Mutual of Omaha Insurance Company and Subsidiaries

Consolidated Financial Statements as of and for the Years Ended December 31, 2017 and 2016, and Independent Auditors’ Report

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Mutual of Omaha Insurance Company
Omaha, Nebraska

We have audited the accompanying consolidated financial statements of Mutual of Omaha Insurance Company and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations and comprehensive income (loss), changes in equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's 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, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

Deloitte & Touche LLP

March 13, 2018

MUTUAL OF OMAHA INSURANCE COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2017 AND 2016
(In thousands)

	2017	2016
ASSETS		
INVESTMENTS:		
Fixed maturities — available-for-sale — at fair value	$21,957,664	$20,121,089
Fixed maturities — trading — at fair value	174,677	155,644
Equity securities — available-for-sale — at fair value	67,172	13,918
Equity securities — trading — at fair value	55,111	38,994
Equity securities — at cost	181,380	50,566
Loans — net	8,735,642	8,275,542
Real estate	140,809	154,266
Limited partnerships	396,951	374,410
Other invested assets	30,973	51,451
Policy loans	222,714	215,231
Short-term investments	355,501	193,721
Total investments	32,318,594	29,644,832
CASH AND CASH EQUIVALENTS	212,446	118,990
ACCRUED INVESTMENT INCOME	205,681	191,373
PREMIUMS AND OTHER RECEIVABLES	149,704	129,173
DEFERRED POLICY ACQUISITION COSTS	3,856,974	3,454,374
REINSURANCE RECOVERABLE	583,307	522,827
GOODWILL AND INTANGIBLE ASSETS	179,900	183,438
COMPANY OWNED LIFE INSURANCE	487,540	443,813
OTHER ASSETS	364,752	336,525
SEPARATE ACCOUNT ASSETS	4,070,375	3,439,532
TOTAL	$42,429,273	$38,464,877
LIABILITIES AND EQUITY		
LIABILITIES:		
Future policy benefits	$11,512,699	$10,036,093
Policyholder account balances	7,586,798	7,430,954
Unpaid claims	2,010,692	1,939,632
Unearned revenues	420,234	412,277
Deposits	6,369,507	5,920,840
Deferred income taxes payable	723,541	938,280
Borrowings	1,889,242	1,616,135
Other liabilities	1,162,419	1,113,247
Separate account liabilities	4,070,375	3,439,532
Total liabilities	35,745,507	32,846,990
EQUITY:		
Retained earnings	6,373,332	5,553,674
Accumulated other comprehensive income	310,434	64,213
Total equity	6,683,766	5,617,887
TOTAL	$42,429,273	$38,464,877

See notes to consolidated financial statements.

MUTUAL OF OMAHA INSURANCE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In thousands)

	2017	2016
REVENUES:		
Health and accident	$ 4,438,929	$ 4,116,255
Life and annuity	2,837,640	2,465,011
Net investment income	1,305,710	1,204,450
Other	122,113	104,401
Net realized investment gains (losses):		
Other-than-temporary impairments on fixed maturities	(19,822)	(12,762)
Other-than-temporary impairments on fixed maturities transferred to other comprehensive income	1,765	1,610
Other net realized investment gains	45,605	19,507
Total net realized investment gains	27,548	8,355
Total revenues	8,731,940	7,898,472
BENEFITS AND EXPENSES:		
Health and accident benefits	3,302,332	3,064,795
Life and annuity benefits	2,570,956	2,229,478
Interest credited	225,688	212,771
Policy acquisition costs	903,966	816,204
General insurance expenses	915,395	816,479
General bank expenses	198,726	194,076
Other	32,550	31,204
Total benefits and expenses	8,149,613	7,365,007
INCOME BEFORE INCOME TAXES	582,327	533,465
INCOME TAX EXPENSE (BENEFIT)	(280,307)	176,907
NET INCOME	862,634	356,558
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:		
Unrealized gains (losses) on securities:		
Unrealized holding gains arising during the year net of related policyholder amounts (net of taxes of $82,038 and $52,986, respectively)	221,473	98,402
Reclassification adjustments for realized holding (gains) losses (net of taxes of ($9,439) and $973, respectively)	(17,530)	1,807
Change in net unrealized gains	203,943	100,209
Unrealized holding gains (losses) arising during the year on other-than-temporarily impaired securities (net of taxes of ($42) and ($1,002), respectively)	272	(1,861)
Defined benefit plans:		
Unrecognized post-retirement benefit net gains (losses) arising during the year (net of taxes of ($9,232) and $7,873, respectively)	(17,146)	14,621
Less amortization of unrecognized post-retirement benefit gains (net of taxes of $8,710 and $11,339, respectively)	16,176	21,059
Unrecognized post-retirement benefit net gains (losses) arising during the year	(970)	35,680
OTHER COMPREHENSIVE INCOME	203,245	134,028
COMPREHENSIVE INCOME	$ 1,065,879	$ 490,586

See notes to consolidated financial statements.

MUTUAL OF OMAHA INSURANCE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In thousands)

		Accumulated Other Comprehensive Income (Loss)			
	Retained Earnings	Net Unrealized Investment Gains	Unrealized Gains (Losses) on Other-Than-Temporarily Impaired Securities	Benefit Plans Adjustments	Total
BALANCE — January 1, 2016	$ 5,197,116	$ 155,396	$ 7,449	$ (232,660)	$ 5,127,301
Net income	356,558	-	-	-	356,558
Other comprehensive income (loss)	-	100,209	(1,861)	35,680	134,028
BALANCE — December 31, 2016	5,553,674	255,605	5,588	(196,980)	5,617,887
Net income	862,634	-	-	-	862,634
Other comprehensive income (loss)	-	203,943	272	(970)	203,245
Reclassification due to tax rate change	(42,976)	84,518	1,093	(42,635)	-
BALANCE — December 31, 2017	$ 6,373,332	$ 544,066	$ 6,953	$ (240,585)	$ 6,683,766

See notes to consolidated financial statements.

MUTUAL OF OMAHA INSURANCE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In thousands)

	2017	2016
CASH FLOWS FROM (USED FOR) OPERATING ACTIVITIES:		
Net income	$ 862,634	$ 356,558
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	40,262	40,851
Amortization	901	5,582
Change in fair value of derivatives	172	(250)
Undistributed equity earnings of limited partnerships	(23,029)	(13,458)
Provision for bank loan losses	11,466	4,089
Change in fair value of mortgage servicing rights	1,629	2,685
Amortization of deferred policy acquisition costs	546,527	484,250
Increase in cash surrender value of company owned life insurance	(43,726)	(24,270)
Net realized investment gains	(27,548)	(8,355)
Deferred tax provision	(305,650)	121,565
Interest credited	207,047	198,606
Policy charges and fee income	(335,737)	(317,638)
Gain on sale of loans	(1,194)	(86)
Proceeds from loans sold	24,649	3,994
Origination of loans held for sale	(32,165)	(3,908)
Capitalization of deferred policy acquisition costs	(971,126)	(894,115)
Change in:		
Accrued investment income	(14,307)	(10,307)
Premiums and other receivables	(20,519)	(3,892)
Reinsurance recoverable	(60,481)	(46,096)
Current income taxes payable	(14,765)	5,333
Trading securities	(15,601)	438
Other assets	(27,210)	(12,722)
Insurance liabilities	1,491,313	1,142,775
Other liabilities	(40,433)	101,010
Other — net	(2,217)	(879)
Cash flows from operating activities	1,250,892	1,131,760
CASH FLOWS FROM (USED FOR) INVESTING ACTIVITIES:		
Proceeds from sales or maturities of fixed maturities	2,820,802	2,359,438
Proceeds from payments of mortgage loans	314,402	283,716
Proceeds from equity securities and derivative assets	133,495	36,101
Proceeds from time deposit maturities	-	43,000
Proceeds from limited partnerships	53,326	90,008
Proceeds from sales of real estate	12,628	19,328
Proceeds from sales of property and equipment	7,148	9,873
Purchases of fixed maturities	(4,107,111)	(3,685,351)
Purchases of mortgage loans	(478,699)	(471,137)
Purchases of equity securities and derivative assets	(348,328)	(40,400)
Purchases of time deposits	-	(43,000)
Purchases of limited partnerships	(57,597)	(54,760)
Purchases of real estate	(1,933)	(2,786)
Purchases of company owned life insurance	-	(50,000)
Purchases of property and equipment	(38,462)	(32,710)
Business acquisitions, net of cash received	-	(20,871)
FDIC loss share distributions	-	(351)
Net change in loans from banking activities	(294,510)	(632,652)
Net change in policy loans	(7,484)	(1,537)
Net change in short-term investments	44	73,182
Cash flows used for investing activities	(1,992,279)	(2,120,909)

(Continued)

MUTUAL OF OMAHA INSURANCE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In thousands)

	2017	2016
CASH FLOWS FROM (USED FOR) FINANCING ACTIVITIES:		
Deposits to policyholder account balances	$ 1,835,135	$ 2,077,192
Net transfers (to) from separate accounts	(15,955)	50,230
Withdrawals from policyholder account balances	(1,541,531)	(1,824,053)
Payments on FHLB advances	(21,909)	(16,952)
Net increase in FHLB LOC borrowings	110,000	515,000
Net change in deposits	448,667	335,088
Net change in short-term borrowings	20,436	(301,333)
Cash flows from financing activities	834,843	835,172
CHANGE IN CASH AND CASH EQUIVALENTS	93,456	(153,977)
CASH AND CASH EQUIVALENTS — Beginning of year	118,990	272,967
CASH AND CASH EQUIVALENTS — End of year	$ 212,446	$ 118,990
SUPPLEMENTAL CASH FLOW INFORMATION:		
Net cash paid during the year for:		
Interest	$ 77,282	$ 71,021
Income taxes	$ 31,392	$ 43,536
Noncash transactions during the year:		
Transfer of loans to other real estate owned	$ 990	$ 1,309
Noncash FHLB stock dividends	$ 1,589	$ 1,249
Change in securities lending	$ 161,823	$ 41,867

See notes to consolidated financial statements.

(Concluded)

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The accompanying consolidated financial statements include the accounts of Mutual of Omaha Insurance Company ("Mutual"), a mutual insurance company domiciled in the state of Nebraska, and its subsidiaries (the "Company"). The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). Intercompany transactions and balances have been eliminated in consolidation.

Nature of Operations — The Company provides a wide array of financial products and services to a broad range of institutional and individual customers in the United States. Principal products and services provided include individual health and accident insurance, individual and group life insurance and annuities, retirement plans, and banking services. Insurance services are primarily provided through Mutual and United of Omaha Life Insurance Company ("United"), a subsidiary of Mutual. Banking services are provided through Omaha Financial Holdings, Inc. (the "Bank"), a subsidiary bank holding company of Mutual.

Use of Estimates — The preparation of the Company's financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates and assumptions include those used in determining:

(i) investment valuation in the absence of quoted market values,
(ii) investment impairments,
(iii) allowance for loan losses,
(iv) deferred policy acquisition costs,
(v) goodwill and intangible assets and related impairments,
(vi) mortgage servicing rights valuation,
(vii) liability for future policy benefits,
(viii) liability for unpaid claims,
(ix) accounting for income taxes and the valuation of deferred income tax assets and liabilities, and
(x) pension plan valuation.

Fixed Maturities and Equity Securities — The Company's fixed maturities and equity securities classified as available-for-sale are reported at their estimated fair values. The Company's available-for-sale equity security investments in real estate investment trusts are accounted for based on the Company's share of the net asset value as provided in the financial statements of the investees.

The Company's trading securities are recorded at fair value with changes in fair value recorded in net realized investment gains (losses) in the consolidated statements of operations and comprehensive income. Investments for which the fair value option was elected are classified as trading securities.

The Company's equity securities carried at cost represent non-exchange traded securities that do not have readily determinable fair values. Adjustments to reduce the basis to fair value are recorded when the fair value is less than the cost basis.

The Company regularly reviews its fixed maturities and equity securities portfolios for declines in fair value below amortized cost that may be other than temporary. Some factors considered in evaluating whether a decline in fair value is other-than-temporary include the financial condition and prospects of the issuer, payment status, the probability of collecting scheduled principal and interest payments when due, the duration and severity of the decline and the Company's intent to sell the investment or whether it is more likely than not the Company will be required to sell the investment before recovery in value. The credit loss component of a fixed maturity impairment is calculated as the difference between amortized cost and the present value of the expected cash flows of the security. When a decline is deemed to be an other-than-temporary impairment ("OTTI"), the loss is reported in the period in which the determination is made. When it is anticipated that (i) the amortized cost of fixed maturities will not be recovered due to a credit loss or (ii) the Company has the intent to sell the fixed maturity; or (iii) it is more likely than not that the Company will be required to sell the fixed maturity before recovery of the decline in fair value below amortized cost, the OTTI is included in net realized investment gains (losses) in the consolidated statements of operations and comprehensive income and the amortized cost basis of the fixed maturities is reduced accordingly. The OTTI related to any non-credit portion is included in unrealized gains (losses) in accumulated other comprehensive income (loss). The Company does not change the revised cost basis for subsequent recoveries in value. For fixed maturities, the discount (or reduced premium) based on the new cost basis may be accreted into net investment income in future periods based on prospective changes in cash flow estimates to reflect adjustments to the effective yield.

Unrealized gains and losses on available-for-sale securities are included in accumulated other comprehensive income (loss), net of income taxes and the impact on policyholder related amounts as if the gains and losses had been realized. Subsequent changes in unrealized gains (losses) for investments previously designated as other than temporarily impaired are included in unrealized investment gains (losses) on OTTI securities in accumulated other comprehensive income (loss), net of income taxes.

Interest income is recognized on an accrual basis and reflects amortization of premiums and accretion of discounts on an effective-yield basis, based upon expected cash flows. Net realized investment gains or losses are determined using the specific identification basis. All publicly traded security transactions are recorded on a trade-date basis. All private placement security transactions are recorded on a settlement-date basis. For structured securities, the Company recognizes income using a constant effective yield based on anticipated prepayments and the estimated economic life of the securities. When estimates of prepayments change, the effective yield is recalculated to reflect actual payments to date and anticipated future payments and any resulting adjustment is included in net investment income in the consolidated statements of operations and comprehensive income.

Loans — Loans that are not impaired, that management has the intent and ability to hold for the foreseeable future or until maturity or payoff, are reported at their outstanding unpaid principal balances adjusted for any charge-offs, deferred fees or expenses, and the allowance for estimated uncollectible amounts. Impaired loans are carried at the lower of the principal balance, the present value of expected future cash flows discounted at the loan's effective interest rate, or fair value of the collateral less costs to sell if collateral dependent. Interest income is accrued on the unpaid principal balance based on the loan's contractual interest rate. Loan origination and commitment fees and direct loan origination costs are deferred and amortized over the estimated life of the related loans or commitments as a yield adjustment.

An allowance for loan losses represents the estimate of probable losses inherent in the loan portfolio and is established through the provision for loan losses included in general bank expenses for bank loans and net realized investment gains (losses) for loans held by the insurance operations. The Company calculates historical loss factors by loan segment, based on the proportion of net charge-offs and recoveries to the average of the total loans outstanding in that loan segment. Historical loss rates are adjusted for qualitative factors that, in management's judgment, are necessary to reflect losses inherent in the loan portfolio. Factors that management considers in this analysis include concentration and growth rates, performance trends, economic conditions, industry trends, credit administration practices and recency of charge-offs.

The Company calculates specific reserves on loans identified individually as impaired. Pools of small balance, homogeneous loans are not evaluated for impairment individually. Loans evaluated individually are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect principal or interest amounts according to the contractual terms of the loan agreement. Interest income earned on impaired loans is accrued on the principal amount of the loan based on the loan's contractual interest rate until the loan is placed on nonaccrual status.

