



Mutual of Omaha Insurance Company

Statutory Financial Statements as of and for the
Years Ended December 31, 2016 and 2015,
Supplemental Schedules as of and for the
Year Ended December 31, 2016, and
Independent Auditors' Reports

MUTUAL OF OMAHA INSURANCE COMPANY

TABLE OF CONTENTS

| | Page |
|---|-------------|
| INDEPENDENT AUDITORS' REPORT | 1–2 |
| STATUTORY FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015: | |
| Statements of Admitted Assets, Liabilities, and Surplus | 3 |
| Statements of Operations | 4 |
| Statements of Changes in Surplus | 5 |
| Statements of Cash Flow | 6 |
| Notes to Statutory Financial Statements | 7–50 |
| SUPPLEMENTAL SCHEDULES AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016: | 51 |
| Independent Auditors' Report on Additional Information | 52 |
| Supplemental Schedule of Selected Financial Data | 53–57 |
| Summary Investment Schedule | 58 |
| Supplemental Investment Risks Interrogatories | 59–65 |

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statutory-basis financial statements of Mutual of Omaha Insurance Company (the "Company"), which comprise the statutory-basis statements of admitted assets, liabilities, and surplus as of December 31, 2016 and 2015, and the related statutory-basis statements of operations, changes in surplus, and cash flows for the years then ended and the related notes to the statutory-basis financial statements.

Management's Responsibility for the Statutory-Basis Financial Statements

Management is responsible for the preparation and fair presentation of these statutory-basis financial statements in accordance with the accounting practices prescribed or permitted by the State of Nebraska Department of Insurance. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 statutory-basis 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 statutory-basis financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory-basis financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statutory-basis 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 statutory-basis 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 the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statutory-basis financial statements.

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

Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America

As described in Note 1 to the statutory-basis financial statements, the statutory-basis financial statements are prepared by Mutual of Omaha Insurance Company using the accounting practices prescribed or permitted by the State of Nebraska Department of Insurance, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the State of Nebraska Department of Insurance.

The effects on the statutory-basis financial statements of the variances between the statutory-basis of accounting described in Note 1 to the statutory-basis financial statements and accounting principles generally accepted in the United States of America are also described in Note 18.

Adverse Opinion on Accounting Principles Generally Accepted in the United States of America

In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America paragraph, the statutory-basis financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Mutual of Omaha Insurance Company as of December 31, 2016 and 2015, or the results of its operations or its cash flows for the years then ended.

Opinion on Statutory Basis of Accounting

In our opinion, the statutory-basis financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and surplus of Mutual of Omaha Insurance Company as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended, in accordance with the accounting practices prescribed or permitted by the State of Nebraska Department of Insurance as described in Note 1 to the statutory-basis financial statements.

A handwritten signature in cursive script that reads "Deloitte & Touche LLP".

May 18, 2017

MUTUAL OF OMAHA INSURANCE COMPANY

STATUTORY STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND SURPLUS AS OF DECEMBER 31, 2016 AND 2015

| | 2016 | 2015 |
|--|------------------|------------------|
| ADMITTED ASSETS | | |
| CASH AND INVESTED ASSETS: | | |
| Bonds | \$ 3,324,881,563 | \$ 3,176,788,649 |
| Preferred stocks | 42,489,075 | 44,760,897 |
| Common stocks — unaffiliated | 25,265,256 | 31,759,003 |
| Common stocks — affiliated | 2,279,370,889 | 2,237,949,476 |
| Mortgage loans — net | 218,036,496 | 213,729,393 |
| Real estate occupied by the Company — net of accumulated depreciation of \$41,435,212 and \$11,069,817, respectively | 34,304,640 | 15,800,733 |
| Real estate held for production of income — net of accumulated depreciation of \$0 and \$29,149,304, respectively | - | 18,834,310 |
| Cash and cash equivalents | 2,809,574 | 8,010,722 |
| Short-term investments | 198,500,000 | 219,000,000 |
| Securities lending cash collateral | 37,654,270 | 23,325,533 |
| Other invested assets | 219,423,537 | 134,688,093 |
| Total cash and invested assets | 6,382,735,300 | 6,124,646,809 |
| INVESTMENT INCOME DUE AND ACCRUED | 35,526,625 | 33,338,960 |
| UNCOLLECTED PREMIUMS | 143,487,854 | 121,495,402 |
| RECEIVABLE FROM SUBSIDIARIES | 149,966,673 | 128,466,653 |
| FEDERAL INCOME TAXES RECOVERABLE | 6,183,084 | 26,231,139 |
| NET DEFERRED TAX ASSETS | 139,947,707 | 98,736,254 |
| REINSURANCE RECOVERABLE | 5,059,544 | 6,241,698 |
| OTHER ASSETS | 416,024,401 | 405,940,726 |
| TOTAL ADMITTED ASSETS | \$ 7,278,931,188 | \$ 6,945,097,641 |
| LIABILITIES AND SURPLUS | | |
| LIABILITIES: | | |
| Reserve for policies and contracts | \$ 2,123,480,197 | \$ 1,954,195,719 |
| Policy and contract claims | 1,048,444,603 | 988,300,945 |
| Premiums paid in advance | 48,792,032 | 47,000,121 |
| Interest maintenance reserve | 6,350,087 | 5,896,744 |
| Asset valuation reserve | 137,850,517 | 107,655,815 |
| Drafts outstanding | 25,499,049 | 23,530,946 |
| Amounts held as agent or trustee | 76,838,546 | 74,451,246 |
| General expenses and taxes due or accrued | 149,029,786 | 151,769,863 |
| Payable for securities lending | 37,654,270 | 23,325,533 |
| Liability for benefits for employees and agents | 414,984,189 | 391,557,978 |
| Borrowings | 50,000,000 | 205,002,733 |
| Other liabilities | 111,723,366 | 109,639,666 |
| Total liabilities | 4,230,646,642 | 4,082,327,309 |
| SURPLUS: | | |
| Surplus notes | 709,944,372 | 709,811,757 |
| Unassigned surplus | 2,338,340,174 | 2,152,958,575 |
| Total surplus | 3,048,284,546 | 2,862,770,332 |
| TOTAL LIABILITIES AND SURPLUS | \$ 7,278,931,188 | \$ 6,945,097,641 |

See notes to statutory financial statements.

MUTUAL OF OMAHA INSURANCE COMPANY

STATUTORY STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

| | 2016 | 2015 |
|--|-----------------------|----------------------|
| INCOME: | | |
| Net health and accident premiums | \$ 2,726,457,917 | \$ 2,411,822,720 |
| Net investment income | 266,294,008 | 172,005,869 |
| Commissions and expense allowances on reinsurance ceded | 39,943,328 | 34,508,662 |
| Other income | 44,758,186 | 20,505,355 |
| | <u>3,077,453,439</u> | <u>2,638,842,606</u> |
| Total income | | |
| BENEFITS AND EXPENSES: | | |
| Policyholder benefits | 2,083,394,161 | 1,855,627,110 |
| Commissions | 591,776,019 | 504,569,302 |
| Operating expenses | 271,330,115 | 256,694,585 |
| | <u>2,946,500,295</u> | <u>2,616,890,997</u> |
| Total benefits and expenses | | |
| NET GAIN FROM OPERATIONS BEFORE FEDERAL INCOME TAXES AND NET REALIZED CAPITAL GAINS (LOSSES) | 130,953,144 | 21,951,609 |
| FEDERAL INCOME TAXES | <u>24,024,879</u> | <u>12,785,380</u> |
| NET GAIN FROM OPERATIONS BEFORE NET REALIZED CAPITAL GAINS (LOSSES) | 106,928,265 | 9,166,229 |
| NET REALIZED CAPITAL GAINS (LOSSES) — Net of tax (expense) benefits of (\$180,000) and \$1,927,000 and transfers to the interest maintenance reserve of \$739,803 and \$612,041, respectively | <u>(3,504,597)</u> | <u>2,011,578</u> |
| NET INCOME | <u>\$ 103,423,668</u> | <u>\$ 11,177,807</u> |

See notes to statutory financial statements.

MUTUAL OF OMAHA INSURANCE COMPANY

STATUTORY STATEMENTS OF CHANGES IN SURPLUS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

| | Surplus Notes | Unassigned Surplus | Total Surplus |
|---|-----------------------|-------------------------|-------------------------|
| BALANCE — December 31, 2014 | \$ 719,367,590 | \$ 2,076,289,628 | \$ 2,795,657,218 |
| Net income | - | 11,177,807 | 11,177,807 |
| Change in: | | | |
| Net unrealized capital gains — net of tax benefit of (\$4,630,419) | - | 40,842,879 | 40,842,879 |
| Foreign exchange unrealized capital gains — net of tax expense of \$49,558 | - | 92,036 | 92,036 |
| Net deferred income taxes | - | (11,404,326) | (11,404,326) |
| Nonadmitted assets | - | 18,940,414 | 18,940,414 |
| Reserve on account of change in valuation basis | - | 1,226,295 | 1,226,295 |
| Asset valuation reserve | - | (24,257,027) | (24,257,027) |
| Surplus notes | (9,555,833) | - | (9,555,833) |
| Benefit plans amounts not yet recognized in net periodic benefit cost | - | 46,257,613 | 46,257,613 |
| Detriment of consolidated tax filing | - | (7,033,804) | (7,033,804) |
| Unrealized loss — deferred gain on affiliate exchanges | - | 823,400 | 823,400 |
| Other misc gains and losses in surplus | - | 3,660 | 3,660 |
| BALANCE — December 31, 2015 | 709,811,757 | 2,152,958,575 | 2,862,770,332 |
| Net income | - | 103,423,668 | 103,423,668 |
| Change in: | | | |
| Net unrealized capital gains — net of tax expense of \$1,035,017 | - | 22,472,285 | 22,472,285 |
| Foreign exchange unrealized capital gains — net of tax benefit of (\$1,014,763) | - | (1,884,561) | (1,884,561) |
| Net deferred income taxes | - | 9,500,012 | 9,500,012 |
| Nonadmitted assets | - | 33,004,128 | 33,004,128 |
| Asset valuation reserve | - | (30,194,702) | (30,194,702) |
| Surplus notes | 132,615 | - | 132,615 |
| Benefit plans amounts not yet recognized in net periodic benefit cost | - | 53,474,745 | 53,474,745 |
| Savings of consolidated tax filing | - | 382,420 | 382,420 |
| Unrealized loss — deferred gain on affiliate exchanges | - | 804,830 | 804,830 |
| Other misc gains and losses in surplus | - | 11,174 | 11,174 |
| Prior period adjustment — policy reserves | - | (5,612,400) | (5,612,400) |
| BALANCE — December 31, 2016 | <u>\$ 709,944,372</u> | <u>\$ 2,338,340,174</u> | <u>\$ 3,048,284,546</u> |

See notes to statutory financial statements.

MUTUAL OF OMAHA INSURANCE COMPANY

STATUTORY STATEMENTS OF CASH FLOW FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

| | 2016 | 2015 |
|--|-----------------------|-----------------------|
| CASH FROM (USED FOR) OPERATIONS: | | |
| Net health and accident premiums | \$ 2,701,704,842 | \$ 2,400,156,410 |
| Net investment income | 165,761,285 | 165,944,614 |
| Other income | 84,703,071 | 53,742,296 |
| Benefit and loss related payments | (1,848,576,869) | (1,598,300,907) |
| Commissions and operating expenses | (885,526,003) | (730,220,606) |
| Dividends paid to policyholders | (27,323) | (28,161) |
| Federal income taxes refunded (paid) | 7,064,019 | (36,104,120) |
| Net cash from operations | <u>225,103,022</u> | <u>255,189,526</u> |
| CASH FROM (USED FOR) INVESTMENTS: | | |
| Proceeds from investments sold, matured or repaid: | | |
| Bonds | 318,859,488 | 254,127,586 |
| Stocks | 16,214,974 | 13,330,016 |
| Mortgage loans | 31,915,377 | 58,882,201 |
| Real estate | 368,228 | - |
| Other invested assets | 38,623,568 | 62,298,766 |
| Miscellaneous proceeds | 3,128,511 | 6,223,039 |
| Cost of investments acquired: | | |
| Bonds | (468,450,623) | (716,164,477) |
| Stocks | (25,595,089) | (48,332,040) |
| Mortgage loans | (36,429,370) | (24,907,436) |
| Real estate | (2,463,958) | (1,272,370) |
| Other invested assets | (36,451,701) | (33,422,214) |
| Miscellaneous applications | (5,578,238) | (1,135,408) |
| Net cash used for investments | <u>(165,858,833)</u> | <u>(430,372,337)</u> |
| CASH FROM (USED FOR) FINANCING AND MISCELLANEOUS SOURCES: | | |
| Surplus notes | 132,615 | (9,555,833) |
| Borrowed funds | (155,000,000) | 205,000,000 |
| Net decrease in receivable from subsidiaries and affiliates | - | 19,001,149 |
| Other cash provided (applied) | 69,922,048 | (28,148,677) |
| Net cash from (used for) financing and miscellaneous sources | <u>(84,945,337)</u> | <u>186,296,639</u> |
| Change in nonadmitted short-term investments | <u>-</u> | <u>14,900,000</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS | (25,701,148) | 26,013,828 |
| CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS: | | |
| Beginning of year | <u>227,010,722</u> | <u>200,996,894</u> |
| End of year | <u>\$ 201,309,574</u> | <u>\$ 227,010,722</u> |
| NON-CASH TRANSACTIONS: | | |
| Dividend received as other invested assets | \$ 96,893,320 | \$ - |
| Change in nonadmitted short-term investment | \$ - | \$ (14,900,000) |
| Bond conversions | \$ 16,659,726 | \$ 23,684,275 |
| Schedule D bond transferred to other invested assets | \$ 4,242,588 | \$ - |
| Stock conversions | \$ 335,058 | \$ 23,589,942 |
| Mortgage loan conversion disposed to mortgage loan conversion acquired | \$ - | \$ 1,196,345 |
| Joint partnership distribution received as stock | \$ 17,109 | \$ 13,115 |

See notes to statutory financial statements.

MUTUAL OF OMAHA INSURANCE COMPANY

NOTES TO STATUTORY FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations — Mutual of Omaha Insurance Company (the “Company”) is a mutual health and accident and life insurance company, domiciled in the State of Nebraska. The following are wholly owned subsidiaries of the Company as of December 31, 2016: United of Omaha Life Insurance Company (“United of Omaha”); The Omaha Indemnity Company; Mutual of Omaha Holdings, Inc.; Omaha Financial Holdings, Inc.; East Campus Realty, L.L.C. (“ECR”); Turner Park North, L.L.C. and Omaha Health Insurance Company.

The Company provides a wide array of financial products and services to a broad range of institutional and individual customers and is licensed in all 50 states of the United States, its territories and the District of Columbia. Principal products and services provided include individual and group health insurance.

Basis of Presentation — The accompanying statutory financial statements have been prepared in conformity with accounting practices prescribed or permitted by the State of Nebraska Department of Insurance (“NDOI”). The state of Nebraska has adopted the National Association of Insurance Commissioners’ (“NAIC”) Statutory Accounting Principles (“NAIC SAP”) as the basis of its statutory accounting practices. The Commissioner of the NDOI has the right to permit other specific practices that may deviate from NAIC SAP. The Company does not follow any practices that deviate from NAIC SAP.

The accompanying statutory financial statements vary in some respects from those that would be presented in conformity with accounting principles generally accepted in the United States of America (“GAAP”). The most significant differences include:

- a. Bonds are generally carried at amortized cost, while under GAAP, they are carried at either amortized cost or fair value based upon their classification according to the Company’s ability and intent to hold or trade the bonds and whether the Company has elected the option to report bonds at fair value.
- b. An other-than-temporary impairment (“OTTI”) exists for NAIC SAP on a loan-backed or structured security if the fair value is less than the amortized cost basis and the Company has the intent to sell, does not have the intent and ability to retain the investment for a period of time sufficient to recover the amortized cost basis, or the Company does not expect to recover the entire amortized cost basis. For all other securities on an NAIC SAP basis, an OTTI is recognized if it is probable that the reporting entity will be unable to collect all amounts due according to the contractual terms of the security in effect at the date of acquisition or since the last OTTI. An OTTI exists for GAAP if a security’s fair value is less than the amortized cost and if the Company has the intent to sell, it is more likely than not that the Company will be required to sell before the recovery of the amortized cost basis, or if the Company does not expect to recover the entire amortized cost of the security.
- c. Investments in preferred stocks are generally carried at amortized cost, while under GAAP, preferred stocks are carried at their estimated fair value.

