty insurance, including health insurance, is summarized as follows:

(in thousands of dollars)	2013	2012
Direct balances as of January 1	$ 3,553,469	$ 3,624,252
Less reinsurance recoverables on unpaid losses and loss adjustment expenses	36,241	64,192
Net balance as of January 1	3,517,228	3,560,060
Incurred losses and loss adjustment expenses related to		
Current year	4,395,097	4,174,172
Prior years	(197,627)	(294,889)
Total incurred	4,197,470	3,879,283
Paid losses and loss adjustment expenses related to		
Current year	2,706,340	2,628,283
Prior year	1,501,450	1,389,098
Total paid	4,207,790	4,017,381
Liability for losses and loss adjustment expenses acquired	131,980	93,999
Net balance as of December 31	3,638,888	3,515,961
Plus reinsurance recoverables on unpaid losses and loss adjustment expenses	53,621	37,508
Direct and assumed balance as of December 31	$ 3,692,509	$ 3,553,469

The estimated cost of loss and loss adjustment expenses attributable to insured events of prior years decreased by $197,627,000 and $294,889,000 during 2013 and 2012, respectively. Increases or decreases of this nature occur as the result of claim settlements during the current year, and as additional information is received regarding individual claims, causing changes from their original estimates. The reserve releases in the past two years are primarily seen in the homeowners and commercial lines of insurance, as underwriting changes have led to better-than-expected loss and LAE experience. Recent development trends in legal expense payments are also taken into account in evaluating the overall adequacy of unpaid 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.

11. Long-Term Debt

In December 2004, PGC invested in two separate trust subsidiaries by purchasing common stock totaling $1,083,000 from the trusts. On December 15, 2004, PGC 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 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). The floating interest rate on both placements is based upon the 90-day LIBOR of 0.239% at December 31, 2013. 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.

Fair value for the Company's debentures is estimated at $36,083,000, equal to the carrying value of $36,083,000 as of December 31, 2013 and 2012. Since publicly quoted market prices are not available, fair value for the debentures is based upon a discounted cash flow analysis using a combination of observable and unobservable market inputs.

The Company is a member of the FHLBC. Through its membership the Company executed a 30-year fixed rate advance of $500,000,000 from the FHLBC on November 20, 2013, which was used to partially finance the acquisition of Homesite on December 31, 2013. See Note 2 for further details of this acquisition. The Company pays monthly interest to FHLBC at a fixed annual interest rate of 5.12%, and principal is due in a balloon payment at the end of the advance's 30-year term. The Company paid $782,000 in interest on the advance during 2013 and accrued interest of $2,204,000 as of December 31, 2013. The advance is fully collateralized with member stock and qualified securities with a book value of $626,153,000 and market value of $620,899,000 as of December 31, 2013. There were no advances outstanding at December 31, 2012.

The Company purchased an additional 40,943 common shares of FHLBC stock for $4,094,000 in connection with this financing. The Company held 161,702 shares and $16,170,000 in carrying value and 120,759 shares and $12,076,000 in carrying value at December 31, 2013 and 2012, respectively. The Company's borrowing capacity net of outstanding advances was $123,404,000 and $241,518,000 as of December 31, 2013 and 2012, respectively. 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 3.

12. Accumulated Other Comprehensive Income (Loss)

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

(in thousands of dollars)	**2013**	**2012**
Unrealized gains (losses) on common stocks	$ 1,089,243	$ 731,487
Unrealized gains (losses) on bonds	177,653	770,029
Unrealized gains (losses) on other assets	997	997
Adjustment of DAC relating to fair value adjustment	(28,357)	(83,600)
Employee/agent deferred compensation plan adjustment	17,039	(267,821)
Deferred income taxes	(457,465)	(417,265)
Accumulated other comprehensive income (loss)	$ 799,110	$ 733,827

13. Separate Accounts

Separate account assets include segregated funds invested by the Company for the benefit of variable universal life insurance and variable annuity 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. Gross income from these charges is included in premium revenues in the consolidated statements of comprehensive income. 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)	**2013**	**2012**
American Family Variable Account I	$ 1,097	$ 965
American Family Variable Account II	1,943	1,827
	$ 3,040	$ 2,792

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. Gross income from these charges is included in premium revenues in the consolidated statements of comprehensive income. For the years ended December 31 amounts are as follows:

(in thousands of dollars)	2013	2012
American Family Variable Account I	$ 12,476	$ 13,172
American Family Variable Account II	422	509
	$ 12,898	$ 13,681

14. Statutory Financial Data

The Company's insurance subsidiaries also prepare financial statements in accordance with statutory accounting (STAT) practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin, the Ohio Department of Insurance, the Illinois Department of Insurance, the Kansas Insurance Department, the Connecticut Insurance Department, the California Department of Insurance, the Florida Office of Insurance Regulation, 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 only dividends from statutory surplus related to workers compensation were paid in 2013 or 2012.

Consolidated statutory capital and surplus and consolidated net income for AFMIC and its subsidiaries as of and for the years ended December 31, 2013 and 2012 were as follows:

	Surplus/Equity		Net Income	
(in thousands of dollars)	**2013**	**2012**	**2013**	**2012**
Per statutory annual statements	$ 5,791,697	$ 5,164,960	$ 343,726	$ 405,334
GAAP adjustments				
Unrealized gains (losses) on bonds	195,692	802,828	(17,099)	13,747
P&C deferred policy acquisition costs	328,951	309,748	19,038	12,525
Life deferred policy acquisition costs	289,860	260,502	(25,884)	(8,061)
Life and deposit contract liabilities	(74,779)	(110,042)	35,264	10,464
Partnership accounting	(73,285)	(47,607)	25,279	4,971
Termination benefits	82,183	(70,514)	12,302	114
Pension/post-retirement benefits	(75,918)	(173,390)	16,405	(19,056)
Deferred taxes	(359,100)	(433,616)	(80,921)	(56,332)
Nonadmitted assets	412,495	370,458	-	-
Unrealized gains (losses) on derivatives	-	-	46,891	(8,522)
Purchase accounting	7,062	-	9,920	-
Other	56,088	63,501	(6,086)	5,327
Per GAAP financial statements	$ 6,580,946	$ 6,136,828	$ 378,835	$ 360,511