Loan losses are charged against the allowance for loan losses when the uncollectibility of a loan balance is confirmed. Charge-offs, net of recoveries, are deducted from the allowance. All loans, except residential real estate, and consumer loans, are reviewed on an individual basis to identify charge-offs. Loans are considered past due when required principal and interest payments are not received by the date specified in the contract. Commercial, residential real estate and consumer loans are placed on nonaccrual (accrual of interest has stopped) at 90 days past due, unless the loan is well secured and in the process of collection. Consumer loans are charged-off at 120 days past due or sooner if deemed uncollectible, unless the loan is both well secured and in the process of collection. Residential real estate loans are charged-off or charged-down to the fair value of the collateral, less costs to sell, at 180 days past due, unless the loan is both well secured by real and/or personal property and in the process of collection. Well secured residential real estate and consumer loans are placed on nonaccrual at 180 days past due. For all other loan segments, loans are placed on nonaccrual when it becomes probable that the borrower will be unable to make all principal and interest payments as specified in the contract or when it becomes 90 days past due, unless the loan is well secured and in the process of collection. Cash payments on loans where the accrual of interest has ceased are applied entirely to the unpaid principal balance until such time as management determines that it is probable all principal balance amounts will be recovered. Loans are returned to accrual status when all the principal and interest amounts contractually due have been brought current and future payments are reasonably assured.

A loan is considered a troubled debt restructuring ("TDR") if the borrower is experiencing financial difficulties and the Company has granted a concession it would not otherwise consider. A TDR typically involves a modification of terms such as a change to a below market interest rate, a forgiveness of principal or interest, an extended repayment period (maturity date) at a contractual interest rate lower than the current interest rate for comparable new debt with similar risk, capitalization and deferral of interest payments, or allowing interest only payments.

Loan Servicing — Mortgage loans serviced for others (primarily without recourse) are not included in the consolidated balance sheets. The unpaid principal balances of mortgage loans serviced by the Bank for others as of December 31, 2017 and 2016, were $1,075,616,000 and $1,293,036,000, respectively. Custodial escrow balances of $20,949,000 and $23,057,000 as of December 31, 2017 and 2016, respectively, were maintained in connection with the foregoing loan servicing and are included in other liabilities in the consolidated balance sheets. The Bank records its mortgage servicing rights at fair value. Mortgage servicing rights of $10,785,000 and $12,413,000 as of December 31, 2017 and 2016, respectively, are included in other assets in the consolidated balance sheets. Income generated as a result of new mortgage servicing rights, changes in fair value, and servicing income are included in other income in the consolidated statements of operations and comprehensive income.

Real Estate — Real estate primarily includes properties owned by East Campus Realty, LLC ("ECR"), a subsidiary of Mutual, and other real estate owned ("OREO") acquired through foreclosure. ECR's results of operations are reported in net investment income and real estate impairments are included in net realized investment gains (losses) in the consolidated statements of operations and comprehensive income. ECR properties and OREO held for investment are carried at cost, adjusted for impairment, if any, less accumulated depreciation. ECR properties held for sale are carried at the lower of cost less accumulated depreciation, or fair value. OREO held for sale is carried at the lower of cost or fair value less estimated costs to sell. Real estate, excluding OREO held for sale, is tested for impairment whenever events or changes in circumstances, such as operating losses or adverse changes in the use of the real estate, indicate that its carrying amount may not be recoverable. Real estate as of December 31, 2017 and 2016, consisted of the following (in thousands):

	2017	2016
ECR properties held for investment	$ 173,620	$ 183,245
Other properties held for investment	11,123	11,123
Accumulated depreciation	(60,383)	(55,338)
ECR properties held for sale	7,689	6,535
	132,049	145,565
OREO held for investment	8,862	8,138
Accumulated depreciation	(35)	(1,165)
OREO held for sale	2,160	2,828
Valuation allowance	(2,227)	(1,100)
	8,760	8,701
	$ 140,809	$ 154,266

Limited Partnerships — The carrying value of limited partnerships is determined using the equity method using a one-quarter lag adjusted for all capital contributions, certain distributions, and impairment charges for the most recent quarter. Equity in earnings is included in net investment income for partnerships that invest primarily in income producing investments and in net realized investment gains (losses) for partnerships that invest primarily in equity-like investments. The limited partnership agreements restrict investment redemptions prior to the termination of the partnership.

The Company owns approximately 80% of Fulcrum Growth Partners, L.L.C. and Fulcrum Growth Partners III, L.L.C. (collectively "Fulcrum"). The Company currently recognizes 80% of the contributions and distributions of Fulcrum in its investment in Fulcrum and 72% of net income (losses) based on the partnership agreement provisions. Both Fulcrum entities were established for the purpose of investing in nontraditional assets, including private equities, public equities, special situation real estate equities, and mezzanine debt. Fulcrum is capitalized through the contributions of the Company and one other owner which has significant participation in Fulcrum's operations. Contributions are no longer accepted by Fulcrum. The Company's investment in Fulcrum on the consolidated balance sheets and net realized investment gains in the consolidated statements of operations and comprehensive income were as follows (in thousands):

	2017	2016
As of and for the year ended December 31:		
Investment in Fulcrum	$ 59,536	$ 60,277
Net realized investment gains	$ 1,628	$ 9,349

Fulcrum's assets, liabilities and results of operations as of and for the nine months ended September 30, were as follows (in thousands):

	2017	2016
Assets	$ 84,546	$ 85,579
Liabilities	$ 138	$ 129
Net income	$ 796	$ 9,800

Variable Interest Entities ("VIE") — The Company holds investments in certain entities that are VIEs. Such entities include limited partnerships (including its investment in Fulcrum), joint ventures, limited liability companies, and certain structured securities. These ventures include private equity funds, partnerships for the purpose of receiving Low Income Housing Tax Credits, and real estate related funds that make investments at the direction of the general partner. The structured investments include residential mortgage-backed securities ("MBS"), commercial MBS, and other asset-backed securities ("ABS"). The maximum exposure to loss relating to these investments is limited to the amount of the investment plus any unfunded commitments. Such a maximum loss would be expected to occur only upon bankruptcy of the issuer or investee.

The primary beneficiary of a VIE is required to consolidate the VIE and is the enterprise with (1) the power to direct the activities of a VIE that most significantly impact the entity's economic performance and (2) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. Determining whether the Company is the primary beneficiary involves performing a qualitative analysis of the VIE. Factors assessed in the analysis include the purpose, design, capital structure and activities of the VIE; the contractual terms and rights of each variable interest holder; related party relationships; and other factors that would indicate that the Company has decision making powers that most significantly impact the VIE's economic performance.

The Company determines whether it is the primary beneficiary of a VIE upon its initial involvement with the VIE and when circumstances change that affect the Company's obligations to absorb losses or receive benefits from the VIE. The Company has determined that it is not required to consolidate any VIEs. The Company classifies structured investments as fixed maturities — available-for-sale at fair value and all other VIE investments are classified as limited partnerships on the consolidated balance sheets.

Policy Loans — Policy loans are stated at the aggregate unpaid balance. Policy loans are an integral component of insurance contracts and have no maturity dates.

Derivatives — The Company is exposed to various risks relating to ongoing business operations including interest rate risk, foreign currency risk, credit risk, and equity market risk. The Company uses derivatives to reduce exposure to market volatility associated with assets held or liabilities incurred and to change the characteristics of the Company's asset/liability mix, consistent with the Company's risk management activities.

Derivatives entered into by the Company for risk management purposes included foreign currency swaps on bonds, interest rate swaps, swaptions and call spread options. In addition, the company sells indexed universal life products ("IUL products" as further described below), synthetic guaranteed investment contracts ("synthetic GICs" as further described below), and may receive warrants in the course of a bond restructuring or as distributions from private equity funds.

Derivatives are reported on the balance sheet as other invested assets and other liabilities at estimated fair values, which are determined based upon quotations obtained from external pricing services and vendors or other reliable sources. At inception, each derivative is evaluated for hedge accounting. In general, if the derivative qualifies and is designated as a hedge, the change in the fair value of the derivative is recorded in net investment income (for fair value hedges) or other comprehensive income (loss) (for cash flow hedges) while the change in fair value of derivatives that do not qualify as hedges is generally recorded in net realized investment gains (losses). For certain non-hedge Bank derivatives where the counterparty is the customer, the change in fair value is recorded in other income.

The Company has policies regarding the financial stability and credit standing of its counterparties. The Company attempts to limit its credit risk by dealing with creditworthy counterparties and obtaining collateral where appropriate. The Company's risk of loss is principally limited to the fair value of its derivative assets and liabilities, and not to the notional or contractual value.

The Company reports all derivatives, including those that are subject to master netting arrangements, at their gross amounts on the statement of financial position. The Company's derivative transactions are generally governed by International Swap and Derivatives Association master agreements, which provide for legally enforceable set-off and close-out netting of exposures to specific counterparties in the event of early termination of a transaction, which includes, but is not limited to, events of default and bankruptcy. In the event of an early termination, the Company is permitted to set off receivables from the counterparty against payables to the same counterparty arising out of all included transactions.

The Company's OTC derivative collateral arrangements generally require the counterparty in a net liability position, after considering the effect of netting agreements, to pledge collateral when the fair value of that counterparty's derivatives reaches a pre-determined threshold. In addition, certain of the Company's netting agreements for derivatives contain provisions that require both the Company and the counterparty to maintain a specific investment grade credit rating from industry recognized credit rating agencies. If a party's credit ratings were to fall below that specific investment grade credit rating, that party would be in violation of these provisions, and the other party to the derivatives could terminate the transactions and demand immediate settlement and payment based on such party's reasonable valuation of the derivatives.

The Company offers IUL products that provide returns tied to the performance of equity markets. The Company uses equity options and call spreads to hedge the crediting rates on IUL policies and hedge accounting is not used. The equity component of the product is considered an embedded derivative and is separated from its host contract for valuation purposes and reported on the statement of financial position in policyholder account balances with changes in fair value recorded in earnings within life and annuity benefits.

The Company offers certain insurance products, referred to as synthetic GICs, which contain features that are accounted for as derivatives. Synthetic GICs are issued to Employee Retirement Income Security Act of 1974 ("ERISA") qualified defined contribution employee benefit plans ("ERISA Plans") and commingled or pooled funds that are available to ERISA Plans ("Funds"). The ERISA Plans and Funds use the contracts in their stable value fixed option offered to plan participants. In the event that plan participant elections exceed the estimated fair value of the assets, or if the contract is terminated and it is at the end of the termination period the book value under the contract exceeds the estimated fair value of the assets, then the Company is required to pay the ERISA Plan or Fund the difference between the book value and estimated fair value. The market values of the underlying assets were greater than the book value of the contracts as of December 31, 2017 and 2016.

Forward commitments to sell mortgage loans and MBS are acquired to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale. Gains and losses on loans sold are determined by the difference between the selling price and the carrying amount of the loans sold, net of discounts collected or paid and considering a normal servicing rate. Fees received from borrowers to guarantee the funding of mortgage loans held for sale and fees paid to investors to ensure the ultimate sale of such mortgage loans are recognized as income or expense when the loans are sold or when it became evident that the commitment will not be used.

The Company may enter into private placement bond transactions with the settlement date more than three months beyond the trade date. The Company accounts for such transactions as derivative instruments.

Short-Term Investments — Short-term investments include certificates of deposit and fixed maturities purchased with an original maturity between three months and one year and are stated at amortized cost.

Cash Equivalents — Cash equivalents include money market accounts and all highly-liquid debt securities purchased with an original maturity of less than three months.

The Federal Reserve System requires banks to maintain minimum average cash balances. The amount of the minimum average cash balance requirement was $22,127,000 and $28,812,000 as of December 31, 2017 and 2016, respectively.

Fair Value — Financial assets and liabilities have been categorized into a three level fair value hierarchy, based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are as follows:

Level 1 — Fair value is based on unadjusted quoted prices in active markets that are accessible to the Company for identical assets or liabilities. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 — Fair value is based on significant inputs that are observable for the asset or liability, either directly or indirectly, through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets and liabilities, quoted market prices in markets that are not active for identical or similar assets or liabilities and other market observable inputs. Valuations are generally obtained from third party pricing services for identical or comparable assets or liabilities and validated or determined through use of valuation methodologies using observable market inputs.

Level 3 — Fair value is based on significant unobservable inputs for the asset or liability. These inputs reflect assumptions about what market participants would use in pricing the asset or liability. Prices are determined using valuation methodologies such as option pricing models, discounted cash flow models and other similar techniques.

The process of determining fair value requires considerable judgment and relies on projections of future cash flows, investment operating results, and market conditions. Projections are inherently uncertain and, accordingly, actual future cash flows may differ materially from projected cash flows. As a result, the Company's valuations are susceptible to the risk inherent in making such projections. Estimates used are not necessarily indicative of the amounts the Company could realize in a market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Deferred Policy Acquisition Costs — The direct costs of acquiring new insurance contracts are deferred to the extent such costs relate to successful acquisitions and are deemed recoverable from future premiums or profits. Such costs include: (1) incremental direct costs of contract acquisition, such as commissions, (2) the portion of an employee's total compensation and benefits related to time spent selling, underwriting, or processing the issuance of new and renewal insurance business only with respect to actual contracts acquired or renewed, (3) other direct costs essential to contract acquisition that would not have been incurred had a policy not been acquired or renewed, and (4) the costs of direct-response advertising the primary purpose of which is to elicit sales to customers who could be shown to have responded specifically to the advertising and that results in probable future benefits. All other acquisition-related costs, including those related to general advertising and solicitation, market research, agent training, product development, unsuccessful sales and underwriting efforts, as well as all indirect costs, are expensed as incurred. The portion of renewal commissions in excess of ultimate levels is also deferred to the extent it is deemed recoverable from future premiums or profits.

For health and disability insurance contracts, policy acquisition costs are amortized over the period of time the majority of premiums are expected to be earned. For term and traditional life insurance contracts, such costs are amortized over the premium-paying period of the related contracts in proportion to estimated premium revenues recognized, using assumptions consistent with those used in computing policy reserves.

For universal life, deferred annuity, and other investment contracts, such costs are generally amortized in proportion to the estimated gross profits from investment margins, mortality margins, expense margins, and surrender charges. The Company reviews assumptions underlying gross profit estimates on at least an annual basis and updates as necessary.

Deferred policy acquisition costs related to policies issued during the current calendar year are subject to recoverability testing at the end of the year. When future gross premiums and the related policy liabilities are insufficient to cover deferred policy acquisition costs and expected future benefits determined using current assumptions, deferred acquisition costs are charged to expense to the extent they are not recoverable.

Deferred policy acquisition costs are also adjusted by a credit or charge to unrealized gains (losses), net of income taxes, to reflect the impact on estimated gross profits and recoverability testing as if unrealized investment gains and losses had been realized.

Modifications to the terms of in-force contracts may occur as the result of an amendment, policy rider, or the policyholder’s election of a feature. Policy acquisition costs related to internal replacements of policyholder contracts that cause the contract to be substantially changed are charged to expense when the contract is modified.

Goodwill and Intangible Assets — Goodwill is the excess of cost over the fair value of net assets acquired in a merger or acquisition transaction and is not amortized. Goodwill is tested for impairment annually. A qualitative analysis may be performed in order to evaluate potential impairment. If qualitative factors suggest that it is more likely than not that the fair value of net assets acquired is less than the carrying value of those assets, or if the qualitative analysis is bypassed, impairment testing will be performed using the fair value approach, which requires the use of estimates and judgment. The carrying amount of goodwill reported by the Company was $176,776,000 as of December 31, 2017 and 2016.

Intangible assets consist of certificates of authority intangibles purchased from a third party insurance entity and core deposit intangibles which represent the present value of core deposits acquired in a bank acquisition transaction. Core deposit intangibles were fully amortized as of December 31, 2017. Intangible assets are amortized on a straight-line basis and are reviewed periodically for indicators of impairment of value. If facts and circumstances suggest possible impairment, the sum of the estimated undiscounted future cash flows expected to result from the use of the asset is compared to the current carrying value of the asset. If the undiscounted future cash flows are less than the carrying value, an impairment loss is recognized for the excess of the carrying amount of assets over their fair value. There were no indicators of impairment of intangible assets as of December 31, 2017 or 2016.