- d. Limited partnerships are carried at the underlying audited GAAP equity value with the change in valuation reflected in unassigned surplus on an NAIC SAP basis. Income distributions from the limited partnerships are reported as net investment income on an NAIC SAP basis. Under GAAP, the change in valuation as well as the income distributions is reflected in either net investment income or as a realized gain or loss depending on the underlying investments.
- e. Under NAIC SAP, derivative instruments that meet the criteria of an effective hedge are valued and reported in a manner that is consistent with the hedged asset or liability. The change in fair value of derivative instruments that do not meet the criteria of an effective hedge are recorded as an unrealized gain or loss in surplus. Under GAAP, all derivatives are reported on the balance sheet at fair value and the effective and ineffective portions of a single hedge are accounted for separately. Changes in fair value of derivatives, to the extent they are effective at offsetting hedged risk, are recorded through either income or equity, depending on the nature of the hedge. The ineffective portion of all changes in fair value is recorded in income.
- f. Acquisition costs, such as commissions and other costs directly related to acquiring new business, are charged to operations as incurred, while under GAAP, to the extent associated with successful sales and recoverable from future policy revenues, are deferred and amortized to income as premiums are earned or in relation to estimated gross profits.
- g. NAIC SAP requires an amount to be recorded for deferred taxes as a component of surplus; however, there are limitations as to the amount of deferred tax assets (“DTAs”) that may be reported as admitted assets that are not applicable under GAAP. Federal income tax provision is required on a current basis for the statutory statements of operations, the same for GAAP.
- h. NAIC SAP policy reserves for health insurance contracts are calculated using mortality, morbidity, interest, and voluntary lapse assumptions. The effect on reserves, if any, due to a change in valuation basis, is recorded directly to unassigned surplus rather than included in the determination of net gain (loss) from operations. GAAP policy reserves are based on the Company’s estimates of morbidity, mortality, interest, and withdrawals.
- i. The asset valuation reserve (“AVR”) and interest maintenance reserve (“IMR”) are established only in the statutory financial statements.
- j. Assets are reported under NAIC SAP at admitted asset value and nonadmitted assets are excluded through a charge to surplus, while under GAAP, nonadmitted assets are reinstated to the balance sheet, net of any valuation allowance.
- k. Reinsurance recoverables on unpaid losses are reported as a reduction of policy reserves, while under GAAP, they are reported as an asset.
- l. Comprehensive income and its components are not presented in the statutory financial statements.
- m. Subsidiaries included as common stocks are carried under the equity method, with the equity in the operating results of subsidiaries credited or charged directly to the Company’s surplus for NAIC SAP. Dividends received from subsidiaries are recorded in net investment income. GAAP requires either consolidation or equity method reporting with operating results of subsidiaries reflected in the statements of operations.
- n. Surplus notes are reported as surplus for NAIC SAP while under GAAP, they are reported as long-term debt.

- o. For loss contingencies, when no amount within management's estimate of a range is a better estimate than any other amount, the midpoint of the range is accrued. Under GAAP, the minimum amount in the range is accrued.
- p. Gains on economic transactions, defined as arm's-length transactions that result in the transfer of the risks and the rewards of ownership, with related parties are recognized and deferred in surplus under NAIC SAP rather than deferred until the assets are sold to third parties as required under GAAP.

Use of Estimates — The preparation of statutory financial statements in accordance with NAIC SAP 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 statutory financial statements, and reported amounts of revenues and expenses during the reporting period. The most significant estimates and assumptions include those used in determining investment valuation in the absence of quoted market values, impairments, reserves for policies and contracts, policy and contract claims, and deferred taxes. Actual results could differ from those estimates.

The process of determining the fair value and recoverability of an asset relies on projections of future cash flows, 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 asset valuations are susceptible to the risk inherent in making such projections.

Due to the nature of health and accident contracts and the risks involved, health and accident active life reserves are estimates. These reserves are calculated using morbidity, mortality, and interest rate assumptions. Voluntary lapse assumptions are permitted in certain situations subject to limitations for certain products. Actual morbidity, mortality, interest rates, and voluntary lapse rates may differ from valuation assumptions.

Policy and contract claims are estimated based upon the industry and/or company experience and other actuarial assumptions that consider the effects of current developments, anticipated trends, and risk management programs. Revisions of these estimates are reflected in operations in the year they are made.

Investments — Investments are reported according to valuation procedures prescribed by the NAIC. Bonds are stated at amortized cost using the effective yield method, except for bonds with an NAIC designation of 6, which are stated at lower of amortized cost or fair value. The use of fair value may cause some of the loan-backed securities previously designated as NAIC 6 to be reassigned to a different designation.

Premiums and discounts on loan-backed bonds and structured securities are amortized using the retrospective or prospective method based on anticipated prepayments from the date of purchase. Prepayment assumptions are based on information obtained from brokers or internal estimates based on original term sheets, offer memoranda, historical performance, or other forecasts. Changes in estimated cash flows due to changes in estimated prepayments are accounted for using the prospective method for impaired securities and the retrospective method for all other securities.

Preferred stocks, redeemable and perpetual, are carried at amortized cost, except for preferred stocks that are NAIC rated 4 through 6, which are stated at lower of amortized cost or fair value.

With the exception of the Company's Federal Home Loan Bank of Topeka ("FHLB") common stocks, which are carried at cost, common stocks of unaffiliated companies are stated at fair value and common stocks of affiliated insurance companies are carried at the underlying statutory equity value while affiliated non-insurance companies are carried on the GAAP equity value. Changes in the carrying values are recorded as a change in net unrealized capital gains (losses), a component of surplus. Dividends are reported in net investment income.

Mortgage loans held for investment are carried at the aggregate unpaid principal balance adjusted for unamortized premium or discount (amortized cost), except impaired loans. Such loans are carried at the lower of the amortized cost, or the fair value of the loan determined by the present value of expected future cash flows discounted at the loan's effective interest rate, the loans observable market price, or the fair value of the collateral less cost to sell if collateral dependent. Interest income is accrued on the unpaid principal balance based on the loan's contractual interest rate. The Company records a reserve for losses on mortgage loans as part of the AVR.

The Company calculates specific reserves on loans identified individually as impaired. 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 non-accrual status.

Loans are reviewed on an individual basis to identify charge-offs. Charge-offs, net of recoveries, are deducted from the allowance. Mortgage loans are considered past due if the required principal and interest payments have not been received when contractually due. All mortgage loans are placed on non-accrual status when payments are determined to be uncollectible. Mortgage 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 mortgage 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 of the interest rate below market 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 new debt with similar risk, or capitalization and deferral of interest payments.

Real estate, excluding real estate held for sale, is valued at cost, less accumulated depreciation. Real estate held for the production of income is comprised of real estate owned by the Company that is primarily leased to non-affiliated third parties. Depreciation is provided on the straight-line method over the estimated useful lives, generally forty years, of the related assets. Real estate held for sale is valued at the lower of depreciated cost or fair value less estimated costs to sell. Real estate held for sale consists of collateral received on foreclosed mortgage loans.

Cash equivalents are highly liquid debt securities purchased with an original maturity of less than three months. Cash equivalents are carried at cost, which approximates fair value.

Short-term investments include related party notes and investments whose original maturities at the time of purchase are three months to one year and are stated at cost, which approximates fair value.

The Company has securities lending agreements whereby unrelated parties, primarily major brokerage firms, borrow securities from the Company. The Company requires a minimum of 102% and 105% of the fair value of the domestic and foreign securities, respectively, loaned at the outset of the contract as collateral. The Company continues to retain control over and receive interest on loaned securities, and accordingly, the loaned securities continue to be reported as bonds. The securities loaned are on open terms and can be returned to the Company on the next business day requiring a return of the collateral. Collateral received is invested in cash equivalents and securities with a corresponding liability for funds held for securities on loan included in borrowings in the statutory financial statements. The Company cannot access the collateral unless the borrower fails to deliver the loaned securities. To further minimize the credit risks related to this securities lending program, the Company regularly monitors the financial condition of counterparties to these agreements and also receives an indemnification from the financial intermediary who structures the transactions.

Other invested assets include the Company's investment in ECR, and investments in derivatives, low-income housing properties (carried at amortized cost), limited partnerships and receivables for securities. ECR is a limited liability company established for the operation of real estate in Omaha, Nebraska. Mutual of Omaha is the sole member. The investment in ECR is carried at the underlying GAAP equity. Changes are recorded in unrealized capital gains through surplus. Distributions of income from this investment are recorded in net investment income. As of December 31, 2016 and 2015, the Company's investment in ECR was \$16,137,016 and \$25,805,277, respectively.

As of December 31, 2016, derivatives included foreign currency swaps. When derivative financial instruments meet specific criteria, they may be designated as accounting hedges and accounted for on an amortized cost basis, in a manner consistent with the item hedged. Derivative financial instruments that are not designated as accounting hedges are accounted for on a fair value basis with changes recorded as a change in net unrealized capital gains (losses) within the statutory statements of changes in surplus. Interest on currency swaps is included in net investment income.

The Company designates certain of its foreign currency swaps as cash flow hedges when they are highly effective in offsetting the exposure of variations in cash flows for the hedged item. For currency swaps, the Company is exposed to credit-related losses in the amount of the net currency differential in the event of non-performance by the swap counterparty.

Limited partnerships are carried at their underlying GAAP equity with a one quarter lag adjusted for all capital distributions, cash distributions, and impairment charges for the quarter with changes recorded in unrealized gains (losses) through surplus. The fair values of the limited liability partnerships are determined using the underlying audited GAAP financial statements. Distributions of income from these investments are recorded in net investment income.

Investment income consists primarily of interest and dividends. Interest is recognized on an accrual basis and dividends are recorded as earned at the ex-dividend date. Interest income on mortgage-backed securities ("MBS") and asset-backed securities ("ABS") is determined on the effective yield method based on estimated principal repayments. Accrual of income is suspended when securities are in default or when the receipt of interest payments is in doubt. Realized capital gains (losses) on the sale of investments are determined on the specific identification basis.

Investment income due or accrued for which it is probable the balance is uncollectible is written off and charged to investment income. Investment income due or accrued deemed collectible on mortgage loans in default that is more than 180 days past due is nonadmitted. All other investment income due or accrued deemed collectible that is more than 90 days past due is nonadmitted.

Intangible Assets — Intangible assets consist of certificates of authority intangibles purchased from a third party insurance entity. 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, 2016.

Company-Owned Life Insurance — Company-owned life insurance represents individual life insurance policies on the lives of certain officers and other key employees who have provided positive consent allowing the Company to be the beneficiary of such policies and is carried at cash surrender value derived from an underlying portfolio of investments. The cash surrender values of the policies included in other assets were \$393,007,919 and \$373,468,735 as of December 31, 2016 and 2015, respectively. The Company paid no premiums in 2016 and 2015. A gain of \$23,464,335 in the surrender value of the policies was included in other income for the year ended December 31, 2016. A loss of \$4,427,013 in surrender value of the policies were included in other income for the year ended December 31, 2015.

Property — Property is carried at cost less accumulated depreciation and amortization and is included in other assets. The Company provides for depreciation of property using the straight-line method over the estimated useful lives of the assets. Furniture and fixtures are generally depreciated over one to twenty years. Leasehold improvements are carried at cost less accumulated amortization. The Company provides for amortization of leasehold improvements using the straight-line method over the lesser of the useful life of the asset or the remaining original lease term, excluding options or renewal periods. Leasehold improvements are depreciated over one to seven years. There was \$8,117,643 and \$90,445,787 in fully depreciated write-offs of home office property no longer in use at December 31, 2016 and 2015, respectively. Depreciation and amortization expense was \$2,700,931 and \$2,734,346 for the years ended December 31, 2016 and 2015, respectively.

Electronic Data Processing (“EDP”) Equipment and Software — EDP equipment and operating and non-operating software are carried at cost less accumulated depreciation or amortization and are included in other assets. Depreciation expense is computed using the straight-line method over the lesser of the estimated useful life of the related asset or three years for EDP equipment and operating system software. Depreciation expense for non-operating-system software is computed using the straight-line method over the lesser of its estimated useful life or five years. Costs incurred for the development of internal use software are capitalized and amortized using the straight-line method over the lesser of the useful lives of the assets or three years.

Policy Reserves — Policy reserves include active life reserves and unearned premium reserves. Active life reserves provide amounts adequate to discharge estimated future obligations in excess of estimated future net premiums on policies in force. Such reserves are based on statutory mortality and interest assumptions. Morbidity assumptions are either industry experience or a blend of industry and company experience. Voluntary lapse assumptions, when applicable, are based on Company experience with statutory limitations. Such reserves are calculated on a net level premium method or on a one- or two-year preliminary term basis.

Claim Reserves — Claim reserves include the amounts estimated for claims that have been reported but not settled, estimates for claims incurred but not reported (“IBNR”), and disabled life reserves. Such reserves are estimated based upon the Company’s and affiliates’ historical experience and other actuarial assumptions that consider the effects of current developments, anticipated trends, and risk management programs. Disabled life reserves are determined within statutory interest assumption limitations. Continuance assumptions are based on either industry experience or a blend of Company and industry experience that comply with statutory guidelines. Revisions of these estimates are reflected in operations in the year they are made. Claim adjustment expenses are accrued and included in operating expenses.

The Company anticipates investment income as a factor in premium deficiency reserve calculations. As of December 31, 2016 and 2015, the Company had \$17,325,292 and \$18,255,233, respectively, of premium deficiency reserves related to its individual and discretionary group major medical lines of business. Liabilities for losses are based on projections of aggregated and policy-level cash flows reflective of contractual limits of liability.

Reinsurance — In the normal course of business, the Company assumes and cedes insurance business from its affiliates and unrelated third parties 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. Amounts recoverable from reinsurers are reviewed for collectability on a quarterly basis. All amounts deemed uncollectible are written off through a charge to the statutory statements of operations when the uncollectibility of amounts recoverable from reinsurers is confirmed. Balances are included in the statutory statements of admitted assets, liabilities, and surplus and the statutory statements of operations, net of reinsurance, except for commissions and expense allowances on reinsurance ceded which are shown as income. Commission and expense allowances on reinsurance assumed are included in commissions expenses on the statutory statements of operations.

Amounts recoverable from reinsurers are based upon assumptions consistent with those used in establishing the liabilities related to the underlying reinsured contracts. Management believes the amounts recoverable are appropriately established.

Federal Income Taxes — The provision for income taxes includes amounts paid and accrued. The Company is subject to income tax in the United States and several state jurisdictions. Significant judgments and estimates are required in the determination of the Company’s income tax expense, DTAs, and deferred tax liabilities (“DTLs”).

Deferred taxes are recognized to the extent there are differences between the statutory 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 DTAs and DTLs is recognized in surplus in the period that includes the enactment date. Deferred taxes are also recognized for carryforward items including net operating loss, capital loss, and charitable contributions. NAIC SAP requires that temporary differences and carryforward items be identified and measured. Deductible temporary differences and carryforward amounts that generate tax benefits when they reverse or are utilized are tax affected in determining the DTA. Taxable temporary differences include items that will generate tax expense when they reverse and are tax affected in determining the DTL.

In the determination of the amount of the DTA that can be recognized and admitted, the NAIC SAP requires that DTAs be limited to an amount that is expected to be realized in the future based on a qualitative analysis of the Company's temporary differences, past financial history and future earnings projections. The net admitted DTA shall not exceed the excess of the adjusted gross DTA over the gross DTL. The adjusted gross DTA shall be admitted based upon three components: the amount of the income tax benefit from future deductions that can be carried back to prior years; an amount that is limited to the lesser of future deductible temporary differences and carryforward amounts that are expected to be realized within three years from the reporting date, or 15% of adjusted capital and surplus (defined as capital and surplus net of the admitted DTA, electronic data processing equipment and operating software); and the adjusted gross DTA in an amount equal to the DTL.

The Company records uncertain tax positions in accordance with NAIC SAP on the basis of a two-step process in which (1) it determines whether a tax loss contingency meets a more-likely-than-not threshold (a likelihood of more than 50%) 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 100% of the tax loss contingency. The Company recognizes interest accrued related to uncertain tax positions and penalties as income tax expense. The liability for uncertain tax positions and the associated interest liability are included in current federal income tax payable on the statutory statements of admitted assets, liabilities, and surplus.

Asset Valuation Reserve and Interest Maintenance Reserve — The Company establishes certain reserves as promulgated by the NAIC. The AVR is determined by formula and is based on the Company's investments in bonds, preferred stocks, common stocks, mortgage loans, real estate, short-term investments and other invested assets. This valuation reserve requires appropriation of surplus to provide for possible losses on these investments. Realized and unrealized capital gains (losses), other than those resulting from interest rate changes, are credited or charged to the AVR.

The IMR is used to defer realized capital gains (losses), net of tax, on sales of bonds and certain other investments that result from interest rate changes. These gains (losses) are then amortized into investment income over what would have been the remaining years to maturity of the underlying investments.

Premiums and Related Commissions — Health and accident premiums are recognized as income over the terms of the policies. Commissions and other expenses related to the acquisition of policies are charged to operations as incurred.

Vulnerability Due to Certain Risks and Concentrations — The following is a description of the most significant risks facing life and health insurers and how the Company manages those risks:

Morbidity/mortality risk is the risk that experience is unfavorable compared to company assumptions due to errors in setting assumption, catastrophic risk (e.g. pandemic), volatility, and changes in trend. The Company mitigates these risks through reinsurance programs, adherence to strict underwriting guidelines, monitoring underwriting exceptions, and a formal assumption review and approval process.

Legal/regulatory risk is the risk that changes in the legal or regulatory environment in which an insurer operates will occur and create additional costs or expenses not anticipated by the insurer in pricing its products. The Company mitigates this risk by operating throughout the United States, thus reducing its exposure to any single jurisdiction, and by diversifying its products. The Company monitors economic and regulatory developments that have the potential to impact its business.

Interest rate risk is the risk that interest rates will change and cause a decrease in the value of an insurer's investments or cause changes in policyholder behavior resulting in changes in asset or liability cash flows. The Company mitigates this risk through various asset-liability management techniques, including duration matching and matching the maturity schedules of its assets with the expected payouts of its liabilities. To the extent that liabilities come due more quickly than assets mature, the Company may have to sell assets prior to maturity and recognize a gain or loss.

Credit risk is the risk that issuers of securities owned by the Company will default, or that other parties, including reinsurers who owe the Company money, will not pay. 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.

Liquidity risk is the risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss, generate cash to meet funding requirements, or make a required profit. The Company has established an appropriate liquidity risk management framework to evaluate current and future funding and liquidity requirements. Future liquidity requirements are projected on a regular basis as part of the financial planning process.

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.

Other-Than-Temporary Declines in Fair Value — The Company regularly reviews its investment portfolio for factors that may indicate that a decline in fair value of an investment is other-than-temporary. Some factors considered in evaluating whether or not a decline in fair value is other-than-temporary include the Company's ability and intent to retain the investment for a period of time sufficient to allow for a recovery in value, the Company's intent to sell the investment at the reporting date, and the financial condition and prospects of the issuer.

The Company recognizes OTTI of bonds not backed by loans when it is either probable that the Company will not collect all amounts due according to the contractual terms of the bond in effect at the date of acquisition or when the Company has made a decision to sell the bond prior to its maturity at an amount below its amortized cost. When an OTTI is recognized, the bond is written down to fair value and the amount of the write down is recorded as a realized capital loss in the statutory statements of operations.

For loan-backed securities, OTTI are recognized when the fair value is less than the amortized cost basis and the Company has the intent to sell or lacks the intent and ability to retain the investment until recovery. When an OTTI is recognized because the Company has the intent to sell or lacks the intent and ability to retain the investment until recovery, the amortized cost basis of the loan-backed security is written down to the fair value and the amount of the write-down is recorded as a realized capital loss in the statutory statements of operations.

If the Company does not have the intent to sell and has the intent and ability to retain the investment until recovery, OTTI are recognized when the present value of future cash flows discounted at the security's effective interest rate is less than the amortized cost basis as of the balance sheet date. When an OTTI is recognized, the loan-backed security is written down to the discounted estimated future cash flows and is recorded as a realized capital loss.

The Company recognizes OTTI of stocks for declines in value that are other-than-temporary and reports those adjustments as realized capital losses in the statutory statements of operations.

The Company recognizes OTTI of limited partnerships generally when the underlying GAAP equity of the partnership is less than 80% of amortized cost and the limited partnership reports realized capital losses on their statutory financial statements or the limited partnership shows other indicators of loss. When an OTTI is recognized, the limited partnership is written down to fair value and the amount of the impairment is recorded as a realized capital loss in the statutory statements of operations.

The Company performs a monthly analysis of the prices received from third parties to assess if the prices represent a reasonable estimate of fair value. This process involves quantitative and qualitative analysis and is overseen by investment and accounting professionals.

Subsequent Events — The Company has evaluated events subsequent to December 31, 2016 through May 18, 2017, the date these statutory financial statements were available to be issued and, other than disclosed in Note 13, has determined that there are no material events that require adjustment to or disclosure in these statutory financial statements.

Accounting Pronouncements — In June 2016, the NAIC issued revisions to Statement of Statutory Accounting Principal ("SSAP") 1 *Accounting Policies, Risks & Uncertainties, and Other Disclosures* ("SSAP 1") to add an additional disclosure to capture the aggregate total of collateral assets reported as assets on the statutory financial statements and the corresponding liability to return these collateral assets in comparison to total admitted assets and total liabilities. The Company has provided disclosures in accordance with the revised standard in Note 2.

In June 2016, the NAIC issued revisions to SSAP 26 *Bonds* and SSAP 43R *Loan-Backed and Structured Securities* that require disclosure of the number of CUSIPs and aggregate amount of investment income generated as a result of prepayment penalties and/or acceleration fees and clarify the amount of investment income and/or realized gain/loss to be reported upon disposal of an investment. These revisions are effective in 2017 and the impact on net investment income and realized gain (loss) will be dependent on the amount and nature of prepayment penalties in 2017.

During 2016, the NAIC issued revisions to SSAP 51 *Life Contracts* and SSAP 54R *Individual and Group Accident and Health Contracts* that require life, annuity, and health policies issued on or after the implementation of principles-based reserving to use the *Valuation Manual*, which describes reserve valuation under principles-based reserving (“PBR”), following an entity’s adoption of PBR. These changes are effective January 1, 2017, however reporting entities may delay implementation for up to three years. The Company intends to adopt PBR in 2020 and is evaluating the impact of this guidance on its statutory financial statements.

2. INVESTMENTS

Bonds — The carrying value and estimated fair value of investments in bonds, including loan-backed securities, by type, and redeemable preferred stocks, as of December 31, were as follows:

| | Carrying Value | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|-------------------------------------|-------------------------|------------------------------|-------------------------------|----------------------------|
| 2016 | | | | |
| U.S. government | \$ 946,202 | \$ - | \$ 1,051 | \$ 945,151 |
| States, territories and possessions | 2,498,040 | 243,022 | - | 2,741,062 |
| Special revenue | 12,706,234 | - | 167,503 | 12,538,731 |
| Hybrids | 19,461,152 | 554,666 | 497,268 | 19,518,550 |
| Foreign corporate | 491,734,730 | 20,906,809 | 5,160,135 | 507,481,404 |
| U.S. and Canadian corporate | 2,027,265,918 | 142,988,672 | 35,632,186 | 2,134,622,404 |
| Commercial MBS | 358,748,392 | 26,189,023 | 536,949 | 384,400,466 |
| Residential MBS | 234,136,778 | 22,140,335 | 464,028 | 255,813,085 |
| Other ABS | 177,384,117 | 6,126,812 | 1,486,359 | 182,024,570 |
| Total bonds | 3,324,881,563 | 219,149,339 | 43,945,479 | 3,500,085,423 |
| Redeemable preferred stocks | 22,308,644 | 580,535 | 425,883 | 22,463,296 |
| Total | <u>\$ 3,347,190,207</u> | <u>\$ 219,729,874</u> | <u>\$ 44,371,362</u> | <u>\$ 3,522,548,719</u> |
| | | | | |
| | Carrying Value | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| 2015 | | | | |
| U.S. government | \$ 66,106,009 | \$ - | \$ 266,044 | \$ 65,839,965 |
| States, territories and possessions | 2,516,677 | 501,420 | - | 3,018,097 |
| Special revenue | 21,342,850 | - | 1,349,498 | 19,993,352 |
| Hybrids | 21,991,776 | 796,526 | 797,167 | 21,991,135 |
| Foreign corporate | 438,330,625 | 18,093,768 | 8,221,527 | 448,202,866 |
| U.S. and Canadian corporate | 1,757,310,163 | 112,446,289 | 59,451,457 | 1,810,304,995 |
| Commercial MBS | 400,764,501 | 38,070,580 | 1,465,648 | 437,369,433 |
| Residential MBS | 293,924,566 | 22,010,556 | 582,411 | 315,352,711 |
| Other ABS | 174,501,482 | 8,457,983 | 1,273,995 | 181,685,470 |
| Total bonds | 3,176,788,649 | 200,377,122 | 73,407,747 | 3,303,758,024 |
| Redeemable preferred stocks | 23,960,737 | 1,496,573 | 24,102 | 25,433,208 |
| Total | <u>\$ 3,200,749,386</u> | <u>\$ 201,873,695</u> | <u>\$ 73,431,849</u> | <u>\$ 3,329,191,232</u> |

Bonds with an NAIC designation of 6 of \$21,073,914 and \$11,157,902 as of December 31, 2016 and 2015, respectively, were carried at the lower of amortized cost or fair value.

The Company's bond portfolio was primarily comprised of investment grade securities. Based upon designations by the NAIC, investment grade bonds comprised 96.8% and 96.5% of the Company's total bond portfolio as of December 31, 2016 and 2015, respectively.

Information regarding the Company's investments in structured notes as of December 31, 2016, was as follows:

| CUSIP | Actual Cost | Fair Value | Book/Adjusted Carrying Value | Mortgage- Referenced Security |
|--------------|------------------------|-----------------------|---|--|
| 38141GFA7 | \$ 5,012,500 | \$ 5,000,000 | \$ 5,006,602 | No |

The carrying value and estimated fair value of bonds and redeemable preferred stocks as of December 31, 2016, by contractual maturity, are shown below. Actual maturities may differ as a result of prepayments by the issuer. MBS and other ABS provide for periodic payments throughout their lives so they are listed in a separate category.

| | Carrying Value | Estimated Fair Value |
|--|---------------------------|---------------------------------|
| Due in one year or less | \$ 53,092,664 | \$ 53,854,260 |
| Due after one year through five years | 274,595,807 | 292,259,605 |
| Due after five years through ten years | 464,167,271 | 489,447,162 |
| Due after ten years | <u>1,785,065,178</u> | <u>1,864,749,571</u> |
| | 2,576,920,920 | 2,700,310,598 |
| MBS and other ABS | <u>770,269,287</u> | <u>822,238,121</u> |
| Total | <u>\$ 3,347,190,207</u> | <u>\$ 3,522,548,719</u> |

Aging of unrealized losses on the Company's investments in bonds and redeemable preferred stocks as of December 31, was as follows:

| | Less Than One Year | | One Year or More | | Total | |
|-----------------------------|-------------------------|-------------------------|----------------------|-------------------------|-------------------------|-------------------------|
| | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses |
| 2016 | | | | | | |
| U.S. government | \$ 945,151 | \$ 1,051 | \$ - | \$ - | \$ 945,151 | \$ 1,051 |
| Special revenue | 12,538,731 | 167,503 | - | - | 12,538,731 | 167,503 |
| Hybrids | 3,932,810 | 274,127 | 3,159,828 | 223,141 | 7,092,638 | 497,268 |
| Foreign corporate | 127,254,094 | 3,006,052 | 12,319,670 | 2,154,083 | 139,573,764 | 5,160,135 |
| U.S. and Canadian corporate | 582,207,346 | 27,022,756 | 98,964,575 | 8,609,430 | 681,171,921 | 35,632,186 |
| Commercial MBS | 9,573,800 | 536,949 | - | - | 9,573,800 | 536,949 |
| Residential MBS | 33,919,555 | 319,340 | 12,978,230 | 144,688 | 46,897,785 | 464,028 |
| Other ABS | 52,002,758 | 1,189,812 | 12,253,377 | 296,547 | 64,256,135 | 1,486,359 |
| Total bonds | 822,374,245 | 32,517,590 | 139,675,680 | 11,427,889 | 962,049,925 | 43,945,479 |
| Redeemable preferred stocks | 9,154,431 | 425,883 | - | - | 9,154,431 | 425,883 |
| Total | <u>\$ 831,528,676</u> | <u>\$32,943,473</u> | <u>\$139,675,680</u> | <u>\$11,427,889</u> | <u>\$ 971,204,356</u> | <u>\$ 44,371,362</u> |
| | | | | | | |
| | Less Than One Year | | One Year or More | | Total | |
| | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses |
| 2015 | | | | | | |
| U.S. government | \$ 65,839,965 | \$ 266,044 | \$ - | \$ - | \$ 65,839,965 | \$ 266,044 |
| Special revenue | 16,140,775 | 1,166,310 | 3,852,577 | 183,188 | 19,993,352 | 1,349,498 |
| Hybrids | 6,684,340 | 762,999 | 584,500 | 34,168 | 7,268,840 | 797,167 |
| Foreign corporate | 133,512,633 | 5,882,187 | 5,561,040 | 2,339,340 | 139,073,673 | 8,221,527 |
| U.S. and Canadian corporate | 720,995,424 | 49,896,937 | 40,675,373 | 9,554,520 | 761,670,797 | 59,451,457 |
| Commercial MBS | 15,076,020 | 182,889 | 8,829,900 | 1,282,759 | 23,905,920 | 1,465,648 |
| Residential MBS | 65,437,718 | 579,268 | 85,094 | 3,143 | 65,522,812 | 582,411 |
| Other ABS | 50,973,468 | 931,880 | 11,485,341 | 342,115 | 62,458,809 | 1,273,995 |
| Total bonds | 1,074,660,343 | 59,668,514 | 71,073,825 | 13,739,233 | 1,145,734,168 | 73,407,747 |
| Redeemable preferred stocks | 1,485,999 | 17,445 | 387,340 | 6,657 | 1,873,339 | 24,102 |
| Total | <u>\$ 1,076,146,342</u> | <u>\$59,685,959</u> | <u>\$ 71,461,165</u> | <u>\$13,745,890</u> | <u>\$ 1,147,607,507</u> | <u>\$ 73,431,849</u> |

As described in Note 1, the Company regularly reviews its investment portfolio for factors that may indicate that a decline in fair value of an investment is other-than-temporary. As of December 31, 2016, 41 securities were in an unrealized loss position one year or more with an average credit rating of A3 and were 93.4% investment grade. As of December 31, 2016, 204 securities were in an unrealized loss position less than one year with an average credit rating of A3 and 99.4% were investment grade.

Net realized capital losses for the years ended December 31, 2016 and 2015 include losses of \$1,614,844 and \$3,363,926, respectively, resulting from other-than-temporary declines in the fair value of bonds or changes in expected cash flows, and are not included in the table above.

Gross unrealized losses as of December 31, 2016 for MBS and other ABS, by vintage, were as follows:

| | Agency | Non-Agency | | Total |
|-----------------|---------------------|-------------------|-------------|---------------------|
| | | 2013 and Prior | 2015 | |
| Commercial MBS | \$ - | \$ 536,949 | \$ - | \$ 536,949 |
| Residential MBS | 461,881 | 2,147 | - | 464,028 |
| Other ABS | <u>1,486,359</u> | <u>-</u> | <u>-</u> | <u>1,486,359</u> |
| Total | <u>\$ 1,948,240</u> | <u>\$ 539,096</u> | <u>\$ -</u> | <u>\$ 2,487,336</u> |

Proceeds from sales or disposals of bonds and stocks and the components of bond and stocks net capital gains (losses) for the years ended December 31, were as follows:

| | 2016 | 2015 |
|---|----------------------|-----------------------|
| Proceeds from sales or disposals: | | |
| Bonds | <u>\$ 98,141,931</u> | <u>\$ 16,267,493</u> |
| Stocks | <u>\$ 13,132,673</u> | <u>\$ 10,341,091</u> |
| Net realized capital gains (losses) on bonds and stocks: | | |
| Bonds: | | |
| Gross realized capital gains from sales or other disposals | \$ 1,705,895 | \$ 1,170,153 |
| Gross realized capital losses from sales or other disposals | (592,580) | (124,726) |
| OTTI losses | <u>(1,614,844)</u> | <u>(3,363,926)</u> |
| Net realized capital losses | <u>\$ (501,529)</u> | <u>\$ (2,318,499)</u> |
| Stocks: | | |
| Gross realized capital gains from sales or other disposals | \$ 1,702,926 | \$ 1,198,099 |
| Gross realized capital losses from sales or other disposals | <u>(39,505)</u> | <u>(7,367)</u> |
| Net realized capital gains | <u>\$ 1,663,421</u> | <u>\$ 1,190,732</u> |

Bond income due and accrued of \$1,347,862 and \$498,484, related to bonds in default was excluded from investment income during the year ended December 31, 2016 and 2015, respectively.