Company-Owned Life Insurance — Company-owned life insurance represents individual life insurance contracts on the lives of certain officers and other key employees who have provided positive consent allowing the Company to be the beneficiary of such contracts. Certain contracts are carried at cash surrender value while others are carried at a contract value as determined by third-party carriers. Gains in the surrender value associated with these contracts were $43,726,000 and $24,270,000 for the years ended December 31, 2017 and 2016, respectively, and are included in other revenues.

Property and Equipment — Property and equipment are carried at cost less accumulated depreciation and are included in other assets. The Company provides for depreciation of property and equipment using the straight-line method over the estimated useful lives of the assets. Property and equipment are tested for impairment whenever events or changes in circumstances, such as adverse changes in the use of the property and equipment, indicate that its carrying amount may not be recoverable.

Property and equipment as of December 31, 2017 and 2016, consisted of the following (in thousands):

	2017	2016	Range of Useful Lives
Land and buildings	$ 221,430	$ 225,575	1–50 years
Furniture and equipment	142,990	134,029	1–20 years
Software and other	231,197	215,549	1–10 years
	595,617	575,153	
Accumulated depreciation	(443,687)	(421,514)	
Total	$ 151,930	$ 153,639	

Future Policy Benefits, Policyholder Account Balances and Unpaid Claims — Future policy benefits include reserves for certain life insurance, certain health coverages, and life-contingent annuities in payout status. Reserves for term, non-universal life-type permanent life contracts, and certain health coverages are calculated using the net level premium method. Mortality, morbidity, and persistency assumptions are generally based on the Company's experience, including provisions for adverse deviations. Reserves for certain universal life insurance contracts are calculated using estimated benefits and estimated assessment charges for administration, mortality, surrenders, and investment margin. The reserves for life-contingent annuities in payout status are calculated as the present value of expected future payments with mortality assumptions based on the Company's experience. Interest rates used in establishing such liabilities as of December 31, 2017, range from 2.50% to 10.00% for term and non-interest sensitive permanent-life contracts, from 3.12% to 7.01% for certain health coverages, and from 0.50% to 11.60% for life-contingent annuities in payout status.

Policyholder account balances for individual universal life-type and investment-type contracts are equal to policy account values. The policy account values represent an accumulation of gross premium payments plus credited interest less withdrawals, expense charges, and mortality charges. Interest rates credited to policyholder account balances during 2017 range from 1.00% to 7.50% for individual universal life-type and deferred annuity contracts and from 0.10% to 5.98% for group annuities and guaranteed investment contracts. The universal life and indexed universal life contracts offered by the Company contain certain additional insurance benefits such as death benefits and no-lapse guarantees. The liabilities for these benefits are determined by estimating the expected value of such benefits in excess of the projected contract accumulation value and recognized in the liability for future policy benefits.

Policyholder account balances also include deposit liabilities for non life-contingent payout annuities. The reserves are calculated as the present value of future payments. Interest rates used in establishing such liabilities as of December 31, 2017, range from 1.28% to 5.58%.

Due to the length of annuity and life insurance contracts, the length of benefit payment periods of health and accident insurance contracts, and the risks involved, the process of estimating reserves for future policy benefits is inherently uncertain. Reserves for future policy benefits are estimated using a variety of factors including, but not limited to, expected mortality, morbidity, interest rates, and lapse rates generally based on the Company's experience. Actual mortality, morbidity, interest, and lapse rates are likely to differ from expected rates. Accordingly, the timing and amount of actual cash flows for any given period may differ materially from the timing and amount of expected cash flows.

The Company annually establishes assumptions used in determining actuarial liabilities for future policy benefits for the current year's issues. Differences between the assumptions used in pricing these contracts and establishing the related policy liabilities and the Company's actual experience result in variances in profit and could result in losses. The effects of these differences are included in the consolidated statements of operations and comprehensive income in the period in which they occur. On an annual basis, the Company performs loss recognition testing by comparing the net policy liabilities held in the financial statement to a gross premium reserve using current assumptions. Significant assumptions considered in loss recognition testing include interest rates, morbidity, mortality, lapse rates, and commissions and expenses to administer the business. If loss recognition testing shows the liabilities less deferred policy acquisition costs are not adequate, then a write-down of deferred policy acquisition costs and recording additional liabilities may be required, resulting in a charge to benefits expense. In addition, future policy benefits are adjusted for the impact of unrealized investment gains with the corresponding credits or charges reported in unrealized gains (losses), net of income taxes, if the impact of such gains, had they been realized, would have caused a loss recognition event for the line of business being tested.

The liability for unpaid claims represents the amounts estimated for claims that have been reported but not settled, estimates for claims incurred but not reported, and an estimate for future claim adjustment expenses. Liabilities for unpaid claims are estimated based upon the Company's historical experience and other actuarial assumptions that consider the effects of current developments and anticipated trends. Revisions of these estimates are reflected in operations in the year revised.

Short-Duration Contracts — Short-duration insurance contracts generally include group long-term disability ("LTD") and short-term disability ("STD") products. Group dental and those special risk contracts that are classified as short-duration are identified as "other" in the reconciliation of unpaid claims to the liability for unpaid claims in Note 5. Reserves for these products are included in the liability for unpaid claims. Claim frequency was determined using submitted reserve claim counts for both LTD and STD. There were no significant changes to methodologies or assumptions used to calculate the liability for unpaid claims for short-duration contracts during 2017.

Deposits — Deposits held by the Bank, including interest and non-interest bearing demand, savings and money-market accounts, and fixed and variable rate certificates of deposit, are carried at the amount payable on demand.

Retail Repurchase Agreements — Securities sold under agreements to repurchase, which are included in borrowings in the consolidated balance sheets, generally mature within one business day from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The Company may be required to provide additional collateral based on the fair value of the underlying securities.

Reinsurance — In the normal course of business, the Company assumes and cedes insurance business in order to limit its maximum loss, provide greater diversification of risk, minimize exposures on larger risks, and expand certain business lines. The ceding of insurance business does not discharge an insurer from its primary legal liability to a policyholder. The Company remains liable to the extent that a reinsurer is unable to meet its obligations. Reinsurance premiums, expenses, recoveries and reserves related to reinsured business are accounted for on a basis consistent with that used in accounting for the original contracts issued and the terms of the reinsurance contracts. These amounts are included on a gross basis in the consolidated balance sheets and net in the consolidated statements of operations and comprehensive income. Amounts recoverable from reinsurers are reviewed for collectibility on a quarterly basis. An allowance is established for all amounts deemed uncollectible and losses are charged against the allowance when the uncollectibility of amounts recoverable from reinsurers is confirmed.

Federal Income Taxes — The provision for income taxes includes amounts currently paid and accrued, and deferred income taxes. The Company accounts for deferred income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, the Company determines deferred tax assets and liabilities on the basis of the differences between the financial statement and tax bases of assets and liabilities by using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. A change in the corporate tax rate was signed into law on December 22, 2017. See Note 6 for further information regarding this change.

The Company recognizes deferred tax assets to the extent that it believes these assets are more likely than not to be realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations.

The Company records uncertain tax positions using a two-step process in which (1) it determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority. The Company recognizes interest accrued related to uncertain tax positions and penalties as income tax expense.

Insurance Revenue and Expense Recognition — Health and accident premiums are recognized on a pro rata basis over the applicable contract term. Unearned premiums represent the portion of health premiums written related to the unexpired portion of policies in force which have been deferred and are included in unearned revenues.

Also included in unearned revenues are unearned revenues from universal life and investment-type products, which represents certain policy charges for services to be provided in future periods. The charges are deferred and amortized over the expected life of the contract using the product's estimated gross profits, similar to deferred policy acquisition costs. Such amortization is recorded in life and annuity revenues. Unearned revenue liabilities are adjusted for the impact of unrealized investment gains and losses on certain investments, as if these gains and losses had been realized, with the corresponding credits or charges reported in other comprehensive income (loss), net of tax.

Premiums for traditional life and payout annuity contracts with life contingencies are recognized as revenue when due. Benefits and expenses, other than deferred policy acquisition costs, are recognized when incurred. Receipts for universal life, deferred annuities, payout annuities without life contingencies and other investment contracts are classified as deposits to policyholders' account balances. Policy fees from these contracts include mortality charges, surrender charges, and earned policy service fees. Those mortality charges and service fees that are charged in advance are deferred and amortized into revenues in proportion to estimated gross profits similar to deferred policy acquisition costs. All other policy fees are included within life and annuity revenues when charged. Expenses related to these products, which include interest credited to policyholders' account balances and benefit amounts in excess of account balances, are charged to expense when incurred.

Separate Accounts — Separate accounts are established in conformity with insurance laws and are subject to general account claims only to the extent the value of separate account assets exceed separate account liabilities. The Company operates separate accounts on which investment gains or losses accrue exclusively to policyholders. Investments held in the separate accounts (primarily common collective trusts, common stocks and mutual funds) and liabilities of the separate accounts are reported separately as assets and liabilities. Investments held in separate accounts are stated at fair value based on the estimated fair value of the underlying assets comprising the portfolios of each individual separate account. Mortality, policy administration, and surrender charges from all separate accounts are included in life and annuity revenues.

Subsequent Events — The Company has evaluated subsequent events through March 13, 2018, the date the financial statements were available to be issued and has determined that there are no material events that require adjustment to or disclosure in these financial statements.

Adoption of New Accounting Pronouncements — Effective December 31,2017, the Company adopted Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2015-09 *Disclosures about Short Duration Contracts* ("ASU 2015-09"), which requires new disclosures about short-duration insurance contracts, including details about initial claim estimates and subsequent adjustments to those estimates; details about the duration and frequency of claims; and the effects of discounting on liabilities for unpaid claims and claim adjustment expenses for short-duration insurance contracts. See Note 5 for the required disclosures.

Effective December 31, 2017, the Company adopted ASU 2018-02 *Reclassification of Certain Tax Effects from Accumulated Comprehensive Income* ("ASU 2018-02"), which permits the reclassification from accumulated other comprehensive income ("AOCI") to retained earnings tax amounts stranded in AOCI as a result of recognizing in deferred income tax expense the reduced corporate tax rate enacted by the Tax Cuts and Jobs Act ("Act") signed into law on December 22, 2017, further discussed in Note 6. The amount of the reclassification is the difference between the amount initially charged or credited directly to other comprehensive income (loss) at the previously enacted U.S. federal corporate income tax rate of 35% that remains in AOCI and the amount that would have been charged or credited directly to other comprehensive income (loss) using the newly enacted 21% tax rate. As a result of adopting this guidance, the Company reclassified $42,976,000 from AOCI to retained earnings with portions representing tax rate differences on unrealized investment gains and unrecognized postretirement losses as reflected on the consolidated statements of changes in equity for the year ended December 31, 2017.

Future Adoption of New Accounting Pronouncements — In May 2014, the FASB issued ASU 2014-09 *Revenue from Contracts with Customers* ("ASU 2014-09"), which will supersede nearly all current revenue recognition guidance. For contracts affected by the new standard, the update will require an entity to recognize revenue upon the transfer of goods or services to customers in amounts that reflect the consideration to which the entity expects to be entitled in exchange for those goods or services. It will not impact the accounting for insurance contracts, financial instruments, guarantees, or leases and is effective in 2019 for the Company. Early adoption is permitted. Entities may apply ASU 2014-09 either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment as of the date of adoption. While the Company is currently evaluating the impact of this update on its consolidated financial statements, it expects the primary effects of the update will concern the recognition and measurement of revenue from its administrative services contracts and certain revenue from retail activities and condominium sales within its ECR subsidiary.

In August 2016, the FASB issued ASU 2016-13 *Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). The update changes the measurement and recognition of credit losses on financial assets measured at amortized cost including financing receivables, held-to-maturity debt securities, receivables from customers, reinsurance arrangements, and securities lending transactions. The update replaces the requirement to recognize losses that are probable of having occurred with a requirement to recognize lifetime expected credit losses beginning at acquisition. Credit losses under the new model will consider relevant information about past events, current conditions and reasonable and supportable forecasts. In addition, ASU 2016-13 changes the recognition of credit losses on available-for-sale debt securities by recognizing these losses through an allowance for credit losses with changes in the allowance recognized in net income. The update is effective in 2021 for the Company with early adoption permitted, but no earlier than 2019. The update should be applied as a cumulative-effect adjustment as of the date of adoption, except for available-for-sale debt securities for which an other-than-temporary impairment has been recognized, to which it should be applied prospectively. The Company is currently evaluating the impact of this update on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07 *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* ("ASU 2017-07"). The update requires the service cost component of net periodic benefit costs to be presented on the same income statement line item as other compensation costs and the other components of net periodic benefit costs to be presented separately from the service cost component. ASU 2017-07 is effective in 2019 for the Company with early adoption permitted. The adoption of this update will result in the reclassification of the non-service cost components of net periodic benefit cost from general insurance expenses to other expenses. The amounts to be reclassified will not be known until the year of adoption.

In March 2017, the FASB issued ASU 2017-08 *Premium Amortization on Purchased Callable Debt Securities* ("ASU 2017-08"), which requires premiums on callable debt securities to be amortized to the earliest call date. ASU 2017-08 is effective in 2021 for the Company with early adoption permitted. The update should be applied as a cumulative-effect adjustment as of the beginning of the period of adoption. The Company is currently evaluating the impact of this update on its consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12 *Targeted Improvements to Accounting for Hedging Activities* ("ASU 2017-12"). The update changes the designation and measurement guidance for qualifying hedging relationships and presentation of hedge results. ASU 2017-12 requires entities to recognize the impact of the hedging instrument in the same income statement line item as the impact of the hedged item. In addition, it simplifies the measurement of hedge effectiveness, eliminates the requirement to separately present the ineffective portion of a hedge in earnings, and permits additional time in which to perform the initial hedge effectiveness assessment and complete the hedge documentation. ASU 2017-12 is effective in 2020 for the Company, and the effects of its adoption should be reflected as of the date of initial application. Early adoption is permitted. The Company is currently evaluating the impact of this update on its consolidated financial statements.

Reclassification — In connection with the adoption of new disclosures regarding short-duration insurance contracts in Note 5, the liability for claim adjustment expenses of $51,325,000 as of December 31, 2016 was reclassified from other liabilities to the liability for unpaid claims in the consolidated balance sheets.

2. INVESTMENTS

Available-for-Sale Securities — The amortized cost and fair value for both fixed maturities and equity securities by type as of December 31, 2017 and 2016, were as follows (in thousands):

		Gross Unrealized			
2017	**Amortized Cost**	**Gains**	**Temporary Losses**	**Other-Than Temporary Gains (Losses)**	**Fair Value**
Fixed maturities:					
U.S. Government	$ 118,338	$ 5,460	$ (1,021)	$ -	$ 122,777
States and political subdivisions	330,538	6,225	(740)	-	336,023
U.S. and Canadian corporate	11,311,488	777,785	(32,918)	9,264	12,065,619
Foreign corporate	3,281,067	188,150	(22,464)	-	3,446,753
Commercial MBS	1,420,816	71,549	(3,889)	158	1,488,634
Residential MBS	2,183,857	59,833	(23,468)	11	2,220,233
Other ABS	2,256,384	28,257	(6,411)	(605)	2,277,625
Total fixed maturities	$ 20,902,488	$ 1,137,259	$ (90,911)	$ 8,828	$ 21,957,664
Equity securities	$ 58,840	$ 8,463	$ (131)	$ -	$ 67,172

		Gross Unrealized			
2016	**Amortized Cost**	**Gains**	**Temporary Losses**	**Other-Than Temporary Gains (Losses)**	**Fair Value**
Fixed maturities:					
U.S. Government	$ 120,640	$ 7,200	$ (732)	$ -	$ 127,108
States and political subdivisions	265,205	4,076	(2,332)	(86)	266,863
U.S. and Canadian corporate	10,353,780	493,256	(157,928)	7,969	10,697,077
Foreign corporate	3,134,416	139,144	(70,986)	-	3,202,574
Commercial MBS	1,559,592	74,747	(4,932)	570	1,629,977
Residential MBS	1,978,421	73,681	(17,985)	(5)	2,034,112
Other ABS	2,162,037	19,766	(18,575)	150	2,163,378
Total fixed maturities	$ 19,574,091	$ 811,870	$ (273,470)	$ 8,598	$ 20,121,089
Equity securities	$ 7,997	$ 5,921	$ -	$ -	$ 13,918

Other than temporary gains (losses) as included above represent the initial non-credit portion of OTTI losses and the subsequent increases and decreases in estimated fair value for those fixed maturities for which a non-credit OTTI loss was previously recognized.

The Company's fixed maturities portfolio was primarily comprised of investment grade securities. Based upon designations by the National Association of Insurance Commissioners ("NAIC"), investment grade securities comprised 96.5% and 96.2% of the Company's total available-for-sale fixed maturities portfolio as of December 31, 2017 and 2016, respectively. A portion of the Commercial and Residential MBS portfolios are backed by collateral guaranteed or insured by a U.S. Government agency. As of December 31, 2017 and 2016, 92.13% and 98.43%, respectively, of the Residential MBS portfolio was guaranteed by a government agency. As of December 31, 2017 and 2016, 62.99% and 64.20%, respectively, of the Commercial MBS portfolio was guaranteed by a government agency.

The amortized cost and fair value of fixed maturities as of December 31, 2017, by contractual maturity, are shown below (in thousands). Actual maturities may differ as a result of prepayments by the issuer. MBS and other ABS which provide for periodic payments throughout their lives are listed in a separate category.

	Amortized Cost	Fair Value
Due in one year or less	$ 503,805	$ 507,004
Due after one year through five years	2,898,703	3,011,417
Due after five years through ten years	3,251,557	3,411,503
Due after ten years	8,387,366	9,041,248
	15,041,431	15,971,172
MBS and other ABS	5,861,057	5,986,492
Total	$20,902,488	$21,957,664

An aging of gross unrealized losses including OTTI losses on the Company's investments in fixed maturities as of December 31, 2017 and 2016, was as follows (in thousands):

	2017					
	Less than One Year		One Year or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Government	$ 39,173	$ (287)	$ 34,086	$ (733)	$ 73,259	$ (1,020)
States and political subdivisions	147,295	(740)	-	-	147,295	(740)
U.S. and Canadian corporate	543,885	(6,408)	766,799	(26,541)	1,310,684	(32,949)
Foreign corporate	196,016	(3,553)	291,928	(18,911)	487,944	(22,464)
Commercial MBS	140,986	(1,869)	94,065	(2,334)	235,051	(4,203)
Residential MBS	743,172	(7,401)	590,831	(16,067)	1,334,003	(23,468)
Other ABS	553,584	(3,474)	182,095	(3,746)	735,679	(7,220)
	$ 2,364,111	$ (23,732)	$ 1,959,804	$ (68,332)	$ 4,323,915	$ (92,064)

	2016					
	Less than One Year		One Year or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Government	$ 61,288	$ (732)	$ -	$ -	$ 61,288	$ (732)
States and political subdivisions	88,899	(2,332)	962	(86)	89,861	(2,418)
U.S. and Canadian corporate	2,915,343	(127,278)	349,096	(30,685)	3,264,439	(157,963)
Foreign corporate	698,196	(42,720)	158,319	(28,266)	856,515	(70,986)
Commercial MBS	175,793	(3,897)	75,385	(2,231)	251,178	(6,128)
Residential MBS	930,629	(15,103)	86,720	(2,888)	1,017,349	(17,991)
Other ABS	842,323	(16,545)	172,746	(2,598)	1,015,069	(19,143)
	$ 5,712,471	$ (208,607)	$ 843,228	$ (66,754)	$ 6,555,699	$ (275,361)

The indicated gross unrealized losses in all categories decreased from $275,361,000 as of December 31, 2016 to $92,064,000 as of December 31, 2017. Based upon the Company's current evaluation of these securities in accordance with its impairment policy, and the Company's current intentions and assessments about holding and selling, and any requirements to sell these securities, the Company has concluded that these securities are not other-than-temporarily impaired. As of December 31, 2017, 276 securities were in an unrealized loss position greater than twelve months with an average credit rating of A3 and were 94.4% investment grade. As of December 31, 2017, 308 securities were in an unrealized loss position less than twelve months with an average credit rating of A2 and were 97.1% investment grade.

The following table provides a rollforward of the cumulative credit losses previously recognized in earnings on fixed maturities still held by the Company as of December 31, 2017 and 2016, for which a portion of an OTTI was recognized in accumulated other comprehensive income (loss) (in thousands):

	2017	2016
Balance — beginning of year	$ 30,792	$ 27,053
Additional credit losses for which an OTTI was not previously recognized	13,757	9,233
Additional credit losses for which an OTTI was previously recognized	4,300	1,919
Reduction for credit losses related to securities sold during the period	(12,621)	(5,926)
Reduction in credit losses as a result of increases in cash flows expected to be collected over the remaining life of the security	(1,005)	(1,487)
Balance — end of year	$ 35,223	$ 30,792

Securities pledged where the secured party does not have the right to sell or repledge were $204,259,000 as of December 31, 2017, primarily to secure trust and public deposits and for other purposes as required or permitted by law.

Derivatives — As of December 31, 2017 and 2016, the fair values of derivatives reported in the consolidated balance sheets were as follows (in thousands):

	2017			2016		
	Notional Value	Assets	Liabilities	Notional Value	Assets	Liabilities
Derivatives designated as hedging instruments:						
Foreign currency swaps	$ 797,512	$ 18,423	$ 51,862	$ 499,952	$ 43,576	$ 6,066
Derivatives not designated or not qualifying as hedging instruments:						
Interest rate swaps	897,758	6,736	2,591	670,767	7,247	2,930
Mortgage loan commitments	16,510	227	-	-	-	-
Forwards and warrants	44,000	1,048	126	18,031	23	401
Call spread options	32,825	2,590	-	9,762	606	-
Embedded derivatives (IUL products)	36,193	-	11,573	11,520	-	2,718
Synthetic GICs	2,421,271	-	-	2,374,900	-	-
Swaptions	-	-	-	1,650,000	-	-
	3,448,557	10,601	14,290	4,734,980	7,876	6,049
	$ 4,246,069	$ 29,024	$ 66,152	$ 5,234,932	$ 51,452	$ 12,115

For the years ending December 31, 2017 and 2016, the following changes in fair value of derivatives were reported in the consolidated financial statements (in thousands):

	2017			2016		
	Other Comprehensive Income (Loss)	Revenues	Life & Annuity Benefits	Other Comprehensive Income	Revenues	Life & Annuity Benefits
Derivatives designated as cash flow hedging instruments:						
Foreign currency swaps	$ (70,948)	$ 7,013	$ -	$ 9,718	$ 5,259	$ -
Derivatives not designated or not qualifying as cash flow hedging instruments:						
Interest rate swaps	-	1,407	-	-	(1,661)	-
Forwards	-	895	-	-	(320)	-
Call spread options	-	-	-	-	126	-
Embedded derivatives (IUL products)	-	-	(917)	-	-	(49)
Equity index options	-	1,718	-	-	-	-
Mortgage loan commitments	-	227	-	-	-	-
	-	4,247	(917)	-	(1,855)	(49)
Total	$ (70,948)	$ 11,260	$ (917)	$ 9,718	$ 3,404	$ (49)

There were no reclassifications of derivatives from other comprehensive income (loss) to net realized investment gains (losses) in 2017 or 2016.

Certain of the Company’s derivative instruments contain provisions requiring collateral against their fair value subject to minimum transfer amounts. The aggregate fair value of all the derivative instruments with collateral features as of December 31, 2017 was a $30,848,000 liability. The Company pledged $23,660,000 and held $1,010,000 of cash collateral related to these instruments as of December 31, 2017.

Unconsolidated VIEs — The carrying amount and maximum exposure to loss, including additional capital contribution commitments, relating to VIEs for which the Company holds an interest but is not the primary beneficiary and which have not been consolidated as of December 31, 2017, were as follows (in thousands):

	Carrying Value	Maximum Exposure to Loss
Limited partnerships	$ 396,752	$ 613,243
Fixed maturities	47,502	47,502
	$ 444,254	$ 660,745

Loans — The Company invests in mortgage, commercial and consumer loans, and loans to homeowner associations (“HOA”), which are generally secured by underlying commercial and residential real estate, business assets, personal property, and personal guarantees.

Loan Segments — The Company’s insurance and banking operations determine the manner in which the Company’s loan segments are evaluated and managed. The tables below reflect the recorded investment in loans (defined as the unpaid principal net of charge-offs and unamortized deferred loan fees and costs) by segment as of December 31, 2017 and 2016, respectively (in thousands):

	2017	2016
Insurance:		
Commercial	$ 2,460,495	$ 2,296,465
Residential	5,705	5,456
Bank:		
Construction — residential	54,958	56,542
Construction — commercial and multifamily	580,751	592,798
Residential real estate	1,711,171	1,682,023
Commercial real estate — non-owner occupied	1,045,422	801,240
Commercial real estate — multifamily	728,439	681,512
Owner occupied — non-residential real estate	355,101	353,959
Commercial and industrial	1,030,260	1,034,469
Energy	177,143	194,942
HOA	504,343	405,168
Land	43,523	45,413
Consumer	106,140	201,033
Total	8,803,451	8,351,020
Less allowance for loan losses	(76,292)	(75,478)
Total loans held for investment	$ 8,727,159	$ 8,275,542
Loans held for sale	$ 8,483	$ -
Total net loans	$ 8,735,642	$ 8,275,542

Loans include net deferred loan origination costs of $3,875,000 and $2,268,000 as of December 31, 2017 and 2016, respectively. The Company purchased $405,396,000 and $415,771,000 of residential real estate loans as of December 31, 2017 and 2016, respectively.

The Bank had loans outstanding to directors and executive officers. Such loans are made in the ordinary course of business at comparable terms and conditions as loans made to unrelated parties. Total loans to related parties as of December 31, 2017 and 2016, were $1,802,000 and $2,409,000, respectively.

Concentrations — Loans are geographically dispersed throughout the United States, with the largest concentrations in California and Texas which were each approximately 14%, of the portfolio as of December 31, 2017.

Credit Quality Indicators — For purposes of monitoring the credit quality and risk characteristics of its insurance segment's commercial loans the Company considers the current debt service coverage, loan to value ratios, leasing status, average rollover, loan performance, guarantees, and current rents in relation to current markets. The credit quality indicators are updated annually or more frequently if conditions are warranted based on the Company's credit monitoring process. The Company monitors the credit quality for the insurance segment's residential loans by reviewing payment activity monthly.

The recorded investment in the insurance segment's commercial loans, by credit quality, as of December 31, 2017 and 2016, was as follows (in thousands):

	Debt Service Coverage Ratios			
2017	**>1.20x**	**1.00x–1.20x**	**<1.00x**	**Total**
Loan-to-value ratios:				
Less than 65%	$ 1,955,334	$ 178,913	$ 83,010	$ 2,217,256
65% to 75%	184,638	46,515	-	231,153
Greater than 75%	6,527	1,953	3,605	12,085
Total	$ 2,146,499	$ 227,381	$ 86,615	$ 2,460,495

	Debt Service Coverage Ratios			
2016	**>1.20x**	**1.00x–1.20x**	**<1.00x**	**Total**
Loan-to-value ratios:				
Less than 65%	$ 1,741,657	$ 201,354	$ 83,189	$ 2,026,200
65% to 75%	218,500	36,607	1,060	256,167
Greater than 75%	5,184	5,631	3,283	14,098
Total	$ 1,965,341	$ 243,592	$ 87,532	$ 2,296,465

To facilitate the ongoing monitoring of credit quality within the Bank's loan segments, the Company evaluates all construction — residential, construction — commercial and multifamily, commercial real estate — non-owner occupied, commercial real estate — multifamily, commercial and industrial, energy, HOA, and land loans, using a risk rating system. A risk rating category is assigned to each loan upon initial approval of credit to borrowers using the following risk rating categories. Risk rating categories are reviewed and updated as indicated.

Pass — assigned to strong or sound borrowers demonstrating adequate financial strength, creditworthiness, and debt service ability. Loans in the pass risk rating category are updated when circumstances change based on the size and performance of the borrower.

Special Mention — assigned to loans that have potential weaknesses that deserve management's close attention. If uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Company's credit position at some future date. Loans in the special mention category are reviewed and updated as circumstances change or at least quarterly.

Substandard — assigned to loans that are inadequately protected by the current net worth and paying capacity of the obligor or by the collateral pledged, if any. Substandard loans have a well-defined weakness or weaknesses. Loans in this grade also are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not addressed and corrected. Loans in the substandard category are reviewed and updated as circumstances change or at least quarterly.

Doubtful — assigned to loans that have all the attributes of a substandard rating with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Loans in the doubtful category are reviewed and updated as circumstances change or at least quarterly.

Loss — assigned to loans deemed uncollectible and of such little value that its continuance as an asset, without establishment of a specific valuation allowance or charge-off, is not warranted.

The Company's recorded investment in the construction - residential, construction — commercial and multifamily, commercial real estate — non-owner occupied, commercial real estate — multifamily, owner occupied non-residential real estate, commercial and industrial, energy, HOA, and land loans Bank segments by credit quality as of December 31, 2017 and 2016, was as follows (in thousands):

2017	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Total**
Construction — residential	$ 54,958	$ -	$ -	$ -	$ 54,958
Construction — commercial and multifamily	560,159	-	20,592	-	580,751
Commercial real estate — non-owner occupied	1,026,680	13,932	4,810	-	1,045,422
Commercial real estate — multifamily	682,710	21,594	24,135	-	728,439
Owner occupied non-residential real estate	340,436	4,419	10,246	-	355,101
Commercial and industrial	932,866	37,537	59,857	-	1,030,260
Energy	23,086	49,776	104,281	-	177,143
HOA	501,405	2,303	635	-	504,343
Land	43,236	-	287	-	43,523
Total	$ 4,165,536	$ 129,561	$ 224,843	$ -	$ 4,519,940

2016	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Total**
Construction — residential	$ 56,542	$ -	$ -	$ -	$ 56,542
Construction — commercial and multifamily	573,249	19,549	-	-	592,798
Commercial real estate — non-owner occupied	780,700	14,556	5,984	-	801,240
Commercial real estate — multifamily	671,168	7,982	2,362	-	681,512
Owner occupied non-residential real estate	304,235	11,458	38,266	-	353,959
Commercial and industrial	945,831	15,082	73,539	17	1,034,469
Energy	77,508	36,862	80,572	-	194,942
HOA	404,323	-	-	845	405,168
Land	44,007	-	1,406	-	45,413
Total	$ 3,857,563	$ 105,489	$ 202,129	$ 862	$ 4,166,043

The Company monitors the credit quality and risk characteristics of the residential real estate, and consumer loans Bank segments, based on the repayment performance of the borrower. The Company classifies these loans and covered loans greater than 90 days past due as nonperforming.