Stocks — The Company held perpetual preferred stocks with carrying amounts of \$20,180,431 and \$20,800,160 and estimated fair value of \$19,905,973 and \$21,940,708 as of December 31, 2016 and 2015, respectively. Aging of unrealized losses on the Company's investments in perpetual preferred stocks as of December 31, was as follows:

| | Less Than One Year | | One Year or More | | Total | |
|----------------------------|----------------------|-------------------------|----------------------|-------------------------|----------------------|-------------------------|
| | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses |
| 2016 | | | | | | |
| Perpetual preferred stocks | \$ 11,438,539 | \$ 681,951 | \$ - | \$ - | \$ 11,438,539 | \$ 681,951 |
| 2015 | | | | | | |
| Perpetual preferred stocks | \$ 1,919,989 | \$ 24,271 | \$ 1,032,660 | \$ 5,704 | \$ 2,952,649 | \$ 29,975 |

As of December 31, 2016, no securities were in an unrealized loss position one year or more. As of December 31, 2016, 22 securities were in an unrealized loss position less than one year with an average credit rating of Baa2 and 100% were investment grade.

Common Stocks — Unaffiliated — Included within common stocks — unaffiliated as of December 31, 2016 and 2015 is FHLB capital stocks of \$585,772 and \$8,584,099 respectively. As of December 31, 2016 and 2015, \$463,169 and \$8,584,099 respectively, was classified as required stocks. As of December 31, 2016, the remaining \$122,603 was classified as excess stocks. As of December 31, 2015, there was no remaining excess stock.

Mortgage Loans — The Company invests in mortgage loans collateralized principally by commercial real estate throughout the United States. The Company's investments in mortgage loans are held through a participation agreement with United of Omaha. All of the Company's mortgage loans are managed as two classes and portfolio segments: commercial and residential. During 2016, the minimum and maximum lending rates for mortgage loans were 3.00% and 4.38% respectively. The maximum percentage of any one loan to the value of the collateral security at the time of the loan, exclusive of insured, guaranteed or purchase money mortgages, acquired during 2016 was 82%.

There were no realized capital losses for the year ended December 31, 2016 related to impairments on mortgage loans. Realized capital losses for the years ended December 31, 2015 include losses of \$128,769, resulting from impairments on mortgage loans.

Mortgage loan participations purchased from one loan originator comprise 45% and 56% of the portfolio as of December 31, 2016 and 2015, respectively. The properties collateralizing mortgage loans are geographically dispersed throughout the United States, with the largest concentration in California of approximately 28% and 28% of the portfolio as of December 31, 2016 and 2015, respectively.

Credit Quality Indicators — For purposes of monitoring the credit quality and risk characteristics, 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 debt service coverage ratio compares a property's cash flow to amounts needed to service the principal and interest due under the loan. The credit quality indicators are updated annually or more frequently if conditions warrant 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 Company's investment in commercial mortgage loans by credit quality profile, as of December 31, was as follows:

| 2016 | Debt Service Coverage Ratios | | | |
|-----------------------|------------------------------|----------------------|----------------------|-----------------------|
| | >1.20x | 1.00x-1.20x | <1.00x | Total |
| Loan-to-value ratios: | | | | |
| Less than 65% | \$ 162,432,429 | \$ 20,216,406 | \$ 12,099,061 | \$ 194,747,896 |
| 66% to 75% | 17,832,469 | - | - | 17,832,469 |
| Greater than 75% | - | - | - | - |
| Total | <u>\$ 180,264,898</u> | <u>\$ 20,216,406</u> | <u>\$ 12,099,061</u> | <u>\$ 212,580,365</u> |

| 2015 | Debt Service Coverage Ratios | | | |
|-----------------------|------------------------------|----------------------|----------------------|-----------------------|
| | >1.20x | 1.00x-1.20x | <1.00x | Total |
| Loan-to-value ratios: | | | | |
| Less than 65% | \$ 148,489,657 | \$ 19,073,789 | \$ 14,669,729 | \$ 182,233,175 |
| 66% to 75% | 22,110,271 | 6,704,582 | - | 28,814,853 |
| Greater than 75% | - | - | - | - |
| Total | <u>\$ 170,599,928</u> | <u>\$ 25,778,371</u> | <u>\$ 14,669,729</u> | <u>\$ 211,048,028</u> |

Non-Accrual and Past Due Loans — The Company had no loans in non-accrual status as of December 31, 2016 and 2015. All of the Company's loans were in current status as of December 31, 2016 and 2015.

Impaired Loans — The Company had no commercial or residential impaired loans as of December 31, 2016 or 2015 and no related allowance for credit losses.

Troubled Debt Restructured Loans — The Company had no TDR as of December 31, 2016 and 2015.

Limited Partnerships — Net realized capital losses for the years ended December 31, 2016 and 2015 include losses of \$4,601,568 and \$1,987,209, respectively, resulting from other-than-temporary declines in fair value of limited partnerships due to market conditions.

Restricted Assets — Information related to the Company's investment in restricted assets as of December 31, was as follows:

| | | | Percentage | |
|--|--------------------------------|---|----------------------------------|--|
| | | | Gross Restricted to Total Assets | Admitted Restricted to Total Admitted Assets |
| 2016 | Gross Restricted Assets | Total Admitted Restricted Assets | | |
| Collateral held under security lending agreements | \$ 37,654,270 | \$ 37,654,270 | 0.49 % | 0.52 % |
| FHLB capital stocks | 585,772 | 585,772 | 0.01 | 0.01 |
| On deposit with states | 3,380,904 | 3,380,904 | 0.04 | 0.05 |
| Pledged collateral to FHLB (including assets backing funding agreements) | <u>231,100,975</u> | <u>231,100,975</u> | <u>3.02</u> | <u>3.18</u> |
| Total | <u>\$ 272,721,921</u> | <u>\$ 272,721,921</u> | <u>3.56 %</u> | <u>3.76 %</u> |
| | | | | |
| | | | Percentage | |
| | | | Gross Restricted to Total Assets | Admitted Restricted to Total Admitted Assets |
| 2015 | Gross Restricted Assets | Total Admitted Restricted Assets | | |
| Collateral held under security lending agreements | \$ 23,325,533 | \$ 23,325,533 | 0.32 % | 0.34 % |
| FHLB capital stocks | 8,584,099 | 8,584,099 | 0.12 | 0.12 |
| On deposit with states | 3,268,258 | 3,268,258 | 0.04 | 0.05 |
| Pledged collateral to FHLB (including assets backing funding agreements) | <u>225,353,622</u> | <u>225,353,622</u> | <u>3.07</u> | <u>3.25</u> |
| Total | <u>\$ 260,531,512</u> | <u>\$ 260,531,512</u> | <u>3.55 %</u> | <u>3.76 %</u> |

Net Investment Income — The sources of net investment income for the years ended December 31, were as follows:

| | 2016 | 2015 |
|--|-----------------------|-----------------------|
| Bonds | \$ 166,733,697 | \$ 154,903,732 |
| Preferred stocks | 2,445,476 | 2,583,560 |
| Common stocks — unaffiliated | 1,133,133 | 2,141,384 |
| Common stocks — affiliated | 96,893,320 | - |
| Mortgage loans | 12,587,345 | 16,346,158 |
| Real estate | 11,352,133 | 10,937,958 |
| Cash and cash equivalents and short-term investments | 4,972,575 | 7,087,340 |
| Other | <u>26,045,112</u> | <u>31,788,288</u> |
| Gross investment income | 322,162,791 | 225,788,420 |
| Amortization of IMR | 286,460 | 189,077 |
| Investment expenses | <u>(56,155,243)</u> | <u>(53,971,628)</u> |
| Net investment income | <u>\$ 266,294,008</u> | <u>\$ 172,005,869</u> |

3. STRUCTURED SECURITIES

The carrying value and estimated fair value of structured securities, by type, as of December 31, were as follows:

| | Carrying Value | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|-------------|---------------------------|---------------------------------------|--|-------------------------------------|
| 2016 | | | | |
| MBS: | | | | |
| Commercial | \$ 358,748,392 | \$ 26,189,023 | \$ 536,949 | \$ 384,400,466 |
| Residential | <u>234,136,778</u> | <u>22,140,335</u> | <u>464,028</u> | <u>255,813,085</u> |
| | 592,885,170 | 48,329,358 | 1,000,977 | 640,213,551 |
| Other ABS | <u>177,384,117</u> | <u>6,126,812</u> | <u>1,486,359</u> | <u>182,024,570</u> |
| Total | <u>\$ 770,269,287</u> | <u>\$ 54,456,170</u> | <u>\$ 2,487,336</u> | <u>\$ 822,238,121</u> |
| | | | | |
| | Carrying Value | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| 2015 | | | | |
| MBS: | | | | |
| Commercial | \$ 400,764,501 | \$ 38,070,580 | \$ 1,465,648 | \$ 437,369,433 |
| Residential | <u>293,924,566</u> | <u>22,010,556</u> | <u>582,411</u> | <u>315,352,711</u> |
| | 694,689,067 | 60,081,136 | 2,048,059 | 752,722,144 |
| Other ABS | <u>174,501,482</u> | <u>8,457,983</u> | <u>1,273,995</u> | <u>181,685,470</u> |
| Total | <u>\$ 869,190,549</u> | <u>\$ 68,539,119</u> | <u>\$ 3,322,054</u> | <u>\$ 934,407,614</u> |

Aging of unrealized losses on the Company's structured securities as of December 31, was as follows:

| | Less than One Year | | One Year or More | | Total | |
|-------------|-------------------------------------|--|-------------------------------------|--|-------------------------------------|--|
| | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses |
| 2016 | | | | | | |
| MBS: | | | | | | |
| Commercial | \$ 9,573,800 | \$ 536,949 | \$ - | \$ - | \$ 9,573,800 | \$ 536,949 |
| Residential | <u>33,919,555</u> | <u>319,340</u> | <u>12,978,230</u> | <u>144,688</u> | <u>46,897,785</u> | <u>464,028</u> |
| | 43,493,355 | 856,289 | 12,978,230 | 144,688 | 56,471,585 | 1,000,977 |
| Other ABS | <u>52,002,758</u> | <u>1,189,812</u> | <u>12,253,377</u> | <u>296,547</u> | <u>64,256,135</u> | <u>1,486,359</u> |
| Total | <u>\$ 95,496,113</u> | <u>\$ 2,046,101</u> | <u>\$ 25,231,607</u> | <u>\$ 441,235</u> | <u>\$ 120,727,720</u> | <u>\$ 2,487,336</u> |
| | | | | | | |
| | Less than One Year | | One Year or More | | Total | |
| | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses |
| 2015 | | | | | | |
| MBS: | | | | | | |
| Commercial | \$ 15,076,020 | \$ 182,889 | \$ 8,829,900 | \$ 1,282,759 | \$ 23,905,920 | \$ 1,465,648 |
| Residential | <u>65,437,718</u> | <u>579,268</u> | <u>85,094</u> | <u>3,143</u> | <u>65,522,812</u> | <u>582,411</u> |
| | 80,513,738 | 762,157 | 8,914,994 | 1,285,902 | 89,428,732 | 2,048,059 |
| Other ABS | <u>50,973,468</u> | <u>931,880</u> | <u>11,485,341</u> | <u>342,115</u> | <u>62,458,809</u> | <u>1,273,995</u> |
| Total | <u>\$ 131,487,206</u> | <u>\$ 1,694,037</u> | <u>\$ 20,400,335</u> | <u>\$ 1,628,017</u> | <u>\$ 151,887,541</u> | <u>\$ 3,322,054</u> |

OTTI are recognized based on the Company's intent to sell, inability to hold to maturity, and when the present value of future cash flows is expected to be less than the amortized cost of the security. There were no OTTI on loan-backed and structured securities related to the intent to sell or inability to hold to maturity during 2016 or 2015. All of the Company's OTTI on loan-backed and structured securities during 2016 and 2015 were based on the present value of future cash flows expected to be less than the amortized cost of the security as shown in the following tables:

| 2016 | Amortized Cost Basis Before Current Period OTTI | Present Value of Projected Cash Flows | Recognized OTTI | Amortized Cost Basis After OTTI | Fair Value at Date of Impairment | Date of Financial Statement Where Reported |
|-------------|--|--|----------------------------|--|---|---|
| CUSIP: | | | | | | |
| 46625MDA4 | \$ 5,665,946 | \$ 4,811,371 | \$ 854,575 | \$ 4,811,371 | \$ 4,234,306 | 3/31/2016 |
| 92978MAK2 | 4,428,376 | 4,240,046 | 188,330 | 4,240,046 | 4,085,435 | 3/31/2016 |
| 46625MDA4 | <u>4,709,753</u> | <u>4,587,813</u> | <u>121,939</u> | <u>4,587,813</u> | <u>4,011,190</u> | 6/30/2016 |
| Total | <u>\$ 14,804,075</u> | <u>\$ 13,639,230</u> | <u>\$1,164,844</u> | <u>\$ 13,639,230</u> | <u>\$ 12,330,931</u> | |
| 2015 | Amortized Cost Basis Before Current Period OTTI | Present Value of Projected Cash Flows | Recognized OTTI | Amortized Cost Basis After OTTI | Fair Value at Date of Impairment | Date of Financial Statement Where Reported |
| CUSIP: | | | | | | |
| 46625MDA4 | \$ 7,948,659 | \$ 7,057,520 | \$ 891,139 | \$ 7,057,520 | \$ 7,057,520 | 3/31/2015 |
| 61750WBB8 | 323,139 | 248,786 | 74,354 | 248,786 | 248,786 | 3/31/2015 |
| 46625MDA4 | 7,153,785 | 6,696,560 | 457,224 | 6,696,560 | 6,696,560 | 6/30/2015 |
| 46625MUF4 | 1,948,957 | 946,333 | 1,002,624 | 946,333 | 946,333 | 9/30/2015 |
| 46625MDA4 | 3,870,400 | 3,272,160 | 598,240 | 3,272,160 | 3,272,160 | 9/30/2015 |
| 92978MAK2 | <u>4,609,038</u> | <u>4,403,704</u> | <u>205,334</u> | <u>4,403,704</u> | <u>4,384,507</u> | 12/31/2015 |
| Total | <u>\$ 25,853,978</u> | <u>\$ 22,625,063</u> | <u>\$3,228,915</u> | <u>\$ 22,625,063</u> | <u>\$ 22,605,866</u> | |

4. FAIR VALUE MEASUREMENTS

The categorization of fair value measurements determined on a recurring basis, by input level, as of December 31, was as follows:

| | Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|---|---|---|--|----------------------|
| 2016 | | | | |
| State and political subdivisions securities | \$ - | \$ 721,475 | \$ - | \$ 721,475 |
| US & Canadian corporate securities | - | - | 10,000,000 | 10,000,000 |
| Foreign corporate securities | - | - | 1,050,000 | 1,050,000 |
| Commercial MBS | - | \$ 4,242,088 | - | 4,242,088 |
| Other ABS | - | - | 4,730,690 | 4,730,690 |
| Common stocks — unaffiliated | 10,761,590 | - | 13,917,894 | 24,679,484 |
| Securities lending cash collateral | 37,654,270 | - | - | 37,654,270 |
| Derivative cash collateral | 2,010,000 | - | - | 2,010,000 |
| Derivative assets | - | 2,968,195 | - | 2,968,195 |
| Total assets | <u>\$ 50,425,860</u> | <u>\$ 7,931,758</u> | <u>\$ 29,698,584</u> | <u>\$ 88,056,202</u> |
| Derivative liabilities | - | 1,080,191 | - | 1,080,191 |
| Total liabilities | <u>\$ -</u> | <u>\$ 1,080,191</u> | <u>\$ -</u> | <u>\$ 1,080,191</u> |

| | Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|---|---|---|--|----------------------|
| 2015 | | | | |
| State and political subdivisions securities | \$ - | \$ 741,252 | \$ - | \$ 741,252 |
| Other ABS | - | - | 3,444,298 | 3,444,298 |
| Common stocks — unaffiliated | 9,892,967 | 34,532 | 13,247,405 | 23,174,904 |
| Securities lending cash collateral | 23,325,533 | - | - | 23,325,533 |
| Derivative cash collateral | 500,000 | - | - | 500,000 |
| Derivative assets | - | 878,183 | - | 878,183 |
| Total assets | <u>\$ 33,718,500</u> | <u>\$ 1,653,967</u> | <u>\$ 16,691,703</u> | <u>\$ 52,064,170</u> |

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 years ended December 31, 2016 and 2015, there were no transfers between Level 1 and Level 2.

Transfers into and out of Level 3 — 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. During the years ended December 31, 2016 and 2015 there were transfers into and no transfers out of Level 3.

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

Common Stocks — Unaffiliated — Valuation is based on unadjusted quoted prices in active markets that are accessible for identical assets.

Derivative Cash Collateral and Securities Lending Cash Collateral — Comprised of U.S. Direct Obligation/Full Faith and Credit Exempt money market instruments, commercial paper, cash, and all highly-liquid debt securities purchased with an original maturity of less than three months. These money market instruments are valued using unadjusted quoted prices in active markets that are accessible for identical assets and are primarily classified as Level 1. If public quotations are not available for commercial paper or debt securities, because of the highly liquid nature of these assets, carrying amounts may be used to approximate fair values. The carrying amount of cash approximates fair value.