The following table summarizes the credit quality of the residential real estate and consumer loans Bank segments by recorded investment as of December 31, 2017 and 2016 (in thousands):

2017	**Performing**	**Nonperforming**	**Total**
Residential real estate	$ 1,700,667	$ 10,504	$ 1,711,171
Consumer	106,063	77	106,140
Total	$ 1,806,730	$ 10,581	$ 1,817,311
2016	**Performing**	**Nonperforming**	**Total**
Residential real estate	$ 1,677,032	$ 4,991	$ 1,682,023
Consumer	200,859	174	201,033
Total	$ 1,877,891	$ 5,165	$ 1,883,056

Allowance for Loan Losses — The Company's recorded investment in loans and the allowance for loan losses by segment, disaggregated by impairment methodology, as of December 31, 2017 and 2016, was as follows (in thousands):

	Loans				Allowance for Credit Losses			
2017	**Individually Evaluated for Credit Losses**	**Collectively Evaluated for Credit Losses**	**Acquired with Deteriorated Credit Quality**	**Total Loans**	**Individually Evaluated for Credit Losses**	**Collectively Evaluated for Credit Losses**	**Total Allowance for Credit Losses**	**Loans, Net of Allowance for Credit Losses**
Insurance segment:								
Commercial	$ 12,303	$ 2,448,192	$ -	$ 2,460,495	$ (5,327)	$ (10,818)	$ (16,145)	$ 2,444,350
Residential	-	5,705	-	5,705	-	-	-	5,705
Bank segments:								
Construction — residential	-	54,958	-	54,958	-	(312)	(312)	54,646
Construction — commercial and multifamily	8,860	571,891	-	580,751	-	(6,592)	(6,592)	574,159
Residential real estate	5,736	1,705,435	-	1,711,171	(319)	(8,469)	(8,788)	1,702,383
Commercial real estate — non-owner occupied	268	1,045,154	-	1,045,422	-	(7,181)	(7,181)	1,038,241
Commercial real estate — multifamily	363	728,076	-	728,439	-	(4,488)	(4,488)	723,951
Owner-occupied non-residential real estate	1,947	353,154	-	355,101	-	(2,139)	(2,139)	352,962
Commercial and industrial	36,489	993,771	-	1,030,260	(3,466)	(12,258)	(15,724)	1,014,536
Energy	44,793	132,350	-	177,143	(2,660)	(8,519)	(11,179)	165,964
HOA	635	503,708	-	504,343	-	(2,141)	(2,141)	502,202
Land	624	42,899	-	43,523	-	(376)	(376)	43,147
Consumer	102	106,038	-	106,140	-	(1,227)	(1,227)	104,913
Total	$112,120	$ 8,691,331	$ -	$ 8,803,451	$(11,772)	$ (64,520)	$ (76,292)	$ 8,727,159

	Loans				Allowance for Credit Losses			
2016	**Individually Evaluated for Credit Losses**	**Collectively Evaluated for Credit Losses**	**Acquired with Deteriorated Credit Quality**	**Total Loans**	**Individually Evaluated for Credit Losses**	**Collectively Evaluated for Credit Losses**	**Total Allowance for Credit Losses**	**Loans, Net of Allowance for Credit Losses**
Insurance segment:								
Commercial	$ 20,138	$ 2,276,327	$ -	$ 2,296,465	$ (6,275)	$ (10,879)	$ (17,154)	$ 2,279,311
Residential	-	5,456	-	5,456	-	-	-	5,456
Bank segments:								
Construction — residential	-	56,542	-	56,542	-	(278)	(278)	56,264
Construction — commercial and multifamily	-	592,798	-	592,798	-	(5,194)	(5,194)	587,604
Residential real estate	3,472	1,678,110	441	1,682,023	(363)	(8,086)	(8,449)	1,673,574
Commercial real estate — non-owner occupied	4,912	796,328	-	801,240	-	(6,311)	(6,311)	794,929
Commercial real estate — multifamily	1,294	680,218	-	681,512	(161)	(4,072)	(4,233)	677,279
Owner-occupied non-residential real estate	8,275	345,640	44	353,959	(175)	(2,932)	(3,107)	350,852
Commercial and industrial	16,599	1,017,455	415	1,034,469	(3,342)	(12,448)	(15,790)	1,018,679
Energy	36,766	158,176	-	194,942	(3,987)	(6,639)	(10,626)	184,316
HOA	845	404,323	-	405,168	(458)	(1,619)	(2,077)	403,091
Land	1,582	43,667	164	45,413	-	(599)	(599)	44,814
Consumer	362	200,360	311	201,033	-	(1,660)	(1,660)	199,373
Total	$ 94,245	$ 8,255,400	$ 1,375	$ 8,351,020	$(14,761)	$ (60,717)	$ (75,478)	$ 8,275,542

Activity in the allowance for loan losses for the years ended December 31, 2017 and 2016, was as follows (in thousands):

	Balance at January 1, 2017	Provisions	Charge-offs	Recoveries	Balance at December 31, 2017
Insurance segment — commercial	$ (17,154)	$ 13	$ 996	$ -	$ (16,145)
Bank segments:					
Construction — residential	(278)	34	-	(68)	(312)
Construction — commercial and multifamily	(5,194)	(1,398)	-	-	(6,592)
Residential real estate	(8,449)	(276)	-	(63)	(8,788)
Commercial real estate — non-owner occupied	(6,311)	(447)	-	(423)	(7,181)
Commercial real estate — multifamily	(4,233)	(1,003)	761	(13)	(4,488)
Owner-occupied non-residential real estate	(3,107)	2,182	-	(1,214)	(2,139)
Commercial and industrial	(15,790)	(1,349)	1,720	(305)	(15,724)
Energy	(10,626)	(10,561)	10,008	-	(11,179)
HOA	(2,077)	(64)	-	-	(2,141)
Land	(599)	978	-	(755)	(376)
Consumer	(1,660)	438	342	(347)	(1,227)
Total	$ (75,478)	$ (11,453)	$ 13,827	$ (3,188)	$ (76,292)

	Balance at January 1, 2016	Provisions	Charge-offs	Recoveries	Balance at December 31, 2016
Insurance segment — commercial	$ (18,923)	$ 596	$ 1,173	$ -	$ (17,154)
Bank segments:					
Construction — residential	(884)	613	-	(7)	(278)
Construction — commercial and multifamily	(4,824)	(370)	-	-	(5,194)
Residential real estate	(13,103)	4,660	105	(111)	(8,449)
Commercial real estate — non-owner occupied	(5,848)	(240)	-	(223)	(6,311)
Commercial real estate — multifamily	(3,496)	(937)	200	-	(4,233)
Owner-occupied non-residential real estate	(4,112)	1,023	-	(18)	(3,107)
Commercial and industrial	(9,816)	(6,552)	908	(330)	(15,790)
Energy	(13,158)	(4,007)	6,539	-	(10,626)
HOA	(2,224)	147	-	-	(2,077)
Land	(953)	798	-	(444)	(599)
Consumer	(2,406)	167	740	(161)	(1,660)
Covered loans	(608)	608	-	-	-
Total	$ (80,355)	$ (3,494)	$ 9,665	$ (1,294)	$ (75,478)

Covered loans included loans acquired for which the Federal Deposit Insurance Corporation provided indemnification for the Company's exposure to credit losses under a loss-share agreement. The loss-share agreement was terminated in December of 2016.

Past Due and Nonaccrual Loans — The Company's recorded investment in past due loans (excluding those loans acquired with deteriorated credit quality) by age as of December 31, 2017 and 2016, was as follows (in thousands):

2017	**30–59 Days Past Due**	**60–90 Days Past Due**	**Greater than 90 Days Past Due**	**Total Past Due**	**Current**	**Total Loans**	**90 Days Past Due and Still Accruing**
Insurance segment:							
Commercial	$ 620	$ -	$ -	$ 620	$2,459,875	$2,460,495	$ -
Residential	-	-	-	-	5,705	5,705	-
Bank segments:							
Construction — residential	-	-	-	-	54,958	54,958	-
Construction — commercial and multifamily	-	-	5,992	5,992	574,759	580,751	-
Residential real estate	12,408	5,093	10,538	28,039	1,683,132	1,711,171	3,302
Commercial real estate — non-owner occupied	-	-	268	268	1,045,154	1,045,422	-
Commercial real estate — multifamily	-	-	-	-	728,439	728,439	-
Owner-occupied non-residential real estate	606	-	-	606	354,495	355,101	-
Commercial and industrial	7,554	165	13,123	20,842	1,009,418	1,030,260	-
Energy	-	993	20,973	21,966	155,177	177,143	-
HOA	272	-	-	272	504,071	504,343	-
Land	357	-	337	694	42,829	43,523	-
Consumer	432	109	77	618	105,522	106,140	76
Total	$ 22,249	$ 6,360	$ 51,308	$ 79,917	$8,723,534	$8,803,451	$3,378

2016	**30–59 Days Past Due**	**60–90 Days Past Due**	**Greater than 90 Days Past Due**	**Total Past Due**	**Current**	**Total Loans**	**90 Days Past Due and Still Accruing**
Insurance segment:							
Commercial	$ 1,136	$ 825	$ -	$ 1,961	$2,294,504	$2,296,465	$ -
Residential	-	-	-	-	5,456	5,456	-
Bank segments:							
Construction — residential	-	-	-	-	56,542	56,542	-
Construction — commercial and multifamily	-	-	-	-	592,798	592,798	-
Residential real estate	14,310	3,135	4,991	22,436	1,659,146	1,681,582	42
Commercial real estate — non-owner occupied	-	454	378	832	800,408	801,240	-
Commercial real estate — multifamily	-	-	-	-	681,512	681,512	-
Owner-occupied non-residential real estate	179	-	1,876	2,055	351,860	353,915	-
Commercial and industrial	7,960	1,018	12,387	21,365	1,012,689	1,034,054	78
Energy	-	-	13,765	13,765	181,177	194,942	-
HOA	-	-	-	-	405,168	405,168	-
Land	-	-	-	-	45,249	45,249	-
Consumer	1,554	79	174	1,807	198,915	200,722	25
Total	$ 25,139	$ 5,511	$ 33,571	$ 64,221	$8,285,424	$8,349,645	$ 145

The Company's recorded investment in Bank loans in nonaccrual status as of December 31, 2017 and 2016, was as follows (in thousands). There were no insurance segment loans in nonaccrual status as of December 31, 2017 and 2016.

	2017	**2016**
Bank segments:		
Construction — commercial and multifamily	$ 8,860	$ -
Residential real estate	7,410	5,319
Commercial real estate — non-owner occupied	268	5,179
Commercial real estate — multifamily	-	911
Owner-occupied non-residential real estate	2,487	9,531
Commercial and industrial	37,361	17,454
Energy	44,767	35,770
HOA	635	845
Land	624	1,631
Consumer	1,119	1,663
Total	$ 103,531	$ 78,303

Impaired Loans — Loans determined to be impaired which are individually evaluated as of December 31, 2017 and 2016, were as follows (in thousands):

2017	Unpaid Principal Balance	Recorded Investment without Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income on Impaired Loans	Cash Basis Income on Impaired Loans
Insurance segment — commercial	$ 12,303	$ 3,344	$ 8,959	$ 12,303	$ (5,327)	$ 16,816	$ 864	$ 976
Bank segments:								
Construction — Commercial and multifamily	8,919	8,860	-	8,860	-	6,621	213	247
Residential real estate	5,724	4,065	1,671	5,736	(319)	5,652	195	188
Commercial real estate — non-owner occupied	268	268	-	268	-	445	212	224
Commercial real estate — multifamily	363	363	-	363	-	237	24	25
Owner-occupied non-residential real estate	1,937	1,947	-	1,947	-	2,210	289	363
Commercial and industrial	36,636	24,424	12,065	36,489	(3,466)	35,918	1,169	1,281
Energy	44,959	24,634	20,159	44,793	(2,660)	55,307	2,224	2,321
HOA	640	635	-	635	-	407	52	52
Land	622	624	-	624	-	684	142	172
Consumer	102	102	-	102	-	214	36	36
Total	$112,473	$69,266	$42,854	$112,120	$(11,772)	$124,511	$5,420	$5,885

2016	Unpaid Principal Balance	Recorded Investment without Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income on Impaired Loans	Cash Basis Income on Impaired Loans
Insurance segment — commercial	$ 20,138	$ 5,302	$14,836	$ 20,138	$ (6,275)	$ 21,492	$1,194	$1,206
Bank segments:								
Residential real estate	3,467	1,344	2,128	3,472	(363)	3,570	264	240
Commercial real estate — non-owner occupied	4,902	4,912	-	4,912	-	5,213	431	434
Commercial real estate — multifamily	1,294	383	911	1,294	(161)	1,336	58	58
Owner-occupied non-residential real estate	8,261	7,381	894	8,275	(175)	8,668	512	558
Commercial and industrial	16,668	5,145	11,454	16,599	(3,342)	17,109	693	706
Energy	36,960	30,337	6,429	36,766	(3,987)	33,823	771	767
HOA	851	-	845	845	(458)	948	59	59
Land	1,582	1,582	-	1,582	-	1,969	278	296
Consumer	363	363	-	363	-	376	25	25
Total	$ 94,486	$56,749	$37,497	$ 94,246	$(14,761)	$ 94,504	$4,285	$4,349

Restructured Loans — The recorded investment in loans modified in a TDR were $3,304,000 and $3,994,000 during the years ended December 31, 2017 and 2016, respectively.

All loans identified as TDRs by the Company during 2017 and 2016, are deemed impaired and a specific reserve is calculated and applied to the allowance for loan losses if applicable.

The Company considers TDRs that become 90 days or more past due under the modified terms as subsequently defaulted. During the year ended December 31, 2017, the Bank had one TDR in the commercial and industrial segment with a total recorded investment of $764,000 that subsequently defaulted within 12 months of the restructuring date. During the year ended December 31, 2016, the Bank had one TDR in the owner occupied non-residential real estate segment with a recorded investment of $609,000 and two TDRs in the commercial & industrial segment with a total recorded investment of $287,000 that subsequently defaulted within 12 months of the restructuring date.

Net Investment Income — The sources of net investment income for the years ended December 31, 2017 and 2016, were as follows (in thousands):

	2017	2016
Fixed maturities	$ 900,743	$ 851,479
Loans	373,171	332,611
Real estate	(12,409)	(11,649)
Limited partnerships	37,318	37,968
Policy loans	13,902	13,930
Equity securities	11,856	3,404
Derivatives	6,663	3,632
Other invested assets	1,800	919
Cash and cash equivalents and short-term investments	3,477	2,891
	1,336,521	1,235,185
Less investment expenses	(30,811)	(30,735)
Net investment income	$1,305,710	$1,204,450

Net Realized Investment Gains (Losses) — Net realized investment gains (losses) for the years ended December 31, 2017 and 2016, were as follows (in thousands):

	2017	2016
Fixed maturities:		
OTTI losses	$ (19,822)	$ (12,762)
OTTI transferred to other comprehensive income	1,765	1,610
Net OTTI losses recognized in earnings	(18,057)	(11,152)
Net gains from sales, disposals and fair value adjustments	32,263	4,612
Total gains (losses) on fixed maturities	14,206	(6,540)
Equity securities	4,846	3,570
Loans	874	35
Limited partnerships	5,977	8,813
Real estate	(1,815)	371
Derivatives	3,017	1,255
Other invested assets	443	851
Net realized investment gains	$ 27,548	$ 8,355

The OTTI losses relate primarily to corporate bonds and commercial MBS for the years ended December 31, 2017 and 2016, respectively.

Proceeds from the sale of fixed maturities and related gross investment gains and losses for the years ended December 31, 2017 and 2016, were as follows (in thousands):

	2017	2016
Fixed maturities, available-for-sale:		
Proceeds from sales	$ 864,076	$ 238,514
Gross investment gains from sales	29,964	1,254
Gross investment losses from sales	(4,578)	(3,605)

Sales and related sales proceeds of equity available-for-sale securities for the years ended December 31, 2017 and 2016, were not significant.