Level 2 Measurements

State and Political Subdivisions Securities — 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.

Commercial MBS — These securities are principally valued using the market 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.

Common Stocks — Unaffiliated — 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.

Derivative Assets and Liabilities — These derivatives consist of foreign currency swaps and are principally valued using an income approach. Valuations are based on option pricing models, which utilize significant inputs that may include the swap yield curve, LIBOR basis curves, currency spot rates and cross currency basis curves.

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. 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, causing these investments to be classified in Level 3.

U.S. and Canadian Corporate and Foreign Corporate Securities — 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.

Other ABS — These 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.

Common Stocks — Unaffiliated — These securities are principally valued using the net asset values provided by the asset managers.

Changes in assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the years ended December 31, were as follows:

| | Balance | Gains (Losses) | | | | Net | Net | Balance |
|------------------------------------|----------------------|---------------------|-------------------|-------------------|-----------------------|----------------------|-------------|----------------------|
| | January 1, | Included in | Included in | Purchases | Sales and | Transfers | Transfers | December 31, |
| | 2016 | Realized | Surplus | | Repayments | Into | Out | 2016 |
| | | Gains (Losses) | | | | Level 3 | of Level 3 | |
| Common stocks — unaffiliated | \$ 13,247,405 | \$ - | \$ 270,066 | \$ 471,131 | \$ (70,708) | \$ - | \$ - | \$ 13,917,894 |
| US & Canadian corporate securities | - | - | - | - | - | 10,000,000 | - | 10,000,000 |
| Foreign corporate securities | - | (450,000) | - | - | - | 1,500,000 | - | 1,050,000 |
| Other ABS | 3,444,298 | - | 19,314 | - | (3,178,336) | 4,445,414 | - | 4,730,690 |
| | <u>\$ 16,691,703</u> | <u>\$ (450,000)</u> | <u>\$ 289,380</u> | <u>\$ 471,131</u> | <u>\$ (3,249,044)</u> | <u>\$ 15,945,414</u> | <u>\$ -</u> | <u>\$ 29,698,584</u> |
| | | | | | | | | |
| | Balance | Gains (Losses) | | | | Net | Net | Balance |
| | January 1, | Included in | Included in | Purchases | Sales and | Transfers | Transfers | December 31, |
| | 2015 | Realized | Surplus | | Repayments | Into | Out | 2015 |
| | | Gains (Losses) | | | | Level 3 | of Level 3 | |
| Common stocks — unaffiliated | \$ 12,354,251 | \$ - | \$ 488,352 | \$ 404,802 | \$ - | \$ - | \$ - | \$ 13,247,405 |
| Other ABS | - | - | (33,894) | - | (971,033) | 4,449,225 | - | 3,444,298 |
| | <u>\$ 12,354,251</u> | <u>\$ -</u> | <u>\$ 454,458</u> | <u>\$ 404,802</u> | <u>\$ (971,033)</u> | <u>\$ 4,449,225</u> | <u>\$ -</u> | <u>\$ 16,691,703</u> |

Fair Value of Financial Instruments — The carrying values and estimated fair values of the Company's financial instruments as of December 31, were as follows:

| 2016 | Carrying Value | Estimated Fair Value | Level 1 | Level 2 | Level 3 | Not Practicable (Carrying Value) |
|------------------------------------|------------------|----------------------|-------------|------------------|----------------|----------------------------------|
| Financial assets: | | | | | | |
| Bonds | \$ 3,324,881,563 | \$ 3,500,085,423 | \$ - | \$ 3,236,577,401 | \$ 263,508,022 | \$ - |
| Preferred stocks | 42,489,075 | 42,369,269 | - | 42,369,269 | - | - |
| Common stocks — unaffiliated | 25,265,256 | 25,265,256 | 10,761,590 | - | 13,917,894 | 585,772 |
| Mortgage loans | 218,036,496 | 227,823,809 | - | - | 227,823,809 | - |
| Other invested assets | | | | | | |
| -Surplus Notes | 4,208,119 | 4,174,858 | - | 4,174,858 | - | - |
| Cash and cash equivalents | 2,809,574 | 2,809,574 | 2,809,574 | - | - | - |
| Short-term investments | 198,500,000 | 198,500,000 | - | 198,500,000 | - | - |
| Securities lending cash collateral | 37,654,270 | 37,654,270 | 37,654,270 | - | - | - |
| Derivative assets | 2,968,195 | 2,968,195 | - | 2,968,195 | - | - |
| Financial liabilities: | | | | | | |
| Borrowings | 50,000,000 | 50,000,000 | - | 50,000,000 | - | - |
| Payable for securities lending | 37,654,270 | 37,654,270 | 37,654,270 | - | - | - |
| Derivative cash collateral | 2,010,000 | 2,010,000 | 2,010,000 | - | - | - |
| Derivative liabilities | 1,080,191 | 1,080,191 | - | 1,080,191 | - | - |
| 2015 | Carrying Value | Estimated Fair Value | Level 1 | Level 2 | Level 3 | Not Practicable (Carrying Value) |
| Financial assets: | | | | | | |
| Bonds | \$ 3,176,788,649 | \$ 3,303,758,024 | \$ - | \$ 3,162,883,287 | \$ 140,874,737 | \$ - |
| Preferred stocks | 44,760,897 | 47,373,916 | - | 47,373,916 | - | - |
| Common stocks — unaffiliated | 31,759,003 | 31,759,003 | 9,892,967 | 34,532 | 13,247,405 | 8,584,099 |
| Mortgage loans | 213,729,393 | 230,178,233 | - | - | 230,178,233 | - |
| Cash and cash equivalents | 8,010,722 | 8,010,722 | 8,010,722 | - | - | - |
| Short-term investments | 219,000,000 | 219,000,000 | - | 219,000,000 | - | - |
| Securities lending cash collateral | 23,325,533 | 23,325,533 | 23,325,533 | - | - | - |
| Derivative assets | 878,183 | 878,183 | - | 878,183 | - | - |
| Financial liabilities: | | | | | | |
| Borrowings | 205,002,733 | 205,002,733 | 205,002,733 | - | - | - |
| Payable for securities lending | 23,325,533 | 23,325,533 | 23,325,533 | - | - | - |
| Derivative cash collateral | 500,000 | 500,000 | 500,000 | - | - | - |

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

The fair values of securities lending cash collateral, derivative financial instruments, and payable for securities lending are estimated as discussed above.

Bonds — The fair values for bonds, including loan-backed securities, are based on quoted market prices, where available. For bonds for which market values are not readily available, fair values were estimated by the Company using projected future cash flows, current market rates, credit quality, and maturity date.

Preferred Stocks — The fair values for preferred stocks are based on market value, where available. For preferred stocks for which market values are not available, fair values were estimated by the Company using projected future cash flows, current market rates, credit quality and maturity date.

Common Stocks — Unaffiliated — With the exception of the Company's investment in the FHLB stock, the fair values for unaffiliated common stocks are based on market value or GAAP equity depending on the security type. It is not practicable to measure fair value in the Company's investment in FHLB stocks due to restrictions on the redemption provisions. Therefore, carrying value approximates fair value.

Mortgage Loans — The fair values for mortgage loans are estimated by discounting expected future cash flows using current interest rates for similar loans with similar credit risk.

Other Invested Assets — Surplus Notes — The fair values for other invested assets — surplus notes are based on quoted market prices.

Cash — The carrying amount for this instrument approximates fair value.

Short-term Investments — The fair values for short-term investments, which consists of loans to affiliates with maturities of less than one year, approximates cost due to their short-term nature, but are limited to the value of any underlying collateral.

Borrowings — The carrying amounts for borrowings, which consists of short-term borrowings with FHLB, approximates their fair value due to their short-term nature.

5. DERIVATIVE FINANCIAL INSTRUMENTS

In 2016 and 2015, derivatives of \$2,968,195 and \$878,183, respectively, are included in other invested assets. In 2016 and 2015, derivatives of \$1,080,191 and \$0, respectively, are included in other liabilities. The following table summarizes the Company's investment in foreign currency swaps reported in the statutory financial statements as of December 31:

| | 2016 | 2015 |
|-----------------------------------|---------------|---------------|
| Contract/notional amount | \$ 68,576,890 | \$ 10,244,490 |
| Carrying and estimated fair value | 1,888,004 | 878,183 |
| Credit exposure | 1,171,012 | 157,596 |
| Net investment income | 270,559 | 36,720 |
| Cash collateral held | 2,010,000 | 500,000 |
| Unrealized capital gains | 1,009,821 | 878,183 |

6. INCOME TAXES

The Company is the parent corporation of an affiliated group of corporations that file a consolidated U.S. Corporate Income Tax Return. The Company's federal income tax return is consolidated with the following affiliates: The Omaha Indemnity Company, Mutual of Omaha Holdings, Inc. and its subsidiaries, Omaha Financial Holdings, Inc. and its subsidiaries, and United of Omaha and its subsidiaries.

Income taxes are allocated among its subsidiaries pursuant to a written agreement approved by the Board of Directors. Each subsidiary's provision for federal income taxes is based on separate return calculations whereby the subsidiary has an enforceable right to recoup federal income taxes paid in prior years, if any, in the event of future losses. Omaha Reinsurance Company ("Omaha Re"), a wholly owned subsidiary of United of Omaha, is entitled to a refund of income taxes for any losses, regardless of whether these losses result in a reduction in the consolidated tax liability.

The Company also has an enforceable right to use consolidated net operating loss, capital loss, and charitable contributions, if any, against future net income subject to federal income taxes. The annual cost or benefit of this tax sharing agreement between the Company and its subsidiaries is charged or credited to surplus. Amounts due from subsidiaries as of December 31, 2016 and 2015 were \$6,065,388 and \$26,035,989, respectively, and were included in federal income taxes recoverable.

The Company's DTL does not include a DTL for the unrealized gains (losses) for its investment in subsidiaries.

There were no deposits admitted under Section 6603 of the Internal Revenue Code.

Consolidated federal income taxes incurred during the years ended December 31, which were available for recoupment in the event that the Company incurs future net losses, were as follows:

| | Ordinary | Capital | Total |
|------|-----------------------|----------------------|-----------------------|
| 2016 | \$ 30,381,544 | \$ 18,708,996 | \$ 49,090,540 |
| 2015 | 42,605,106 | 35,299,067 | 77,904,173 |
| 2014 | <u>65,522,668</u> | <u>23,714,807</u> | <u>89,237,475</u> |
| | <u>\$ 138,509,318</u> | <u>\$ 77,722,870</u> | <u>\$ 216,232,188</u> |

Federal income taxes incurred for the years ended December 31, consisted of the following major components:

| | 2016 | 2015 |
|--|----------------------|----------------------|
| Current federal income tax expense | \$ 23,932,786 | \$ 12,713,407 |
| Current foreign income tax expense | <u>92,093</u> | <u>71,973</u> |
| Federal income tax expense | 24,024,879 | 12,785,380 |
| Federal income tax expense (benefit) on net realized capital losses | <u>180,000</u> | <u>(1,927,000)</u> |
| Total federal and foreign income tax expense | 24,204,879 | 10,858,380 |
| Change in net deferred income taxes | <u>(9,500,012)</u> | <u>11,404,326</u> |
| Total federal income tax expense incurred | <u>\$ 14,704,867</u> | <u>\$ 22,262,706</u> |

Reconciliations between federal income taxes based on the federal tax rate and the effective tax rate for the years ended December 31, were as follows:

| | 2016 | 2015 |
|--|----------------------|----------------------|
| Net gain from operations before federal income taxes and net realized capital losses | \$ 130,953,144 | \$ 21,951,609 |
| Net realized capital gains (losses) before federal income taxes and transfers to IMR | <u>(2,584,794)</u> | <u>696,619</u> |
| Total pre-tax gain | <u>128,368,350</u> | <u>22,648,228</u> |
| Statutory tax rate | <u>35 %</u> | <u>35 %</u> |
| Expected federal income taxes incurred | 44,928,923 | 7,926,880 |
| Prior year tax benefit | (341,527) | (280,187) |
| Change in nonadmitted assets | 445,351 | 4,271,070 |
| Amortization of IMR | (100,261) | (66,177) |
| Dividends from affiliates | (33,912,662) | - |
| Pension liability adjustment | 18,716,163 | 16,190,162 |
| Tax credits | (4,410,639) | (2,282,000) |
| Life insurance cash value | (9,351,417) | 1,549,455 |
| Loss from disregarded entities | (3,527,231) | (4,430,228) |
| Other | <u>2,258,167</u> | <u>(616,269)</u> |
| Total federal income tax expense incurred | <u>\$ 14,704,867</u> | <u>\$ 22,262,706</u> |

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 2012. Therefore, the years after 2012 remain subject to audit by federal and state tax jurisdictions.

For the years ended December 31, 2016 and 2015, there was no income tax accrual for uncertain tax positions. As of December 31, 2016, there were no positions for which management believes it is reasonably possible that the total amounts of tax contingencies will significantly increase within 12 months of the reporting date. As of December 31, 2016 and 2015, the Company had no statutory valuation allowance reducing its DTA.

The components of DTA and DTL as of December 31, were as follows:

| | | 2016 | | |
|------------------|--|-----------------------|---------------------|-----------------------|
| | | Ordinary | Capital | Total |
| Gross DTA | | \$ 388,724,657 | \$ 17,196,327 | \$ 405,920,984 |
| Nonadmitted DTA | | <u>(231,956,166)</u> | <u>(10,275,147)</u> | <u>(242,231,313)</u> |
| Net admitted DTA | | 156,768,491 | 6,921,180 | 163,689,671 |
| DTL | | <u>(20,118,359)</u> | <u>(3,623,605)</u> | <u>(23,741,964)</u> |
| Net DTA | | <u>\$ 136,650,132</u> | <u>\$ 3,297,575</u> | <u>\$ 139,947,707</u> |
| | | 2015 | | |
| | | Ordinary | Capital | Total |
| Gross DTA | | \$ 380,474,009 | \$ 16,853,510 | \$ 397,327,519 |
| Nonadmitted DTA | | <u>(260,568,789)</u> | <u>(13,394,219)</u> | <u>(273,963,008)</u> |
| Net admitted DTA | | 119,905,220 | 3,459,291 | 123,364,511 |
| DTL | | <u>(21,605,976)</u> | <u>(3,022,281)</u> | <u>(24,628,257)</u> |
| Net DTA | | <u>\$ 98,299,244</u> | <u>\$ 437,010</u> | <u>\$ 98,736,254</u> |

The Company has admitted DTAs as of December 31, as follows:

| | 2016 | | |
|--|-----------------------|---------------------|-----------------------|
| | Ordinary | Capital | Total |
| Federal income taxes paid in prior years recoverable through loss carrybacks | <u>\$ 136,650,132</u> | <u>\$ 3,297,575</u> | <u>\$ 139,947,707</u> |
| Adjusted gross DTA expected to be realized (lesser of 1 or 2) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| 1. Adjusted gross DTA expected to be realized following the balance sheet date | - | - | - |
| 2. Adjusted gross DTA allowed per limitation threshold | N/A | N/A | 434,193,280 |
| Adjusted gross DTA that can be offset by DTL | <u>20,118,359</u> | <u>3,623,605</u> | <u>23,741,964</u> |
| DTA admitted as the result of application of SSAP 101 | <u>\$ 156,768,491</u> | <u>\$ 6,921,180</u> | <u>\$ 163,689,671</u> |
| 2015 | | | |
| | Ordinary | Capital | Total |
| Federal income taxes paid in prior years recoverable through loss carrybacks | <u>\$ 98,299,244</u> | <u>\$ 437,010</u> | <u>\$ 98,736,254</u> |
| Adjusted gross DTA expected to be realized (lesser of 1 or 2) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| 1. Adjusted gross DTA expected to be realized following the balance sheet date | - | - | - |
| 2. Adjusted gross DTA allowed per limitation threshold | N/A | N/A | 412,032,852 |
| Adjusted gross DTA that can be offset by DTL | <u>21,605,976</u> | <u>3,022,281</u> | <u>24,628,257</u> |
| DTA admitted as the result of application of SSAP 101 | <u>\$ 119,905,220</u> | <u>\$ 3,459,291</u> | <u>\$ 123,364,511</u> |

The authorized control level risk-based capital (RBC) ratio percentages used to determine recovery period and threshold limitation amounts were 908% and 859% as of December 31, 2016 and 2015, respectively. The amounts of adjusted capital and surplus used to determine recovery period and threshold limitations were \$3,176,405,752 and \$2,994,135,976 as of December 31, 2016 and 2015, respectively.

The Company has not utilized an income tax planning strategy for the realization of the DTA for 2016 or 2015.

The tax effects of temporary differences that give rise to significant portions of the DTA and DTL as of December 31, were as follows:

| | 2016 | 2015 | Change |
|---|-----------------------|----------------------|----------------------|
| DTA: | | | |
| Ordinary: | | | |
| Policy reserves | \$ 65,368,771 | \$ 64,548,146 | \$ 820,625 |
| Deferred acquisition costs | 68,111,108 | 61,311,956 | 6,799,152 |
| Expense accruals and other prepaid income | 94,339,283 | 87,766,815 | 6,572,468 |
| Pension liability | 78,542,404 | 86,882,674 | (8,340,270) |
| Nonadmitted assets | 27,620,499 | 26,515,134 | 1,105,365 |
| Bonds and other invested assets | 38,686,802 | 38,247,955 | 438,847 |
| Depreciation and amortization | 8,471,837 | 7,499,693 | 972,144 |
| Other | <u>7,583,953</u> | <u>7,701,636</u> | <u>(117,683)</u> |
| Subtotal | 388,724,657 | 380,474,009 | 8,250,648 |
| Nonadmitted DTA | <u>(231,956,166)</u> | <u>(260,568,789)</u> | <u>28,612,623</u> |
| Admitted ordinary DTA | <u>156,768,491</u> | <u>119,905,220</u> | <u>36,863,271</u> |
| Capital: | | | |
| Investments | <u>17,196,327</u> | <u>16,853,510</u> | <u>342,817</u> |
| Subtotal | 17,196,327 | 16,853,510 | 342,817 |
| Nonadmitted | <u>(10,275,147)</u> | <u>(13,394,219)</u> | <u>3,119,072</u> |
| Admitted capital DTA | <u>6,921,180</u> | <u>3,459,291</u> | <u>3,461,889</u> |
| Admitted DTA | <u>163,689,671</u> | <u>123,364,511</u> | <u>40,325,160</u> |
| DTL: | | | |
| Ordinary: | | | |
| Unrealized gains | (2,645,010) | (2,958,245) | 313,235 |
| Other | <u>(17,473,349)</u> | <u>(18,647,731)</u> | <u>1,174,382</u> |
| Subtotal | <u>(20,118,359)</u> | <u>(21,605,976)</u> | <u>1,487,617</u> |
| Capital: | | | |
| Investments | <u>(3,623,605)</u> | <u>(3,022,281)</u> | <u>(601,324)</u> |
| Subtotal | <u>(3,623,605)</u> | <u>(3,022,281)</u> | <u>(601,324)</u> |
| DTL | <u>(23,741,964)</u> | <u>(24,628,257)</u> | <u>886,293</u> |
| Net admitted DTA | <u>\$ 139,947,707</u> | <u>\$ 98,736,254</u> | <u>\$ 41,211,453</u> |

The change in net deferred income taxes, exclusive of nonadmitted assets reported separately in surplus in the annual statement, during the years ended December 31, was comprised of the following:

| | 2016 | 2015 | Change |
|-------------------------------------|-----------------------|-----------------------|---------------------|
| DTA | \$ 405,920,984 | \$ 397,327,519 | \$ 8,593,465 |
| DTL | <u>(23,741,964)</u> | <u>(24,628,257)</u> | <u>886,293</u> |
| Net DTA | <u>\$ 382,179,020</u> | <u>\$ 372,699,262</u> | 9,479,758 |
| Tax effect of unrealized gains | | | <u>20,254</u> |
| Change in net deferred income taxes | | | <u>\$ 9,500,012</u> |

| | 2015 | 2014 | Change |
|-------------------------------------|-----------------------|-----------------------|------------------------|
| DTA | \$ 397,327,519 | \$ 399,667,911 | \$ (2,340,392) |
| DTL | <u>(24,628,257)</u> | <u>(20,145,184)</u> | <u>(4,483,073)</u> |
| Net DTA | <u>\$ 372,699,262</u> | <u>\$ 379,522,727</u> | (6,823,465) |
| Tax effect of unrealized losses | | | <u>(4,580,861)</u> |
| Change in net deferred income taxes | | | <u>\$ (11,404,326)</u> |

The Company invests in low-income housing tax credit (“LIHTC”) limited partnerships from which federal credits are scheduled to be received through 2028. The federal LIHTC programs provide tax credits over a ten-year period, after which the required holding period extends five years.

7. RELATED PARTY INFORMATION

The Company’s investments in non-insurance Subsidiary, Controlled, or Affiliated entities’ (“SCAs”), as of December 31, were as follows:

| | 2016 | | 2015 | |
|---|-----------------|--------------------|-----------------|--------------------|
| | Admitted | Nonadmitted | Admitted | Nonadmitted |
| East Campus Realty, LLC | \$ 16,137,016 | \$ - | \$ 25,805,277 | \$ - |
| Turner Park North, LLC | - | 11,013,409 | - | 9,222,950 |
| Omaha Financial Holdings, Inc. | 765,062,825 | - | 727,042,805 | - |
| Mutual of Omaha Investor Services, Inc. | 2,329,598 | - | - | - |

The Company has an investment in an insurance SCA, United of Omaha, for which the audited statutory surplus and income reflects a departure from NAIC SAP, for a prescribed practices from the NDOI. The prescribed practice requires an accounting practice for synthetic guaranteed interest contracts (“synthetic GIC”) that differs from NAIC SAP in how certain reserves are determined. In 2016, this practice decreased net income by \$359,513 and decreased surplus \$7,635,597. In 2015, this practice increased net income by \$2,407,501 and decreased surplus \$7,276,083. The Company’s investment in United of Omaha was \$1,429,512,571 and \$1,441,718,135 at December 31, 2016 and 2015, respectively. The investment would have been \$1,437,148,168 and \$1,448,994,218 at December 31, 2016 and 2015, respectively, without the prescribed practices. The RBC of United of Omaha would not have triggered a regulatory event if the prescribed practice was not used.

The carrying value of United of Omaha exceeds 10% of the admitted assets of the Company. The Company carries the investment on the statutory surplus method. United of Omaha's assets, liabilities and results of operations as of December 31, were as follows:

| | 2016 | 2015 |
|-----------------|-------------------|-------------------|
| Admitted assets | \$ 20,698,299,461 | \$ 19,622,503,033 |
| Liabilities | 19,268,716,890 | 18,180,784,898 |
| Net income | 9,011,575 | 153,640,116 |

The table below reflects amounts (including nonadmitted amounts), related to unsecured revolving credit agreements with related parties as of December 31, 2016, which are included in short-term investments in the statutory statements of admitted assets, liabilities, and surplus. Interest income is included in net investment income in the statutory statements of operations. Interest only payments are required monthly.

| Borrowing Company | Maximum Borrowing | Interest Rate | Amount Outstanding | Interest Income | |
|--------------------------------|----------------------|------------------|-----------------------|-----------------|-----------|
| | | | | 2016 | 2015 |
| Omaha Financial Holdings, Inc. | 200,000,000 | 2.25% | 57,900,000 | 1,644,750 | 1,583,330 |
| East Campus Realty, LLC | 160,000,000 | 2.25% | 130,600,000 | 3,319,955 | 963,811 |
| Omaha Insurance Company | 20,000,000 | 0.45% | 10,000,000 | 7,134 | - |

The Company previously held a promissory note with ECR which was paid in 2015. Interest income received by the Company related to this note was \$4,508,000 for the year ended December 31, 2015.

The Company also has the following unsecured demand, revolving credit lending agreements available to related parties. There were no amounts outstanding under these agreements as of December 31, 2016 and 2015.

| Borrowing Company | Maximum Borrowing |
|--|----------------------|
| United of Omaha Life Insurance Company | \$ 250,000,000 |
| Companion Life Insurance Company | 23,000,000 |
| United World Life Insurance Company | 10,000,000 |
| Omaha Reinsurance Company | 15,000,000 |
| Omaha Insurance Company | 20,000,000 |
| Turner Park North, LLC | 5,000,000 |
| The Omaha Indemnity Company | 3,000,000 |

The Company has the following unsecured demand, revolving credit borrowing agreements available from related parties. The rate for borrowings under these agreements in 2016 and 2015 was 0.45% and 0.26%, respectively. The Company had \$50,000,000 due to United of Omaha as of December 31, 2016.

| Lending Company | Maximum Borrowing | 2016 Interest Expense |
|--|----------------------|--------------------------|
| United of Omaha Life Insurance Company | \$ 250,000,000 | \$ 140,481 |
| Companion Life Insurance Company | 23,000,000 | 19,800 |
| United World Life Insurance Company | 10,000,000 | 3,513 |
| Omaha Life Insurance Company | 7,000,000 | - |

All of the above lending and borrowing agreements renew annually for a one year term.

The Company made the following cash capital contributions during the years ended December 31:

| | 2016 | 2015 |
|-------------------------|-----------|---------------|
| East Campus Realty, LLC | \$ - | \$ 15,000,000 |
| Omaha Insurance Company | - | 40,000,000 |
| Turner Park North, LLC | 2,200,000 | 250,000 |

During 2016, the Company received a dividend of \$96,893,320 from United of Omaha in the form of transferred private equity investment.

The Company purchased 100% interest of XL Life Insurance and Annuity Company on September 30, 2016. XL Life Insurance and Annuity Company is licensed to sell insurance in 49 states, the District of Columbia and the US Virgin Islands and has sold credit insurance and long term care insurance previously. On December 29, 2016, the Illinois Department of Insurance approved a name change to Omaha Health Insurance Company. This transaction was accounted for as a statutory purchase with a cost of \$20,871,302 and included the recording of intangible assets of \$4,234,605. The acquired intangible assets represent certificates of authority to sell insurance across the United States and was determined by management to have a useful life of 10 years. The amortization expense recognized on the intangible asset in 2016 was \$105,865.

The Company has reinsurance agreements with affiliate entities. The Company assumes certain individual health insurance from United of Omaha, Omaha Insurance Company, United World Life Insurance Company and Companion Life Insurance Company (“Companion”). See Note 9 for impacts on the statutory financial statements due to these agreements.

The Company is a member of a controlled group of companies and as such its results may not be indicative of those if it were to be operated on a stand-alone basis. Certain amounts are paid or collected by the Company on behalf of its direct and indirect subsidiaries. Additionally, the Company and certain of its direct and indirect subsidiaries share certain resources such as personnel, operational and administrative services, facilities, information and communication services, employee benefits administration, investment management, advertising and general management services.

Most of the expenses related to these resources were paid by the Company and are subject to allocation among the Company and such subsidiaries. Management believes the measures used to allocate expenses among companies provide a reasonable allocation that conforms to NAIC guidelines and are usually settled within 30 days. Amounts due to the Company for these services were included in receivable from subsidiaries and was \$96,955,803 and \$79,986,927 as of December 31, 2016 and 2015, respectively.

Additionally, the Company received the following fees under management agreements, service contracts and cost sharing agreements from its subsidiaries and affiliates. Mutual of Omaha Marketing Corporation was \$1,495,723 and \$1,291,748 for December 31, 2016 and 2015, respectively, which were included as a reduction of operating expenses.

8. BORROWINGS

The Company has a borrowing agreement with the FHLB under which the Company pledges bonds in return for extensions of credit. The Company and United of Omaha have jointly authorized a maximum extension of credit with the FHLB of \$1,000,000,000. There were no advances against the credit agreement at December 31, 2016. As of December 31, 2015, borrowings on the statutory statements of admitted assets, liabilities, and surplus consists of principal advances from the FHLB of \$205,000,000 and \$2,733 in related accrued interest, all of which is due in 2016. The maximum amount borrowed by the Company under this agreement was \$213,800,000 during the year ended December 31, 2016.

The Company had securities loaned to third parties of \$35,126,067 and \$31,358,229 as of December 31, 2016 and 2015, respectively. The Company received cash collateral of \$37,654,270 and \$23,253,353 through these security lending agreements as of December 31, 2016 and 2015, respectively, and is reported as a payable for securities lending on the statutory statements of admitted assets, liabilities, and surplus. The securities loaned as of December 31, 2016 and 2015, were on open terms whereby the related loaned security could be returned to the Company on the next business day requiring return of cash collateral. The Company cannot access the cash collateral unless the borrower fails to deliver the loaned securities.

The amortized cost and estimated fair values of the Company's collateral as of December 31, 2016, were as follows:

| | |
|---------------------------|----------------------|
| 30 days or less | \$ 6,676,820 |
| 31 to 60 days | 7,938,357 |
| 61 to 90 days | 8,980,574 |
| 91 to 120 days | 3,318,908 |
| 121 to 180 days | 3,906,565 |
| 181 to 365 days | <u>6,833,046</u> |
| Total collateral received | <u>\$ 37,654,270</u> |

The Company and United of Omaha, 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, 2016 and 2015, the Company had no outstanding borrowings under these agreements.

The Company has agreements with third parties to sell and repurchase securities. Under these agreements, the Company obtains the use of funds for a period not to exceed 30 days. Maximum borrowings allowed under these agreements are \$100,000,000. As of December 31, 2016 and 2015, there were no outstanding borrowings under these agreements.

9. REINSURANCE

Amounts recoverable from reinsurers are estimated based upon assumptions consistent with those used in establishing the liabilities related to the underlying reinsured contracts. Management believes the recoverables are appropriately established.

A summary of the impact of reinsurance operations on the statutory financial statements for the years ended December 31, was as follows:

| | 2016 | 2015 |
|--------------------------------------|-------------------------|-------------------------|
| Health and accident premiums: | | |
| Assumed: | | |
| Affiliates | \$ 980,264,046 | \$ 834,931,570 |
| Non-affiliates | <u>518,295,591</u> | <u>475,218,255</u> |
| | <u>\$ 1,498,559,637</u> | <u>\$ 1,310,149,825</u> |
| Ceded — non-affiliates | <u>\$ 89,582,047</u> | <u>\$ 70,443,217</u> |
| Health and accident benefits: | | |
| Assumed: | | |
| Affiliates | \$ 687,486,450 | \$ 575,370,628 |
| Non-affiliates | <u>405,029,668</u> | <u>367,773,613</u> |
| | <u>\$ 1,092,516,118</u> | <u>\$ 943,144,241</u> |
| Ceded — non-affiliates | <u>\$ 16,650,426</u> | <u>\$ 16,627,550</u> |
| Commissions: | | |
| Assumed: | | |
| Affiliates | \$ 261,185,774 | \$ 222,949,682 |
| Non-affiliates | <u>143,472,920</u> | <u>127,230,626</u> |
| | <u>\$ 404,658,694</u> | <u>\$ 350,180,308</u> |
| Operating expenses: | | |
| Assumed — non-affiliates | <u>\$ -</u> | <u>\$ 1,202,656</u> |
| Health and accident policy reserves: | | |
| Assumed: | | |
| Affiliates | \$ 297,216,540 | \$ 250,029,818 |
| Non-affiliates | <u>148,584,770</u> | <u>148,490,413</u> |
| | <u>\$ 445,801,310</u> | <u>\$ 398,520,231</u> |
| Ceded — non-affiliates | <u>\$ 234,302,995</u> | <u>\$ 192,999,860</u> |
| Policy and contract claims: | | |
| Assumed: | | |
| Affiliates | \$ 137,575,349 | \$ 121,865,413 |
| Non-affiliates | <u>95,256,441</u> | <u>85,400,389</u> |
| | <u>\$ 232,831,790</u> | <u>\$ 207,265,802</u> |
| Ceded — non-affiliates | <u>\$ 9,166,321</u> | <u>\$ 9,991,745</u> |

10. EMPLOYEE BENEFIT PLANS

The Company is both the sponsor and administrator of a non-contributory 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 included in pension benefits below 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. The Company also provides 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. The Company uses the accrual method of accounting for other benefits.