Net Unrealized Investment Gains (Losses) — Net unrealized investment gains (losses) are included in accumulated other comprehensive income (loss), net of taxes and policyholder related amounts. Changes in these amounts for the years ended December 31, 2017 and 2016, were as follows (in thousands):

	2017	2016
Balance — beginning of year	$ 261,193	$ 162,845
Changes in net unrealized investment gains (losses) attributed to:		
Fixed maturities	507,948	82,143
Noncredit component of impairment losses on fixed maturities	230	(2,863)
Equity securities	2,411	165
Limited partnerships	522	84
Derivatives	(70,948)	9,718
Deferred policy acquisition costs	(21,999)	74,049
Insurance liability loss recognition	(115,000)	(11,000)
Deferred federal income taxes	(91,433)	(52,769)
Retained earnings reclassification due to tax rate change	85,611	-
Other	(7,516)	(1,179)
	289,826	98,348
Balance — end of year	$ 551,019	$ 261,193

3. FAIR VALUE

The categorization of fair value measurements determined on a recurring basis, by input level, as of December 31, 2017 and 2016, were as follows (in thousands):

2017	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Fixed maturities — available-for-sale:				
U.S. Government	$ -	$ 122,777	$ -	$ 122,777
State and political subdivisions	-	336,023	-	336,023
U.S. and Canadian corporate	-	11,715,621	349,998	12,065,619
Foreign corporate	-	2,715,806	730,948	3,446,754
Commercial MBS	-	1,424,355	64,279	1,488,634
Residential MBS	-	2,220,232	-	2,220,232
Other ABS	-	1,935,566	342,059	2,277,625
Total fixed maturities — available-for-sale	-	20,470,380	1,487,284	21,957,664
Fixed maturities — trading:				
U.S. and Canadian corporate	-	159,767	-	159,767
Foreign corporate	-	14,910	-	14,910
Total fixed maturities — trading	-	174,677	-	174,677
Equity securities — available-for-sale	51,630	-	15,542	67,172
Equity securities — trading	26,407	28,704	-	55,111
Loans held for sale	-	8,483	-	8,483
Derivative assets	405	27,976	643	29,024
Short term investments	355,501	-	-	355,501
Cash equivalents	25,738	-	-	25,738
Mortgage servicing rights	-	-	10,785	10,785
Derivative liabilities	-	(54,453)	(11,699)	(66,152)
Total without separate accounts	459,681	20,655,767	1,502,555	22,618,003
Separate accounts	2,405,038	1,665,337	-	4,070,375
Total	$2,864,719	$22,321,104	$1,502,555	$26,688,378

2016	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Fixed maturities — available-for-sale:				
U.S. Government	$ -	$ 127,108	$ -	$ 127,108
State and political subdivisions	-	266,863	-	266,863
U.S. and Canadian corporate	-	10,261,428	435,648	10,697,076
Foreign corporate	-	2,808,374	394,200	3,202,574
Commercial MBS	-	1,402,471	227,507	1,629,978
Residential MBS	-	2,034,112	-	2,034,112
Other ABS	-	1,661,495	501,883	2,163,378
Total fixed maturities — available-for-sale	-	18,561,851	1,559,238	20,121,089
Fixed maturities — trading:				
U.S. and Canadian corporate	-	144,296	-	144,296
Foreign corporate	-	11,348	-	11,348
Total fixed maturities — trading	-	155,644	-	155,644
Equity securities — available-for-sale	-	-	13,918	13,918
Equity securities — trading	10,762	28,232	-	38,994
Derivative assets	-	51,428	23	51,451
Short term investments	193,721	-	-	193,721
Cash equivalents	12,817	-	-	12,817
Mortgage servicing rights	-	-	12,413	12,413
Derivative liabilities	-	(8,996)	(3,119)	(12,115)
Total without separate accounts	217,300	18,788,159	1,582,473	20,587,932
Separate accounts	2,048,922	1,389,777	-	3,438,699
Total	$2,266,222	$20,177,936	$1,582,473	$24,026,631

Transfers between Levels 1 and 2 — Transfers in and/or out of any level are assumed to occur at the beginning of the period. No transfers between level 1 and level 2 occurred during the year ended December 31, 2017 and 2016.

Transfers into and out of Level 3 — Transfers in and/or out of level three are assumed to occur at the beginning of the period. Assets and liabilities are transferred into or out of Level 3 when a significant input can no longer be corroborated or can be corroborated with market observable data. This occurs when market activity decreases or increases related to certain securities and transparency to the underlying inputs is no longer available or can be observed with current pricing.

A description of the significant inputs and valuation techniques used to determine estimated fair value for assets and liabilities on a recurring basis is as follows:

Level 1 Measurements:

Equity Securities — Available for Sale and Trading and Short-Term Investments — Valuation is based on unadjusted quoted prices in active markets that are readily and regularly available.

Cash Equivalents — Money market instruments included in cash equivalents are generally valued using unadjusted quoted prices in active markets that are accessible for the asset or identical assets. When public quotations are not available, because of the highly liquid nature of these assets, carrying amounts may be used to approximate fair values.

Derivative Assets — These balances are comprised entirely of warrants and were valued using recent trade activity.

Separate Accounts — Separate accounts are comprised primarily of money market instruments, mutual funds, and common stock. Valuation is based on actively traded mutual funds recorded at net asset value, which approximates fair value.

Level 2 Measurements:

Fixed Maturities — Available-for-Sale and Trading:

U.S. Government and State and Political Subdivisions — These securities are principally valued using the market approach, which uses prices and other relevant information generated by market transactions for similar assets. The valuation of these securities is based primarily on quoted prices in active markets or through the use of matrix pricing or other similar techniques using standard market observable inputs such as the benchmark U.S. Treasury yield curve, the spread from the U.S. Treasury curve for the identical security and comparable securities that are actively traded.

U.S. and Canadian Corporate and Foreign Corporate — These securities are principally valued using either the market approach or the income approach. The income approach uses valuation techniques to convert future estimated cash flows to a discounted present value amount. The valuation of these securities is based primarily on quoted prices in active markets, or through the use of matrix pricing or other similar techniques that use standard market observable inputs such as benchmark yields, spreads off benchmark yields, new issuances, issuer rating, duration, and trades of identical or comparable securities. Also included are privately placed securities valued using a discounted cash flow methodology using standard market observable inputs, and inputs derived from, or corroborated by, market observable data, including the market yield curve, duration, call provisions, observable prices and spreads for similar publicly traded or privately traded issues that incorporate the credit quality and industry sector of the issuer.

Commercial MBS, Residential MBS, and Other ABS — These structured securities are principally valued using either the market approach or the income approach. The valuation of these securities is based primarily on matrix pricing or other similar techniques using standard market inputs, including spreads for actively traded securities, spreads off benchmark yields, expected prepayment speeds and volumes, current and forecasted loss severity, rating, weighted average coupon, weighted average maturity, average delinquency rates, geographic region, debt-service coverage ratios, and issuance-specific information including, but not limited to: collateral type, payment terms of the underlying assets, payment priority within the tranche, structure of the security, deal performance, and vintage of loans.

Equity Securities — Trading — These securities are principally valued using the market approach. The valuation of these securities is based principally on observable inputs including quoted prices in markets that are not considered active.

Loans Held for Sale — These loans are principally valued using the market approach. Valuations are based on readily available observable pricing for similar loans or securities back by similar loans.

Derivative Assets and Liabilities — These balances include swaps, swaptions and call spread options. Generally, these instruments are principally valued using an income approach using present value techniques or a market approach if comparable valuation data is available.

Separate Accounts — Separate accounts are comprised primarily of common collective trusts and private investments in public equities. Common collective trusts are valued based on independent pricing services and non-binding broker quotations. The pricing services, in general, employ a market approach to valuing portfolio investments using market prices from exchanges or matrix pricing when quoted prices are not available and other relevant data inputs as necessary. When current market prices or pricing service quotations are not available, the trustees use contractual cash flows and other inputs to value the funds. Private investments in public equities are valued with observable inputs from the public equities.

Level 3 Measurements — In general, investments classified within Level 3 use many of the same valuation techniques and inputs as described above. However, if key inputs are unobservable, or if the investments are illiquid and there is very limited trading activity, the investments are generally classified as Level 3.

Fixed Maturity — Available-for-Sale:

U.S. and Canadian Corporate and Foreign Corporate — These securities are principally valued using the market and income approaches. Valuations of these securities are based primarily on matrix pricing or other similar techniques that utilize unobservable inputs or cannot be derived principally from, or corroborated by, observable market data, including illiquidity premiums and spread adjustments to reflect industry trends or specific credit-related issues. Valuations may be based on independent non-binding broker quotations. The use of independent non-binding broker quotations to value investments generally indicates there is a lack of liquidity or the general lack of transparency to develop the valuation estimates generally causing these investments to be classified in Level 3. Generally, below investment grade privately placed or distressed securities included in this level are valued using discounted cash flow methodologies which rely upon significant, unobservable inputs and inputs that cannot be derived principally from, or corroborated by, observable market data.

Commercial MBS, Residential MBS, and Other ABS — These structured securities are principally valued using the market approach. The valuation of these securities is based primarily on matrix pricing or other similar techniques that utilize inputs that are unobservable or cannot be derived principally from, or corroborated by, observable market data, or are based on independent non-binding broker quotations.

Equity Securities Available-for-Sale — These securities are principally valued using the net asset values provided by the asset managers.

Derivative Assets and Liabilities — These balances include forwards and IUL products embedded derivatives. Generally, these instruments are principally valued using an income approach. Certain inputs used in determining expected cash flows may include mortality rates, policyholder behavior (lapse and withdrawal rates), expected future interest credited, capital market assumptions including risk-free rates and implied volatilities, and an adjustment to the discount rate to incorporate non-performance risk.

Mortgage Servicing Rights — The mortgage servicing rights are principally valued using an income approach. The Company relies on a discounted cash flow model to estimate the fair value of the mortgage servicing rights. The model utilizes objective characteristics of the servicing right portfolio, as well as certain subjective unobservable valuation parameters, to estimate fair value. Objective characteristics of the portfolio include type of loan (fixed vs. variable and agency vs. other), term, origination date, and interest rate. Subjective valuation parameters include estimates of discount rates, prepayments speeds, servicing costs, and market conditions. Third party valuation results are obtained quarterly and reviewed for reasonableness by comparing current and prior quarter reports and analyzing the impact of changes in market prices and economic conditions. Unusual results or discrepancies are investigated and documented.

Changes in fixed maturity — available for sale assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during 2017 and 2016, were as follows (in thousands):

	U.S. and Canadian Corporate	Foreign Corporate	Commercial MBS	Residential MBS	Other ABS	Total Fixed Maturities — Available for Sale
Balance — January 1, 2017	$ 435,648	$ 394,200	$ 227,507	$ -	$ 501,883	$ 1,559,238
Gains (losses):						
Included in net realized investment gains (losses)	(8,147)	2,936	(3,464)	-	(2,256)	(10,931)
Included in other comprehensive income	14,678	71,813	2,009	-	(155)	88,345
Purchases	38,339	281,914	-	-	154,204	474,457
Settlements/sales and repayments	(123,516)	(19,915)	(368)	-	(235,921)	(379,720)
Net transfers into level 3	-	-	6,458	-	-	6,458
Net transfers out of level 3	(7,004)	-	(167,863)	-	(75,696)	(250,563)
Balance — December 31, 2017	$ 349,998	$ 730,948	$ 64,279	$ -	$ 342,059	$ 1,487,284

	U.S. and Canadian Corporate	Foreign Corporate	Commercial MBS	Residential MBS	Other ABS	Total Fixed Maturities — Available for Sale
Balance — January 1, 2016	$ 63,945	$ 124,632	$ 216,150	$ 19,670	$ 493,005	$ 917,402
Gains (losses):						
Included in net realized investment gains (losses)	(3,600)	(4,500)	(718)	-	(1,139)	(9,957)
Included in Interest Credited	-	-	-	-	-	-
Included in Other Income	-	-	-	-	-	-
Included in other comprehensive income	2,926	(26,381)	10,397	-	2,806	(10,252)
Purchases	32,406	251,710	7,624	-	77,584	369,324
Settlements/sales and repayments	(7,062)	(26,535)	(13,179)	-	(88,814)	(135,590)
Net transfers into level 3	347,033	75,274	7,233	-	28,864	458,404
Net transfers out of level 3	-	-	-	(19,670)	(10,423)	(30,093)
Balance — December 31, 2016	$ 435,648	$ 394,200	$ 227,507	$ -	$ 501,883	$ 1,559,238

Changes in other assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during 2017 and 2016, were as follows (in thousands):

	Equity Securities — Available for Sale	Mortgage Servicing Rights	Derivative Assets/ Liabilities
Balance — January 1, 2017	$ 13,918	$ 12,413	$ (3,096)
Gains (losses):			
Included in net realized investment gains (losses)	-	-	895
Included in interest credited	-	-	(917)
Included in other income	-	(1,628)	-
Included in other comprehensive income	1,182	-	-
Issues/purchases	442	-	(11,029)
Settlements/sales and repayments	-	-	3,091
Balance — December 31, 2017	$ 15,542	$ 10,785	$ (11,056)

	Equity Securities — Available for Sale	Mortgage Servicing Rights	Derivative Assets/ Liabilities
Balance — January 1, 2016	$ 13,247	$ 15,099	$ (58)
Gains (losses):			
Included in net realized investment gains (losses)	-	-	(320)
Included in interest credited	-	-	(49)
Included in other income	-	(2,686)	-
Included in other comprehensive income	270	-	-
Issues/purchases	471	-	(2,669)
Settlements/sales and repayments	(70)	-	-
Balance — December 31, 2016	$ 13,918	$ 12,413	$ (3,096)

Transfers into Level 3 — Transfers into level three were the result of changes in pricing sources.

Transfers out of Level 3 — Transfers out of level three were the result of changes in pricing sources, distressed asset pricing, and investments purchased at December 2014 that were carried at cost and used matrix pricing in 2015.

The total change in other comprehensive income (loss) included in the preceding tables represents unrealized gains (losses) only for the current year during which the applicable financial instruments were classified as Level 3. The total net unrealized gains (losses) as of December 31, 2017 and 2016, for the Level 3 assets were $50,040,000 and $20,362,000, respectively.

Financial Instruments Measured at Fair Value Using Significant Unobservable Inputs (Level 3) — The following table provides quantitative information about significant unobservable inputs used to determine fair value for the more significant asset and liability classes measured at fair value on a recurring basis using significant unobservable inputs (Level 3).

Asset	Valuation Techniques	Significant Unobservable Inputs	Range	Weighted Average
U.S. and Canadian corporate and foreign corporate	Matrix pricing Discounted cash flows	Spread Adjustments	-0.60%–1.42%	0.58%
Commercial MBS	Matrix pricing Discounted cash flows	Spread Adjustments Internal value	0.59% $0–$126.00	0.59% $ 108.00
Other ABS	Matrix pricing Discounted cash flows	Spread Adjustments Internal value	0.55%–6.65% $33.92–$100.00	1.77% $ 92.13

Valuation Techniques — Fair values are monitored by a committee, which is comprised of individuals from the investment management, financial reporting, and bank treasury departments. The committee is responsible for addressing fair value issues related to the Company's investment portfolio excluding Bank loans and Bank real estate. The committee oversees pricing policies and procedures by ensuring objective and reliable valuation practices and pricing practices are followed for financial instruments. The committee addresses and documents fair value issues, approves changes to valuation methodologies, and evaluates and approves third party and internal pricing sources.

In the absence of observable prices in active markets fair values are determined internally. Fair values calculated using the discounted cash flows method are significantly affected by assumptions including credit spread adjustments. Internal values may also be determined from prices of comparable securities, internal estimates and estimated recoveries.

Nonrecurring Fair Value Measurements — Certain assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

Certain impaired loans are recorded at the lower of the loan carrying value or fair value less estimated costs to sell, if repayment is expected solely from collateral. The fair value of the collateral is based on appraisals, broker opinion of value, or discounted cash flows. Fair values may be adjusted by management to reflect current economic and market conditions; therefore, these loans are classified within Level 3 of the fair value hierarchy. As of December 31, 2017 and 2016, certain impaired loans were remeasured and reported at the fair value of the underlying collateral utilizing Level 3 valuation inputs. Impaired loans with a par value of $80,104,000 and $79,906,000 were carried at a fair value of $59,755,000 and $48,667,000 as of December 31, 2017 and 2016, respectively.

As of December 31, 2017 and 2016, certain OREO assets were remeasured and reported at the fair value of the underlying collateral less estimated cost to sell, utilizing Level 3 valuation inputs resulting in an impairment of $58,000 and $120,000 recorded in net realized gains (losses) for the years ended December 31, 2017 and 2016, respectively. The fair value of these impaired assets is based on an appraisal of the underlying collateral using unobservable data; therefore, these assets are classified within Level 3 of the fair value hierarchy. The fair value of the remeasured OREO was $3,442,000 and $3,660,000 as of December 31, 2017 and 2016, respectively.