Projected Benefit Obligations and Plan Assets — The Company has no pension or other benefit plans in which projected benefit obligations are overfunded as of December 31, 2016 and 2015. The changes in the projected benefit obligation and plan assets for the Company’s underfunded plans as of December 31, the measurement date, were as follows:

| | Pension Benefits | | Other Benefits | |
|--|-------------------------|-------------------------|-----------------------|----------------------|
| | 2016 | 2015 | 2015 | 2015 |
| Change in benefit obligation: | | | | |
| Benefit obligation at beginning of year | \$ 1,201,655,560 | \$ 1,239,406,947 | \$ 72,482,285 | \$ 78,754,082 |
| Service cost | 9,463,679 | 11,718,462 | 118,154 | 145,618 |
| Interest cost | 54,597,266 | 52,154,751 | 3,028,902 | 3,295,102 |
| Actuarial gain | (19,392,412) | (55,080,755) | (802,546) | (817,821) |
| Benefits paid | <u>(48,192,496)</u> | <u>(46,543,845)</u> | <u>(8,111,336)</u> | <u>(8,894,696)</u> |
| Benefit obligation at end of year | <u>\$ 1,198,131,597</u> | <u>\$ 1,201,655,560</u> | <u>\$ 66,715,459</u> | <u>\$ 72,482,285</u> |
| Change in plan assets: | | | | |
| Fair value of plan assets at beginning of year | \$ 901,130,256 | \$ 922,394,877 | \$ 13,495,077 | \$ 16,681,617 |
| Actual return on plan assets | 66,432,452 | 24,323,904 | 135,702 | 185,627 |
| Employer contribution | 955,320 | 955,320 | - | - |
| Benefits paid | <u>(48,192,496)</u> | <u>(46,543,845)</u> | <u>(2,999,962)</u> | <u>(3,372,167)</u> |
| Fair value of plan assets at end of year | <u>\$ 920,325,532</u> | <u>\$ 901,130,256</u> | <u>\$ 10,630,817</u> | <u>\$ 13,495,077</u> |

The funded status and components of net periodic benefit costs for the years ended December 31, were as follows:

| | Pension Benefits | | Other Benefits | |
|---|-------------------------|-----------------------|-----------------------|----------------------|
| | 2016 | 2015 | 2016 | 2015 |
| Overfunded: | | | | |
| Prepaid benefit costs | \$ 55,798,250 | \$ 83,024,221 | \$ - | \$ - |
| Total assets (nonadmitted) | <u>\$ 55,798,250</u> | <u>\$ 83,024,221</u> | <u>\$ -</u> | <u>\$ -</u> |
| Underfunded: | | | | |
| Accrued benefit cost | \$ 33,577,281 | \$ 31,129,474 | \$ 43,666,281 | \$ 45,487,119 |
| Liability for pension benefits | <u>244,228,784</u> | <u>269,395,830</u> | <u>12,418,361</u> | <u>13,500,089</u> |
| Total liabilities recognized | <u>\$ 277,806,065</u> | <u>\$ 300,525,304</u> | <u>\$ 56,084,642</u> | <u>\$ 58,987,208</u> |
| Components of net periodic benefit cost | | | | |
| Service cost | \$ 9,463,679 | \$ 11,718,462 | \$ 118,154 | \$ 145,618 |
| Interest cost | 54,597,266 | 52,154,751 | 3,028,902 | 3,295,102 |
| Expected return on plan assets | (63,398,982) | (64,999,931) | (539,803) | (667,265) |
| Amount of recognized gains and losses | 31,233,105 | 36,693,583 | 417,500 | 371,155 |
| Amount of prior service cost recognized | <u>(1,265,970)</u> | <u>(5,879,457)</u> | <u>596,330</u> | <u>596,330</u> |
| Total net periodic benefit cost | <u>\$ 30,629,098</u> | <u>\$ 29,687,408</u> | <u>\$ 3,621,083</u> | <u>\$ 3,740,940</u> |

The amounts in unassigned funds (surplus) recognized as components of net periodic benefit costs for the years ended December 31, were as follows:

| | Pension Benefits | | Other Benefits | |
|--|-------------------------|-----------------------|-----------------------|----------------------|
| | 2016 | 2015 | 2016 | 2015 |
| Amounts in unassigned funds (surplus) recognized as components of net periodic benefit cost: | | | | |
| Items not yet recognized in net periodic cost at the beginning of the year | \$ 352,420,051 | \$ 397,638,905 | \$ 13,500,089 | \$ 14,538,848 |
| Amortization of prior service credit (cost) | 1,265,970 | 5,879,457 | (596,330) | (596,330) |
| Net (gain) loss arising during the year | (22,425,882) | (14,404,728) | (67,898) | (71,274) |
| Amortization of actuarial loss | <u>(31,233,105)</u> | <u>(36,693,583)</u> | <u>(417,500)</u> | <u>(371,155)</u> |
| Items not yet recognized in net periodic cost at the end of the year | <u>\$ 300,027,034</u> | <u>\$ 352,420,051</u> | <u>\$ 12,418,361</u> | <u>\$ 13,500,089</u> |

The amounts expected to be recognized in net periodic benefit costs during the next year and the amounts that have not yet been recognized in net periodic benefit costs as of December 31, were as follows:

| | Pension Benefits | | Other Benefits | |
|--|-------------------------|----------------|-----------------------|-------------|
| | 2016 | 2015 | 2016 | 2015 |
| Amounts in unassigned funds (surplus) expected to be recognized in net periodic benefit cost during the next year: | | | | |
| Amortization of prior service (cost) credit | \$ - | \$ (1,265,970) | \$ 596,330 | \$ 596,330 |
| Amortization of actuarial loss | 24,330,465 | 30,416,314 | 428,771 | 397,854 |
| Amounts in unassigned funds (surplus) that have not yet been recognized in net periodic benefit cost: | | | | |
| Net prior service cost (credit) | - | (1,265,970) | 2,273,770 | 2,870,100 |
| Net recognized losses | 300,027,034 | 353,686,021 | 10,144,591 | 10,629,989 |

The following benefit payments are expected to be paid (in thousands) as of December 31:

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022–2026 |
|-------------------------------|------------------|------------------|------------------|------------------|------------------|-------------------|
| Pension benefits | <u>\$ 58,516</u> | <u>\$ 61,483</u> | <u>\$ 64,111</u> | <u>\$ 66,811</u> | <u>\$ 69,547</u> | <u>\$ 379,321</u> |
| Other postretirement benefits | <u>\$ 6,649</u> | <u>\$ 6,565</u> | <u>\$ 6,461</u> | <u>\$ 6,326</u> | <u>\$ 6,177</u> | <u>\$ 27,437</u> |

The Pension Plan assets as of December 31, included the following:

| | 2016 | 2015 |
|--------------------------------|-----------------------|-----------------------|
| United group annuity contract: | | |
| General asset account | \$ 433,236,711 | \$ 459,674,925 |
| Separate account K | 55,617,159 | 46,403,636 |
| Separate account II | 138,327,455 | 123,583,651 |
| Equity securities — domestic | 60,035,219 | 44,824,023 |
| Equity securities — foreign | 132,257,255 | 130,693,604 |
| Limited partnerships | <u>100,851,733</u> | <u>95,950,417</u> |
| Total | <u>\$ 920,325,532</u> | <u>\$ 901,130,256</u> |

Investments in the group annuity contract include the General Asset Account, which is valued at contract value, Separate Account K and Separate Account II. The Separate Account K and Separate Account II funds are recorded at the fair value of the defined benefit 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 II 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 indices.

The estimated fair values of the Separate Account K, Separate Account II, mutual funds, and limited partnerships as of December 31, were as follows:

| | 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 |
|---------------------------------------|--|---|--|-----------------------|
| 2016 | | | | |
| Pension: | | | | |
| Separate account K equity securities | \$ - | \$ 55,617,159 | \$ - | \$ 55,617,159 |
| Separate account II equity securities | 138,327,455 | - | - | 138,327,455 |
| Equity securities — domestic | 60,035,219 | - | - | 60,035,219 |
| Equity securities — foreign | 26,518,232 | 105,739,023 | - | 132,257,255 |
| Limited partnerships | - | - | 100,851,733 | 100,851,733 |
| Total | <u>\$ 224,880,906</u> | <u>\$ 161,356,182</u> | <u>\$ 100,851,733</u> | <u>\$ 487,088,821</u> |
| 2015 | | | | |
| Pension: | | | | |
| Separate account K equity securities | \$ - | \$ 46,403,636 | \$ - | \$ 46,403,636 |
| Separate account II equity securities | 123,583,651 | - | - | 123,583,651 |
| Equity securities — domestic | 44,824,023 | - | - | 44,824,023 |
| Equity securities — foreign | 23,667,345 | 107,026,259 | - | 130,693,604 |
| Limited partnerships | - | - | 95,950,417 | 95,950,417 |
| Total | <u>\$ 192,075,019</u> | <u>\$ 153,429,895</u> | <u>\$ 95,950,417</u> | <u>\$ 441,455,331</u> |

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 that, 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 defined benefit 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 defined benefit plan's investments. Additionally, the Company considers historical returns on comparable fixed income investments and equity investments and adjusts its estimate as deemed appropriate.

Voluntary contributions may be made to the defined benefit plan pursuant to the maximum funding limits under the Employee Retirement Income Security Act of 1974, as amended. The Company does not expect to make contributions to the Pension Plan or postretirement plan in 2017.

Actuarial Assumptions — Actuarial assumptions used to calculate the projected benefit obligation and net periodic pension cost for the plans as of and for the years ended December 31, are set forth in the following table:

| | Pension Benefits | | Other Benefits | |
|--|-------------------------|-------------|-----------------------|-------------|
| | 2016 | 2015 | 2016 | 2015 |
| Projected benefit obligation | | | | |
| Discount rate | 4.55 % | 4.65 % | 4.55 % | 4.65 % |
| Rate of increase in compensation levels | 3.40 | 3.38 | N/A | N/A |
| Net periodic pension cost | | | | |
| Discount rate | 4.65 % | 4.30 % | 4.65 % | 4.30 % |
| Rate of increase in compensation levels | 3.40 | 3.38 | N/A | N/A |
| Expected long-term rate of return on plan assets | 7.25 | 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 (losses) included in the projected benefit obligation. Actuarial gains in 2016 and 2015 are primarily the result of the changes in the discount rate and application of the new projection scales in 2016 and 2015.

The assumed health care cost trend rates used in measuring the accumulated postretirement benefit obligation was 4.70% and 6.30% in 2016 and 2015, respectively, gradually declining to 4.00% and 4.20% in 2083 and 2086, respectively, 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, 2016, by approximately \$5,000,000 and the net periodic postretirement benefit costs for 2016 by approximately \$300,000.

Savings and Investment Plans — The Company sponsors a savings and investment plan under which the Company matches a portion of employee contributions. The expense for this plan was \$3,330,335 and \$2,552,589 in 2016 and 2015, respectively. The Company also provides deferred compensation benefits for certain key executive officers. As of December 31, 2016 and 2015, the liability for deferred compensation benefits included in liability for benefits for employees and agents in the statutory statements of admitted assets, liabilities, and surplus was \$32,249,810 and \$36,328,250, respectively.

11. SURPLUS

The portion of unassigned surplus represented by each item below as of December 31, was as follows:

| | 2016 | 2015 |
|--------------------|----------------|----------------|
| Unrealized gains | \$ 872,931,016 | \$ 856,472,032 |
| Nonadmitted assets | (370,394,537) | (403,398,665) |
| AVR | (137,850,517) | (107,655,815) |

The minimum statutory capital and surplus necessary to satisfy regulatory requirements was \$699,596,604 as of December 31, 2016 (company action level 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.

12. SURPLUS NOTES

On June 29, 2015, the Company repurchased \$10,000,000 of the 2010 surplus note principal at a cost of \$12,600,000 and reduced surplus accordingly. A loss of \$2,918,487 related to this repurchase is included in operating expenses on the statutory statements of operations for the year ended December 31, 2015.

On July 17, 2014, the Company issued \$300,000,000 in surplus notes due July 15, 2054, at par. Interest on the 2014 notes is fixed at 4.297% and payable semiannually until January 15, 2024, at which time interest resets quarterly to three month LIBOR plus 2.642%, payable quarterly. The 2014 notes were underwritten by Goldman, Sachs & Co. and J.P. Morgan Securities LLC, and are administered by US Bank, NA as registrar and paying agent. The 2014 notes are callable under a make-whole provision calculated as the present value of the remaining principal and interest payments any time prior to July 15, 2024 or at any time on or after July 15, 2024 at par.

On October 12, 2010, the Company issued a 6.95%, \$300,000,000 surplus note due October 15, 2040, at a discount of \$10,095,000 with interest due semiannually. The notes were underwritten by Goldman, Sachs & Co. and J.P. Morgan Securities LLC and are administered by US Bank, NA as registrar and paying agent. On June 15, 2006, the Company issued a 6.80%, \$300,000,000 surplus note due June 15, 2036, at a discount of \$3,630,000 with interest due semiannually. The notes are carried at amortized cost. On April 7, 2009, the Company purchased \$3,120,000 of the surplus note principal at a cost of \$2,137,200 plus accrued interest of \$69,541 and reduced surplus accordingly. The notes were underwritten by Goldman, Sachs & Co. and Merrill Lynch & Co., and are administered by U.S. Bank, NA as registrar and paying agent.

Any payment of interest or repayment of principal on any outstanding surplus note may be made, either in full or in part, from available surplus funds of the Company only with the prior approval of the Nebraska Department of Insurance. Interest of \$41,495,015 and \$41,913,759 paid in 2016 and 2015, respectively, is included in net investment income. The notes are unsecured obligations of the Company and are expressly subordinated in right of payment to all present and future claims and senior indebtedness of the Company.

13. COMMITMENTS AND CONTINGENCIES

The Company has a parental guarantee to Omaha Re to be drawn upon in the event that Omaha Re's total adjusted capital falls below 150% of its company action level RBC. As of December 31, 2016, Omaha Re's total adjusted capital of \$237,613,852 was \$151,602,487 above the threshold, and the maximum amount of future payments the Company could be required to make under the guarantee is \$652,633,406.

The Company had unfunded investment commitments for bonds, mortgage lending, and limited partnerships of \$128,396,217 and \$117,106,828 as of December 31, 2016 and 2015, respectively.

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 estimated its costs related to past insolvencies and had a liability for guaranty fund assessments of \$485,350 and \$1,327,466 as of December 31, 2016 and 2015, respectively. The Company estimated premium its tax credits that it will receive related to guaranty funds of \$2,656,583 and \$1,283,796 as of December 31, 2016 and 2015, respectively. On March 1, 2017, a Pennsylvania court entered orders of liquidation for Penn Treaty Network America and its subsidiaries (together “Penn Treaty”). The Company anticipates the assessment as a result of this liquidation order and the offsetting premium tax credits will not have a material impact to the 2017 statutory financial statements.

The company has adopted resolutions to deliver a written guarantee to various departments of insurance to maintain Omaha Insurance Company’s capital and surplus at or above various statutory minimum levels or RBC, whichever is greater. Omaha Insurance Company is an indirect subsidiary of the company.

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 that the eventual outcome of those lawsuits will not have a material effect on the Company’s financial position, results of operations, or cash flows.

14. LEASES

The Company and United of Omaha jointly enter into agreements for the rental of office space, equipment and computer software under non-cancelable operating leases. Future required minimum rental payments under leases as of December 31, 2016, were as follows:

| | |
|------------|----------------------|
| 2017 | \$ 9,737,595 |
| 2018 | 7,144,962 |
| 2019 | 4,961,449 |
| 2020 | 3,569,002 |
| 2021 | 2,621,624 |
| Thereafter | <u>11,624,487</u> |
| Total | <u>\$ 39,659,119</u> |

The Company’s rental expense for the years ended December 31, 2016 and 2015, was \$6,168,119 and \$6,576,335, respectively.

15. DIRECT PREMIUM WRITTEN

The Company’s direct accident and health premium written by third-party administrators were \$238,809,008 and \$225,713,618 during the years ended December 31, 2016 and 2015, respectively.

16. LIABILITY FOR POLICY AND CONTRACT CLAIMS

A reconciliation of the liability for policy and contract claims, which includes unpaid claims and the present value of amounts not yet due on claims that existed, as of December 31, was as follows:

| | 2016 | 2015 |
|----------------------------|-------------------------|-------------------------|
| Balance at January 1 | \$ 1,033,389,626 | \$ 951,248,871 |
| Reinsurance recoverable | <u>45,088,681</u> | <u>43,594,815</u> |
| Net balance at January 1 | <u>988,300,945</u> | <u>907,654,056</u> |
| Incurred related to: | | |
| Current year | 1,899,496,702 | 1,665,113,629 |
| Prior years | <u>10,520,941</u> | <u>17,114,788</u> |
| Total incurred | <u>1,910,017,643</u> | <u>1,682,228,417</u> |
| Paid related to: | | |
| Current year | 1,416,244,623 | 1,222,979,860 |
| Prior years | <u>433,629,362</u> | <u>378,601,668</u> |
| Total paid | <u>1,849,873,985</u> | <u>1,601,581,528</u> |
| Net balance at December 31 | 1,048,444,603 | 988,300,945 |
| Reinsurance recoverable | <u>47,104,158</u> | <u>45,088,681</u> |
| Balance at December 31 | <u>\$ 1,095,548,761</u> | <u>\$ 1,033,389,626</u> |

During 2016 and 2015, incurred claims related to prior years were positive primarily due to unfavorable runoff within certain health and accident coverages on a non-interest adjusted bases. On an interest adjusted basis, prior years incurred claims were favorable for both years.

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.