Quantitative information about the significant unobservable inputs used in determining the fair value of impaired loans and OREO on a nonrecurring basis using significant unobservable inputs (Level 3) were as follows:

Assets	Valuation Techniques	Significant Unobservable Inputs	Inputs
Impaired loans	Appraised value	Cost to sell	5%–10%
		Market adjustments	0%–100%
	Discounted cash flows	Discount rates	2%–7%
	Direct Capitalization	Capitalization Rate	8.5%
		Cost to Sell	10%
OREO	Appraised value	Cost to sell	5%–10%

Impairment testing for real estate owned by ECR was performed as of December 31, 2017 and 2016, with revised expected cash flows. As a result of this testing, an impairment of $1,767,000 was included in net realized investment gains (losses) in the consolidated statements of operations for the year ended December 31, 2017, representing the difference between the carrying value and the estimated fair value for the asset components where a fair value measurement was required. Fair value was determined based on independent appraisals, comparable sales data, discounted cash flows, and certain assumptions regarding the use of the properties as prepared by management. The real estate is classified within Level 3 of the fair value hierarchy as its estimated fair value is based on a cash flow analysis utilizing Level 3 valuation inputs. Significant quantitative assumptions used in determining fair value, at the time of impairment, included a capitalization rate of 11.00%.

4. DEFERRED POLICY ACQUISITION COSTS

The deferred policy acquisition costs and changes thereto for the years ended December 31, 2017 and 2016, were as follows (in thousands):

	2017	2016
Balance — beginning of year	$3,454,374	$2,970,460
Acquisition costs deferred	971,126	894,115
Amortization	(546,527)	(484,250)
Unrealized investment gains (losses)	(21,999)	74,049
Balance — end of year	$3,856,974	$3,454,374

5. INSURANCE AND ANNUITY RESERVES

Annuities in payout status that involve insurance risk to the Company are included within future policy benefits. Deferred annuities in the accumulation stage and those in payout status that do not involve insurance risk are included within policyholder account balances.

Future Policy Benefits — Reserves for future policy benefits as of December 31, 2017 and 2016, were as follows (in thousands):

	2017	2016
Life insurance	$ 4,766,916	$ 4,291,071
Health insurance	2,323,919	2,052,188
Annuities	4,421,864	3,692,834
Total future policy benefits	$ 11,512,699	$ 10,036,093

Policyholder Account Balances — Policyholder account balances as of December 31, 2017 and 2016, were as follows (in thousands):

	2017	2016
Individual annuities	$2,324,128	$2,371,346
Group annuities	2,225,620	2,215,984
Individual universal life contracts	2,354,195	2,288,177
Other	682,855	555,447
Total policyholder account balances	$7,586,798	$7,430,954

Liability for Unpaid Claims — A reconciliation of the liability for unpaid claims as of December 31, 2017 and 2016, was as follows (in thousands):

	2017				2016
	Group LTD	Group STD	All Other	Total	
Liability for unpaid claims — beginning of year	$ 712,019	$ 27,227	$ 1,200,386	$ 1,939,632	$ 1,821,690
Less nonhealth unpaid claim liabilities	-	-	122,661	122,661	123,485
Less reinsurance	24,985	-	47,475	72,460	70,431
Less claim adjustment expense liabilities	23,319	1,399	26,607	51,325	47,721
Net unpaid health claims balance — beginning of year	663,715	25,828	1,003,643	1,693,186	1,580,053
Incurred related to:					
Current year	197,564	154,886	2,786,554	3,139,004	2,883,388
Prior years	7,615	(1,738)	(49,857)	(43,980)	31,119
Total incurred	205,179	153,148	2,736,697	3,095,024	2,914,507
Paid related to:					
Current year	18,511	126,162	2,265,144	2,409,817	2,205,327
Prior years	142,990	23,844	466,512	633,346	596,047
Total paid	161,501	150,006	2,731,656	3,043,163	2,801,374
Net unpaid health claims balance — end of year	707,393	28,970	1,008,684	1,745,047	1,693,186
Plus reinsurance	26,288	-	50,220	76,508	72,460
Plus nonhealth unpaid claim liabilities	-	-	138,649	138,649	122,661
Plus claim adjustment expense liabilities	24,882	1,567	24,039	50,488	51,325
Liability for unpaid claims — end of year	$ 758,563	$ 30,537	$ 1,221,592	$ 2,010,692	$ 1,939,632

During 2017, incurred claims related to prior years were favorable on a non-interest adjusted basis due to decreases in claim reserves for supplemental health and long-term care products and favorable runout within certain health and accident coverages. The unfavorable runout for Group LTD in 2017 is favorable on an interest adjusted basis.

During 2016, incurred claims related to prior years were unfavorable primarily due to unfavorable runout within certain health and accident coverages on a non-interest adjusted basis. On an interest adjusted basis, prior years incurred claims were favorable.

Management believes that the liability for unpaid claims is adequate to cover the ultimate development of claims. The liability is regularly reviewed and revised to reflect current conditions and claim trends and any resulting adjustments are reflected in operating results in the year they are made.

Short-Duration Contracts — The following tables present undiscounted information about claims development by incurral year, including separate information about incurred claims and paid claims net of reinsurance for the periods indicated. Information is also included on incurred but not reported claims and the cumulative number of reported claims.

Information is presented by product for the number of years for which claims incurred typically remain outstanding, but do not exceed five years. Claims adjustment expenses are noted as "CAE" in the tables below. Disclosure of 2013 to 2017 figures are included in the tables below as required supplemental information.

Information related to group LTD products was as follows (dollars in thousands):

	Undiscounted Cumulative Incurred Claims including CAE For the Years Ended December 31,					As of December 31, 2017	
Incurral Year	**2013**	**2014**	**2015**	**2016**	**2017**	**Incurred but not Reported Liabilities**	**Cumulative Number of Reported Claims**
2013	$ 172,282	$ 185,435	$ 183,424	$ 181,634	$ 177,610	$ 742	4,172
2014		195,675	200,347	210,295	208,807	990	5,645
2015			188,178	196,064	201,047	2,426	4,750
2016				192,361	185,443	3,919	4,462
2017					214,630	110,353	3,475
Total					$ 987,537		

	Cumulative Paid Claims including CAE For the Years Ended December 31,				
Incurral Year	**2013**	**2014**	**2015**	**2016**	**2017**
2013	$ 13,756	$ 56,087	$ 82,238	$ 96,849	$ 105,116
2014		16,364	63,337	93,979	109,989
2015			15,847	63,392	91,845
2016				15,966	62,460
2017					18,607
Total					388,018
Outstanding liabilities for unpaid claims and CAE prior to 2013, net of reinsurance					279,034
Total outstanding liabilities for unpaid claims and CAE, net of reinsurance					$ 878,553

Information related to group STD products was as follows (dollars in thousands):

	Incurred Claims including CAE For the Years Ended December 31,		As of December 31, 2017	
Incurral Year	**2016**	**2017**	**Incurred but not Reported Liabilities**	**Cumulative Number of Reported Claims**
2016	$ 141,268	$ 138,755	$ 215	57,023
2017		156,202	28,723	46,593
Total		$ 294,958		

	Cumulative Paid Claims including CAE For the Years Ended December 31,	
Incurral Year	**2016**	**2017**
2016	$ 114,550	$ 138,292
2017		126,161
Total		264,454
All outstanding liabilities for unpaid claims and CAE prior to 2016, net of reinsurance		33
Total outstanding liabilities for unpaid claims and CAE, net of reinsurance		$ 30,537

The reconciliation of net outstanding liabilities for unpaid claims of short-duration contracts to unpaid claims liabilities was as follows (in thousands):

	December 31, 2017			
	Group LTD	**Group STD**	**Other**	**Total**
Net outstanding liabilities for unpaid claims	$ 878,553	$ 30,537	$ 29,962	$ 939,052
Reconciling Items:				
Reinsurance recoverable on unpaid claims	30,781	-	1,560	32,341
Impact of discounting	(150,772)	-	-	(150,772)
Liability for unpaid claims — short duration contracts	$ 758,563	$ 30,537	$ 31,522	820,622
Insurance lines other than short-duration				1,190,070
Liability for unpaid claims				$ 2,010,692

The average annual percentage of claims paid in each year from incurral was as follows:

Year	**Group LTD**	**Group STD**
1	8.1%	81.7%
2	23.8%	17.4%
3	14.5%	
4	7.9%	
5	4.7%	

A range of discount rates were used to derive the present value of unpaid claims liabilities. Interest accretion is included in benefits, claims and settlement expenses within our consolidated statements of operations.

The carrying amount of liabilities reported at present value for short-duration contract unpaid claims and related information was as follows (dollars in thousands):

	Group LTD	Group STD
Carrying amount of liabilities for unpaid claims (w/CAE)		
December 31,2017	$ 758,563	$ 30,537
December 31,2016	712,019	27,227
Range of Discount Rates		
December 31,2017	3.0–6.3 %	
December 31,2016	3.0–6.3 %	
Aggregate Amount of Discount		
December 31,2017	$ 150,773	
December 31,2016	149,748	
Interest Accretion (Persisting Claims)		
For the Year Ended:		
December 31,2017	$ 21,472	
December 31,2016	21,196	

6. FEDERAL INCOME TAXES

On December 22, 2017, the Act was signed into law. The Act included numerous changes, including a permanent reduction in the federal corporate income tax rate from 35% to 21%, effective January 1, 2018. As a result of the reduction in rates, the deferred tax liability was reduced, resulting in an income tax benefit that is reported in the Company's consolidated statement of operations and comprehensive income for the year ended December 31, 2017. See the effective tax rate reconciliation table below for details of this adjustment.

The components of income tax expense for the years ended December 31, 2017 and 2016, were as follows (in thousands):

	2017	2016
Current tax expense	$ 25,343	$ 55,383
Deferred tax expense (benefit)	(305,650)	121,524
Income tax expense (benefit)	$ (280,307)	$ 176,907

A current income tax receivable of $6,012,000 is included in other assets as of December 31, 2017 and a current income tax payable of $8,753,000 is included in other liabilities in the consolidated balance sheet as of December 31, 2016.

Reconciliations between income taxes based on the federal tax rate and the effective tax rate for the years ended December 31, 2017 and 2016, were as follows (in thousands):

	2017	**2016**
Income before income taxes	$ 582,327	$ 533,465
Federal income tax rate	35 %	35 %
Income taxes at the federal rate	203,814	186,713
Income tax effect of:		
Corporate owned life insurance	(15,304)	(9,633)
Income tax credits	(7,556)	(5,165)
State income taxes	1,192	895
Nondeductible expenses, net of exempt income	4,757	3,151
Other — net	2,146	946
Income taxes at effective rate before 2017 tax legislation	189,049	176,907
Impact of 2017 tax legislation	(469,356)	-
Income tax expense (benefit) at effective tax rate after 2017 tax legislation	$ (280,307)	$ 176,907

As of December 31, 2017 and 2016, there were no valuation allowances necessary as, in management's opinion, all deferred tax assets will ultimately be realized by the Company. There are no net operating loss or capital loss carry forwards as of December 31, 2017 and 2016.

At December 31, 2017 and 2016, the Company has no liability for uncertain tax positions. Moreover, the Company does not believe that it is reasonably possible that this zero liability balance will significantly increase within the next 12 months.

The Company files income tax returns in the U.S. Federal jurisdiction and various state jurisdictions. The statute of limitations has closed on all years through 2013. Years after 2013 remain subject to audit by federal and state tax jurisdictions.

Significant components of deferred income taxes payable, as of December 31, 2017 and 2016, were as follows (in thousands):

	2017	2016
Policy reserves	$ 17,518	$ 49,454
Expenses deductible in subsequent periods	107,118	174,616
Deferred tax assets	124,636	224,070
Deferred policy acquisition costs	629,873	925,790
Net unrealized investment gains	145,873	140,178
Depreciation and amortization	34,704	51,942
Investment related items	37,727	44,440
Deferred tax liabilities	848,177	1,162,350
Deferred income taxes payable	$ 723,541	$ 938,280

7. EMPLOYEE BENEFIT PLANS

The Company is both the sponsor and administrator of a noncontributory defined benefit plan ("Pension Plan") covering all United States employees meeting certain minimum requirements. Retirement benefits are based upon years of credited service and final average earnings history. Effective January 1, 2005, the Pension Plan was amended to freeze plan benefits for participants under 40 years of age. No benefits are available under the Pension Plan for employees hired on or after January 1, 2005. The Company also sponsors and administers a supplemental defined benefit plan covering certain current and former employees, and certain postretirement medical and life insurance benefits (other benefits) to retired employees hired before January 1, 1995. Other benefits are based upon hire date, age, and years of service.

Projected Benefit Obligations and Pension Plan Assets — The changes in projected benefit obligation and plan assets at the December 31, 2017 and 2016, the measurement date, were as follows (in thousands):

	Pension Benefits		Other Benefits	
	2017	2016	2017	2016
Change in projected benefit obligation:				
Projected benefit obligation — beginning of year	$ 1,198,133	$ 1,201,655	$ 67,184	$ 72,951
Service cost	7,313	9,465	110	118
Interest cost	53,290	54,597	2,593	3,029
Actuarial loss (gain)	67,497	(19,392)	(1,637)	(803)
Benefits paid	(52,310)	(48,192)	(6,378)	(8,111)
Projected benefit obligation — end of year	1,273,923	1,198,133	61,872	67,184
Change in plan assets:				
Fair value of plan assets — beginning of year	920,326	901,130	10,631	13,496
Actual return on plan assets	102,900	66,433	(297)	135
Employer contribution	3,849	955	241	-
Benefits paid	(52,310)	(48,192)	(2,398)	(3,000)
Fair value of plan assets — end of year	974,765	920,326	8,177	10,631
Underfunded	$ (299,158)	$ (277,807)	$ (53,695)	$ (56,553)
Accumulated benefit obligation — end of year	$ 1,236,195	$ 1,158,049		

The amounts reflected in accumulated other comprehensive income (loss) for the plans as of December 31, 2017 and 2016, were as follows (in thousands):

	Pension Benefits		Other Benefits	
	2017	2016	2017	2016
Unamortized prior service costs	$ -	$ (489)	$ -	$ -
Unrecognized net actuarial loss (gain)	317,299	316,683	(12,761)	(13,147)
Total unrecognized benefit costs	317,299	316,194	(12,761)	(13,147)
Deferred income tax liability (asset)	(66,633)	(110,668)	2,680	4,601
Total	$ 250,666	$ 205,526	$ (10,081)	$ (8,546)

As of December 31, 2017, estimated amortization of net actuarial loss that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost for 2018 is as follows (in thousands):

Pension benefits	$ 26,630
Other benefits	(942)
	$ 25,688

As of December 31, 2017 and 2016, underfunded pension benefits of $299,158,000 and $277,807,000 and underfunded other benefits of $53,696,000 and $56,553,000, respectively, were included in other liabilities.

The Pension Plan assets as of December 31, 2017 and 2016, included the following (in thousands):

	2017	**2016**
United group annuity contract:		
General Asset Account	$428,743	$433,237
Separate Account K	66,789	55,617
Separate Account IIF	139,779	138,328
Equity securities — domestic	63,825	60,035
Equity securities — foreign	169,351	132,257
Limited partnerships	106,278	100,852
	$974,765	$920,326

Investments in the group annuity contract include the General Asset Account, which is valued at contract value, and investments in Separate Account K, and Separate Account IIF. The Separate Account K and the Separate Account IIF funds are recorded at the fair value of the Pension Plan's proportionate share of the underlying net assets. The underlying net assets of the Separate Account K consist primarily of small cap common stocks traded on organized exchanges and over-the-counter markets. Separate Account IIF is an index mutual fund based on the S&P 500 index.

Limited partnerships are valued at fair value based on the proportionate share of the partnership's capital balance. Equity securities — domestic and equity securities — foreign consist of mutual funds and collective investment trusts valued at fair value based on the proportionate share of the underlying net assets. The assets consist of securities traded on organized exchanges and over-the-counter markets.

The estimated fair values of the Separate Account K, Separate Account IIF and mutual funds as of December 31, 2017 and 2016, by asset category were as follows (in thousands):

2017	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Separate Account K equity securities	$ -	$ 66,789	$ -	$ 66,789
Separate Account IIF equity securities	139,779	-	-	139,779
Equity securities — domestic	63,825	-	-	63,825
Equity securities — foreign	35,769	133,582	-	169,351
Limited partnerships	-	-	106,278	106,278
Total	$ 239,373	$ 200,371	$ 106,278	$ 546,022

2016	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Separate Account K equity securities	$ -	$ 55,617	$ -	$ 55,617
Separate Account IIF equity securities	138,328	-	-	138,328
Equity securities — domestic	60,035	-	-	60,035
Equity securities — foreign	26,518	105,739	-	132,257
Limited partnerships	-	-	100,852	100,852
Total	$ 224,881	$ 161,356	$ 100,852	$ 487,089

Transfers between Levels 1 and 2 — Transfers in and/or out of any level are assumed to occur at the beginning of the period. During the year ended December 31, 2016, transfers out of Level 2 to Level 1 occurred due to the change in availability of a current actively traded market price.

The investment objective of the Pension Plan is to produce current income and long-term capital growth through a combination of equity and fixed income investments which, together with appropriate employer contributions, will be adequate to provide for the payment of the plan’s benefit obligations. The assets of the Pension Plan may be invested in both fixed income and equity investments. Fixed income investments may include group annuity contracts, cash and short-term instruments, corporate bonds, mortgages, and other fixed income investments. Equity investments may include large cap, mid cap and small cap stocks, and venture capital.

The Company has various regulated investment advisors that monitor investments in the Pension Plan to ensure they are in compliance with the Company’s investment policy and guidelines. The use of derivative instruments as direct investments is prohibited. The Company’s Retirement Plans Committee periodically reviews the performance of the Pension Plan’s investments and asset allocation. The current allocation strategy is 50% fixed income and 50% equities and other. The Company, subject to general guidelines set by the Retirement Plans Committee, makes all investment decisions.

The Company determines its expected long-term rate of return on assets based primarily on the Company's expectations of future returns for the Pension Plan's investments, based on target allocations of the underlying investments. Additionally, the Company considers historical returns on comparable fixed income investments and equity investments and adjusts its estimate as deemed appropriate.

In 2018, the Company expects to contribute $60,000,000 to the Pension Plan under the Pension Plan's funding policy, subject to approval by the board of directors. Additional voluntary contributions may be made pursuant to the maximum funding limits under ERISA, as amended. The Company expects to contribute $15,000,000 to the other postretirement plan in 2018.

The Company funded certain postretirement medical and life insurance benefits applicable to participants who retired prior to January 1, 1988. Pension Plan assets for these benefit plans are invested in a United group annuity contract and are used solely to fund these benefits. The group annuity contract investment with United was valued at contract value as determined by United and was $8,177,000 and $10,631,000 as of December 31, 2017 and 2016, respectively.

Actuarial Assumptions — Actuarial assumptions related to the plans as of December 31, 2017 and 2016, are set forth in the following table:

	Pension Benefits		Other Benefits	
	2017	**2016**	**2017**	**2016**
Discount rate	4.00 %	4.55 %	4.00 %	4.55 %
Rate of increase in compensation levels	3.40	3.40	N/A	N/A
Expected long-term rate of return on plan assets	7.00	7.25	4.00	4.00

Actuarial assumptions used may differ materially from actual results due to, among other factors, changing market and economic conditions and changes in participant demographics and result in actuarial gains and losses included in the projected benefit obligation. Actuarial losses in 2017 are primarily the result of a decrease in the discount rate, partially offset by better than expected asset returns. Actuarial gains in 2016 are primarily the result of changes in mortality assumptions and experience.

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation was 5.00% and 4.70% in 2017 and 2016, respectively, then gradually declining to 4.00% in 2083 and remaining at that level thereafter. Increasing and decreasing, respectively, the assumed health care cost trend rate by one percentage point in each year would increase (decrease) the Company's accumulated postretirement benefit obligation as of December 31, 2017, by approximately $3,000,000 and the net periodic postretirement benefit costs for 2017 by approximately $100,000.

The Company's net periodic benefit costs and discount rate assumption used for the years ended December 31, 2017 and 2016, include the following components (in thousands):

	Pension Benefits		Other Benefits	
	2017	2016	2017	2016
Service cost	$ 7,313	$ 9,464	$ 110	$ 118
Interest cost	53,290	54,597	2,593	3,029
Amortization of loss (gain)	26,676	33,919	(1,300)	(821)
Amortization of prior service cost	(489)	(699)	-	-
Expected return on plan assets	(62,697)	(63,399)	(425)	(540)
Net periodic benefit costs	$ 24,093	$ 33,882	$ 978	$ 1,786
Discount rate	4.55%	4.65%	4.55%	4.65%

The following benefits are expected to be paid (in thousands):

	2018	2019	2020	2021	2022	2023–2027
Pension benefits	$ 60,773	$ 63,632	$ 66,523	$ 69,407	$ 71,929	$ 389,375
Other postretirement benefits	$ 6,671	$ 6,597	$ 6,483	$ 6,342	$ 6,156	$ 26,835

Savings and Investment Plans — The Company sponsors savings and investment plans. The expense to the Company for the plans was $28,834,000 and $19,623,000 in 2017 and 2016, respectively. As of December 31, 2017 and 2016, the liability for deferred compensation benefits included in other liabilities was $28,621,000 and $33,689,000, respectively.

8. BORROWINGS

A summary of the Company's borrowings outstanding as of December 31, 2017, was as follows (in thousands):

	Interest Rates	Balances
Surplus note issued in 2014, due in 2054	4.297%	$ 303,657
Surplus note issued in 2010, due in 2040	6.95%	152,813
Surplus note issued in 2006, due in 2036	6.80%	257,143
Federal Home Loan Bank advances due in 2023	5.03%	59,091
Federal Home Loan Bank line of credit	1.47%	655,000
Retail repurchase agreements	N/A	106,843
Securities lending	N/A	354,695
Total		$1,889,242

On July 17, 2014, Mutual issued a surplus note at par, due July 15, 2054 with a fixed interest rate of 4.297% for a non-callable 10 year period that subsequently resets quarterly at the then current three-month LIBOR rate plus 2.642%. On October 15, 2010, Mutual issued a surplus note due October 15, 2040, at a discount of $10,095,000. On June 15, 2006, Mutual issued a surplus note due June 15, 2036, at a discount of $3,630,000.

Unamortized issuance costs of $5,505,000 and $6,011,000 related to the surplus notes are included in borrowings as of December 31, 2017 and 2016, respectively. The Company made interest payments of $41,706,000 for the year ended December 31, 2017. Payments of principal and interest require the approval of the State of Nebraska Department of Insurance.

Under an agreement with the FHLB, Mutual and United pledge assets in the form of fixed-maturity securities in return for extensions of credit. These advances are prepayable in part or full on the date the FHLB exercises its option and on every rate adjustment date thereafter. All fixed rate FHLB advances are subject to a prepayment penalty.

As of December 31, 2017, aggregate maturities for FHLB advances were as follows (in thousands):

	Amount Due
2018	$ 10,909
2019	10,909
2020	10,909
2021	10,909
2022 and thereafter	15,455
	$ 59,091

The Bank also has a revolving line of credit agreement with the FHLB, which renews annually in May, to meet short-term borrowing needs. The interest rate applicable to borrowings under this line of credit is the FHLB overnight rate. The FHLB line of credit is subject to an agreement whereby the Bank is required to maintain a certain level of eligible collateral, as defined by the agreement. As of December 31, 2017, mortgage loans of $2,348,374,000 were specifically pledged to secure borrowings at the FHLB.

The Bank engages in overnight borrowings with certain of its deposit customers collateralized by its securities under retail repurchase agreements. In addition, Mutual and United have entered into agreements to sell and repurchase securities up to a maximum of $600,000,000 of which no amounts were outstanding as of December 31, 2017. Under these agreements, the Company obtains the use of funds for a period not to exceed 30 days.

The Company has securities lending agreements whereby unrelated parties, primarily large brokerage firms, borrow securities from the Company. Borrowers of the securities must provide collateral in the form of cash or securities equal to 102% of the fair value plus accrued interest on the securities loaned. The Company continues to retain control over and receive the interest on loaned securities, and accordingly, the loaned securities continue to be reported as fixed maturities. The amount of collateral received in cash is invested in short-term securities, and is included in short-term investments with a corresponding liability for funds held for securities on loans included in borrowings. The Company was liable for cash collateral under its control of $354,695,000 as of December 31, 2017, of which 100% was on open terms, meaning that the related loaned security could be returned to the Company on the next business day requiring return of cash collateral. The cash collateral cannot be accessed by the Company unless the borrower fails to deliver the loaned securities. The collateral received is not defined as a cash activity in the statement of cash flows but is disclosed as a non-cash transaction. Accordingly, in the statement of cash flows, the Company reported the collateral investing and financing activity as non-cash.

Mutual and United on a joint basis have entered into certain unsecured revolving line of credit agreements that allow for maximum borrowings of $150,000,000 and are renewed annually. As of December 31, 2017, the Company had no outstanding borrowings under these agreements.

United has entered into funding agreement contracts with the FHLB that are used as part of the Company's interest spread strategy. The liability for these funding agreements as of December 31, 2017 and 2016, was $600,000,000 and was included in policyholder account balances in the consolidated balance sheets. As of December 31, 2017, the Company had MBS with fair values of $1,082,009,000 pledged as collateral.

9. COMMITMENTS AND CONTINGENCIES

The Company leases office space and office equipment under a variety of operating lease arrangements. Future minimum rental commitments required under operating leases having remaining noncancelable lease terms in excess of one year as of December 31, 2017, as well as the rent expense for the years ended December 31, 2017 and 2016, were as follows (in thousands):

	2018	2019	2020	2021	2022	Thereafter
Future minimum rental commitments	$ 16,013	$ 13,140	$ 9,069	$ 6,467	$ 4,361	$ 14,695

	2017	2016
Rent expense	$ 39,943	$ 35,349

Deposits of the Bank include demand deposits, savings deposits, and time deposits. Total time deposits as of December 31, 2017 and 2016, were $896,058,000 and $882,846,000, respectively, with scheduled maturities as of December 31, 2017, as follows (in thousands):

2018	$ 558,221
2019	262,738
2020	47,145
2021	17,255
2022 and thereafter	10,699
	$ 896,058

The aggregate amount of time deposits in denominations of $250,000 or more as of December 31, 2017 and 2016, were $131,311,000 and $99,060,000, respectively.

The Company has unfunded investment commitments for fixed maturities, mortgage loans and limited partnerships of $467,591,000 and $319,509,000 as of December 31, 2017 and 2016, respectively. The Company does not have any significant financial guarantee commitments.

The Bank is a party to credit related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and advance funds on equity lines. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. As of December 31, 2017 and 2016, commitments on financial instruments consist of the following (in thousands):

	2017	2016
Loan commitments	$ 659,181	$ 827,977
Unused lines of credit	473,459	432,506
Letters of credit	13,082	9,524
	$1,145,722	$1,270,007

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, total commitment amounts do not necessarily represent future cash requirements.

As of December 31, 2017, the Company had an outstanding commitment of $18,300,000 to purchase computer hardware and services in 2018.

Effective October 1, 2017, Omaha Reinsurance Company ("ORC"), a wholly-owned subsidiary of United, entered into an excess of loss reinsurance agreement with a third party through September 30, 2042 unless terminated by either Omaha Reinsurance or the third party. As of December 31, 2017, there were no amounts due or receivable under this agreement.

Various lawsuits have arisen in the ordinary course of the Company's business. The Company believes that its defenses in these various lawsuits are meritorious and the eventual outcome will not have a material effect on the Company's consolidated financial statements.

10. REINSURANCE

The ceding of insurance business does not discharge an insurer from its primary legal liability to a policy owner. The Company remains liable to the extent that a reinsurer is unable to meet its obligations. The Company evaluates the financial condition of reinsurers to which it cedes business and monitors concentrations of credit risk to minimize its exposure to significant losses from reinsurer insolvencies. The amounts in the accompanying consolidated statements of operations and comprehensive income are included gross of reinsurance assumed and net of reinsurance ceded. The reconciliations of total premiums to net premiums for the years ended December 31, 2017 and 2016, were as follows (in thousands):

	2017	2016
Direct premiums	$6,931,677	$6,278,388
Reinsurance assumed	574,101	517,493
Reinsurance ceded	(229,209)	(214,615)
Net premiums earned	$7,276,569	$6,581,266

Health and accident, life and annuity benefits in the accompanying consolidated statements of operations and comprehensive income are included net of reinsurance recoveries of $193,470,000 and $226,209,000 for the years ended December 31, 2017 and 2016, respectively.

11. STATUTORY SURPLUS AND NET INCOME

The Company's combined net income as determined in accordance with statutory accounting principles was $46,684,000 and $27,196,000 for 2017 and 2016, respectively. The Company's statutory surplus was $3,189,641,000 and $3,048,285,000 as of December 31, 2017 and 2016, respectively. The minimum statutory capital and surplus necessary to satisfy regulatory requirements for the Company's life and health insurance subsidiaries collectively was approximately $384,116,000 as of December 31, 2017 (company action level risk-based capital ("RBC")). Company action level RBC is the level at which a company is required to file a corrective action plan with its regulators. Company action level RBC is equal to 200% of the authorized control level RBC, which is the level at which regulatory action is taken.

As a mutual insurance company, Mutual does not pay shareholder dividends. Dividends to Mutual from its insurance subsidiaries are restricted under state insurance laws respective to the states of domicile which include Nebraska and Wisconsin. Mutual's insurance subsidiaries are permitted to pay up to a combined maximum of approximately $160,077,000 in dividends to Mutual in 2017 without prior approval from the applicable insurance commissioner.

12. REGULATORY MATTERS

As of December 31, 2017 and 2016, securities with an amortized cost of $28,391,000 and $23,932,000, respectively, were on deposit with government agencies as required by law in various jurisdictions in which the Company conducts business.

As a condition of doing business, all states and jurisdictions have adopted laws requiring membership in life and health insurance guaranty funds. Member companies are subject to assessments each year based on life, health, or annuity premiums collected in the state. The Company estimates its costs related to past insolvencies as $19,318,000 and $2,207,000 as of December 31, 2017 and 2016, respectively, included in other liabilities. Certain states provide premium tax credits for amounts paid to these guaranty funds. Estimated premium tax credits related to amounts paid to guaranty funds of $40,090,000 and $2,078,000 as of December 31, 2017 and 2016, respectively, are included in other assets.

Mutual of Omaha Bank, a wholly owned subsidiary of Omaha Financial Holdings, Inc., is regulated by the Office of the Comptroller of the Currency ("OCC") and the Company is regulated by the Federal Reserve Board. The Company's insurance entities are regulated by the domiciliary state insurance department. The Company and its subsidiaries are subject to periodic examinations by the above noted regulatory authorities.

Mutual of Omaha Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, Mutual of Omaha Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Mutual of Omaha Bank was categorized as well-capitalized as of December 31, 2017 as shown below (amounts in thousands):

	Actual		**For OCC Capital Adequacy Purposes**		**To be Well-Well Capitalized Under Prompt Corrective Action Provisions**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Tier 1 risk-based capital ratio —						
Tier 1 capital to risk-weighted assets	724,655	10.9 %	264,841	4.0 %	397,261	6.0 %

As a federal savings institution, Mutual of Omaha Bank is required to satisfy the Qualified Thrift Lender Test ("QTL"), which requires it to maintain 65% of its portfolio assets in qualified thrift investments in at least nine months of the most recent twelve-month period. The entity may satisfy this test by meeting either the Home Loan Act QTL test or the IRS tax code Domestic Building and Loan Association test. It may switch between the two tests at any time. A savings institution that fails the QTL test must convert to a national bank charter or operate under specified restrictions. Approximately 68.5% and 69.3% of Mutual of Omaha Bank's portfolio assets were held in qualified thrift investments as of December 31, 2017 and 2016, respectively. The Bank is in compliance with the provisions of the QTL test as of December 31, 2017.

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