A roll forward of the liability for claim adjustment expenses included in general expenses, due or accrued, as of December 31, was as follows:

| | 2016 | 2015 |
|------------------------------------|----------------------|----------------------|
| Prior year accrual | \$ 23,443,733 | \$ 21,872,639 |
| Incurred claim adjustment expenses | 29,012,920 | 25,882,044 |
| Paid claim adjustment expenses | <u>(27,186,213)</u> | <u>(24,310,950)</u> |
| | <u>\$ 25,270,440</u> | <u>\$ 23,443,733</u> |

17. ELECTRONIC DATA PROCESSING EQUIPMENT AND SOFTWARE

EDP equipment and operating and non-operating software included in other assets as of December 31, consisted of the following:

| | 2016 | 2015 |
|-------------------------------|----------------------|----------------------|
| EDP equipment | \$ 67,030,334 | \$ 65,823,503 |
| Operating system software | 12,990,788 | 12,987,487 |
| Non-operating system software | 194,619,186 | 183,465,567 |
| Accumulated depreciation | (220,224,744) | (200,298,582) |
| Nonadmitted assets | <u>(40,700,588)</u> | <u>(44,829,577)</u> |
| | <u>\$ 13,714,976</u> | <u>\$ 17,148,398</u> |

Depreciation expense related to EDP equipment and operating and non-operating software totaled \$22,532,830 and \$24,347,515 for the years ended December 31, 2016 and 2015, respectively.

18. RECONCILIATION OF STATUTORY NET INCOME AND SURPLUS TO GAAP NET INCOME AND EQUITY

As described in Note 1, the Company has prepared these statutory financial statements in conformity with statutory accounting practices prescribed or permitted by the NDOI. These practices differ from GAAP. The following tables reconcile statutory net income to GAAP net income and statutory surplus to GAAP equity.

| For the Years Ended December 31, | 2016 | 2015 |
|---|-------------------------|-------------------------|
| Statutory net income | \$ 103,423,668 | \$ 11,177,807 |
| Earnings of subsidiaries | 82,198,830 | 216,450,883 |
| Valuation of investments | (675,360) | 541,130 |
| Deferred policy acquisition costs | 204,665,181 | 143,939,450 |
| Deferred income taxes | (57,855,536) | (37,223,291) |
| Surplus notes | (506,719) | (609,169) |
| Savings (detriment) of consolidated tax filings | 422,420 | (13,087,564) |
| Policy reserves | 11,295,425 | 14,777,351 |
| Pension & post retirement plans | 13,886,733 | - |
| Other | <u>(256,675)</u> | <u>(2,961,181)</u> |
| GAAP net income | <u>\$ 356,597,967</u> | <u>\$ 333,005,416</u> |
| As of December 31, | 2016 | 2015 |
| Statutory surplus | \$ 3,048,284,546 | \$ 2,862,770,332 |
| Subsidiary equity | 1,806,433,038 | 1,713,073,235 |
| Valuation of investments | 180,190,670 | 135,427,360 |
| Deferred policy acquisition costs | 1,227,825,364 | 948,160,182 |
| Deferred income taxes | (426,035,685) | (265,811,577) |
| Statutory AVR | 137,850,517 | 107,655,815 |
| Statutory IMR | 6,350,087 | 5,896,744 |
| Nonadmitted assets | 128,269,089 | 138,480,713 |
| Surplus notes | (703,933,018) | (709,811,757) |
| Policy reserves | 182,216,722 | 170,921,296 |
| Pension & post retirement plans | 6,805,894 | - |
| Other | <u>23,629,826</u> | <u>20,538,453</u> |
| GAAP equity | <u>\$ 5,617,887,050</u> | <u>\$ 5,127,300,796</u> |

* * * * *

SUPPLEMENTAL SCHEDULES

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

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

Our 2016 audit was conducted for the purpose of forming an opinion on the 2016 statutory-basis financial statements as a whole. The supplemental schedule of selected financial data, the supplemental summary investment schedule, and the supplemental schedule of investment risks interrogatories as of and for the year ended December 31, 2016, are presented for purposes of additional analysis and are not a required part of the 2016 statutory-basis financial statements. These schedules are the responsibility of the Company's management and were derived from and relate directly to the underlying accounting and other records used to prepare the statutory-basis financial statements. Such schedules have been subjected to the auditing procedures applied in our audit of the 2016 statutory-basis financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the underlying accounting and other records used to prepare the statutory-basis financial statements or to the statutory-basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such schedules are fairly stated in all material respects in relation to the 2016 statutory-basis financial statements as a whole.

Deloitte & Touche LLP

May 18, 2017

MUTUAL OF OMAHA INSURANCE COMPANY

SUPPLEMENTAL SCHEDULE OF SELECTED FINANCIAL DATA AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

| | |
|--|-----------------------|
| Investment income earned: | |
| U.S. government bonds | \$ 18,593,488 |
| Other bonds (unaffiliated) | 148,140,209 |
| Bonds of affiliates | - |
| Preferred stocks (unaffiliated) | 2,445,476 |
| Preferred stocks of affiliates | - |
| Common stocks (unaffiliated) | 1,133,133 |
| Common stocks of affiliates | 96,893,320 |
| Mortgage loans | 12,587,345 |
| Real estate | 11,352,133 |
| Contract loans | - |
| Cash, cash equivalents and short-term investments | 4,972,575 |
| Other invested assets | 25,536,575 |
| Derivative instruments | 270,559 |
| Aggregate write-ins for investment income | <u>237,978</u> |
| Gross investment income | <u>\$ 322,162,791</u> |
| Real estate owned — book value less encumbrances | <u>\$ 34,304,640</u> |
| Mortgage loans — book value: | |
| Farm mortgages | \$ - |
| Residential mortgages | 5,456,131 |
| Commercial mortgages | <u>212,580,365</u> |
| Total mortgage loans | <u>\$ 218,036,496</u> |
| Mortgage loans by standing — book value: | |
| Good standing | <u>\$ 218,036,496</u> |
| Good standing with restructured terms | <u>\$ -</u> |
| Interest overdue more than three months — not in foreclosure | <u>\$ -</u> |
| Foreclosure in process | <u>\$ -</u> |
| Other long-term assets — statement value | <u>\$ 215,481,755</u> |
| Collateral loans | <u>\$ -</u> |

(Continued)

MUTUAL OF OMAHA INSURANCE COMPANY

SUPPLEMENTAL SCHEDULE OF SELECTED FINANCIAL DATA AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

| | |
|---|------------------|
| Bonds and stocks of subsidiaries and affiliates — book value: | |
| Bonds | \$ 198,500,000 |
| Preferred stocks | \$ - |
| Common stocks | \$ 2,279,370,889 |
| Bonds by NAIC designation and maturity: | |
| Bonds by maturity — statement value: | |
| Due within one year or less | \$ 322,304,299 |
| Over 1 year and through 5 years | 575,932,966 |
| Over 5 years through 10 years | 653,767,084 |
| Over 10 years through 20 years | 685,877,924 |
| Over 20 years | 1,285,499,288 |
| Total by maturity | \$ 3,523,381,561 |
| Bonds by NAIC designation — statement value: | |
| NAIC 1 | \$ 1,879,247,218 |
| NAIC 2 | 1,537,057,677 |
| NAIC 3 | 76,906,099 |
| NAIC 4 | 2,236,211 |
| NAIC 5 | 6,860,442 |
| NAIC 6 | 21,073,914 |
| Total by NAIC designation | \$ 3,523,381,561 |
| Total bonds publicly traded | \$ 1,904,518,276 |
| Total bonds privately traded | \$ 1,618,863,285 |
| Preferred stocks — statement value | \$ 42,489,075 |
| Common stocks — market value | \$ 2,304,636,145 |
| Short-term investments — book value | \$ 198,500,000 |
| Options, caps and floors owned — statement value | \$ 1,888,004 |
| Options, caps and floors written and in force — statement value | \$ - |
| Collar, swap and forward agreements open — current value | \$ - |
| Cash on deposit | \$ 2,809,574 |

(Continued)

MUTUAL OF OMAHA INSURANCE COMPANY

SUPPLEMENTAL SCHEDULE OF SELECTED FINANCIAL DATA AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

| | |
|--|------|
| Life insurance in force (in thousands): | |
| Industrial | \$ - |
| Ordinary | \$ - |
| Credit life | \$ - |
| Group life | \$ - |
| Amount of accidental death insurance in force under ordinary policies (in thousands) | \$ - |
| Life insurance with disability provisions in force (in thousands): | |
| Industrial | \$ - |
| Ordinary | \$ - |
| Credit life | \$ - |
| Group life | \$ - |
| Supplementary contracts in force: | |
| Ordinary — not involving life contingencies: | |
| Amount on deposit | \$ - |
| Income payable | \$ - |
| Ordinary — involving life contingencies — income payable | \$ - |
| Group — not involving life contingencies: | |
| Amount on deposit | \$ - |
| Income payable | \$ - |
| Group — involving life contingencies — income payable | \$ - |
| Annuities — ordinary: | |
| Immediate — amount of income payable | \$ - |
| Deferred — fully paid — account balance | \$ - |
| Deferred — not fully paid — account balance | \$ - |

(Continued)

MUTUAL OF OMAHA INSURANCE COMPANY

SUPPLEMENTAL SCHEDULE OF SELECTED FINANCIAL DATA AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

| | |
|--|-----------------------|
| Group: | |
| Amount of income payable | \$ <u>-</u> |
| Fully paid — account balance | \$ <u>-</u> |
| Not fully paid — account balance | \$ <u>-</u> |
| Accident and health insurance — premiums in force: | |
| Ordinary | \$2,549,657,535 |
| Group | \$ <u>198,285,718</u> |
| Credit | \$ <u>-</u> |
| Deposit funds and dividend accumulations: | |
| Deposit funds — account balance | \$ <u>-</u> |
| Dividend accumulations — account balance | \$ <u>-</u> |
| Claim payments 2016 — group accident and health — year ended December 31, 2016: | |
| 2016 | \$ <u>55,268,258</u> |
| 2015 | \$ <u>30,407,701</u> |
| 2014 | \$ <u>8,350,026</u> |
| 2013 | \$ <u>3,617,112</u> |
| 2012 | \$ <u>2,887,132</u> |
| Prior | \$ <u>17,341,568</u> |

(Continued)

MUTUAL OF OMAHA INSURANCE COMPANY

SUPPLEMENTAL SCHEDULE OF SELECTED FINANCIAL DATA AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

Claim payments 2016 — other accident and
health — year ended December 31, 2016:
2016

\$ 1,360,976,365

2015

\$ 287,112,635

2014

\$ 26,576,427

2013

\$ 17,245,773

2012

\$ 10,669,601

Prior

\$ 29,421,387

Other coverages that use developmental methods to calculate claim reserves:
2016

\$ -

2015

\$ -

2014

\$ -

2013

\$ -

2012

\$ -

Prior

\$ -

(Concluded)

SUMMARY INVESTMENT SCHEDULE

| Investment Categories | Gross Investment Holdings | | Admitted Assets as Reported in the Annual Statement | | | |
|---|---------------------------|-----------------|---|--|-----------------------------------|-----------------|
| | 1 Amount | 2 Percentage | 3 Amount | 4 Securities Lending Reinvested Collateral Amount | 5 Total (Col. 3 + 4) Amount | 6 Percentage |
| 1. Bonds: | | | | | | |
| 1.1 U.S. treasury securities | 946,202 | 0.015 | 946,202 | 0 | 946,202 | 0.015 |
| 1.2 U.S. government agency obligations (excluding mortgage-backed securities): | | | | | | |
| 1.21 Issued by U.S. government agencies | 0 | 0.000 | 0 | 0 | 0 | 0.000 |
| 1.22 Issued by U.S. government sponsored agencies | 0 | 0.000 | 0 | 0 | 0 | 0.000 |
| 1.3 Non-U.S. government (including Canada, excluding mortgage-backed securities) | 57 - | 0.000 | 0 | 0 | 0 | 0.000 |
| 1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S. : | | | | | | |
| 1.41 States, territories and possessions general obligations | 2,498,040 | 0.039 | 2,498,040 | 0 | 2,498,040 | 0.039 |
| 1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations | 0 | 0.000 | 0 | 0 | 0 | 0.000 |
| 1.43 Revenue and assessment obligations | 18,863,551 | 0.296 | 18,863,551 | 0 | 18,863,551 | 0.296 |
| 1.44 Industrial development and similar obligations | 0 | 0.000 | 0 | 0 | 0 | 0.000 |
| 1.5 Mortgage-backed securities (includes residential and commercial MBS): | | | | | | |
| 1.51 Pass-through securities: | | | | | | |
| 1.511 Issued or guaranteed by GNMA | 192,858,305 | 3.022 | 192,858,305 | 0 | 192,858,305 | 3.022 |
| 1.512 Issued or guaranteed by FNMA and FHLMC | 9,482,242 | 0.149 | 9,482,242 | 0 | 9,482,242 | 0.149 |
| 1.513 All other | 17,023,232 | 0.267 | 17,023,232 | 0 | 17,023,232 | 0.267 |
| 1.52 CMOs and REMICs: | | | | | | |
| 1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA | 250,075,594 | 3.918 | 250,075,594 | 0 | 250,075,594 | 3.918 |
| 1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521 | 1,519,126 | 0.024 | 1,519,126 | 0 | 1,519,126 | 0.024 |
| 1.523 All other | 60,816,579 | 0.953 | 60,816,579 | 0 | 60,816,579 | 0.953 |
| 2. Other debt and other fixed income securities (excluding short-term): | | | | | | |
| 2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities) | 2,064,457,542 | 32.344 | 2,064,457,542 | 0 | 2,064,457,542 | 32.344 |
| 2.2 Unaffiliated non-U.S. securities (including Canada) | 706,341,150 | 11.066 | 706,341,150 | 0 | 706,341,150 | 11.066 |
| 2.3 Affiliated securities | 0 | 0.000 | 0 | 0 | 0 | 0.000 |
| 3. Equity interests: | | | | | | |
| 3.1 Investments in mutual funds | 10,761,590 | 0.169 | 10,761,590 | 0 | 10,761,590 | 0.169 |
| 3.2 Preferred stocks: | | | | | | |
| 3.21 Affiliated | 0 | 0.000 | 0 | 0 | 0 | 0.000 |
| 3.22 Unaffiliated | 42,489,075 | 0.666 | 42,489,075 | 0 | 42,489,075 | 0.666 |
| 3.3 Publicly traded equity securities (excluding preferred stocks): | | | | | | |
| 3.31 Affiliated | 0 | 0.000 | 0 | 0 | 0 | 0.000 |
| 3.32 Unaffiliated | 0 | 0.000 | 0 | 0 | 0 | 0.000 |
| 3.4 Other equity securities: | | | | | | |
| 3.41 Affiliated | 2,279,370,889 | 35.712 | 2,279,370,889 | 0 | 2,279,370,889 | 35.712 |
| 3.42 Unaffiliated | 14,503,666 | 0.227 | 14,503,666 | 0 | 14,503,666 | 0.227 |
| 3.5 Other equity interests including tangible personal property under lease: | | | | | | |
| 3.51 Affiliated | 0 | 0.000 | 0 | 0 | 0 | 0.000 |
| 3.52 Unaffiliated | 0 | 0.000 | 0 | 0 | 0 | 0.000 |
| 4. Mortgage loans: | | | | | | |
| 4.1 Construction and land development | 0 | 0.000 | 0 | 0 | 0 | 0.000 |
| 4.2 Agricultural | 0 | 0.000 | 0 | 0 | 0 | 0.000 |
| 4.3 Single family residential properties | 5,456,131 | 0.085 | 5,456,131 | 0 | 5,456,131 | 0.085 |
| 4.4 Multifamily residential properties | 0 | 0.000 | 0 | 0 | 0 | 0.000 |
| 4.5 Commercial loans | 212,580,365 | 3.331 | 212,580,365 | 0 | 212,580,365 | 3.331 |
| 4.6 Mezzanine real estate loans | 0 | 0.000 | 0 | 0 | 0 | 0.000 |
| 5. Real estate investments: | | | | | | |
| 5.1 Property occupied by company | 34,304,640 | 0.537 | 34,304,640 | 0 | 34,304,640 | 0.537 |
| 5.2 Property held for production of income (including \$0 of property acquired in satisfaction of debt) | 0 | 0.000 | 0 | 0 | 0 | 0.000 |
| 5.3 Property held for sale (including \$0 property acquired in satisfaction of debt) | 0 | 0.000 | 0 | 0 | 0 | 0.000 |
| 6. Contract loans | 0 | 0.000 | 0 | 0 | 0 | 0.000 |
| 7. Derivatives | 2,968,195 | 0.047 | 2,968,195 | 0 | 2,968,195 | 0.047 |
| 8. Receivables for securities | 973,587 | 0.015 | 973,587 | 0 | 973,587 | 0.015 |
| 9. Securities Lending (Line 10, Asset Page reinvested collateral) | 37,654,270 | 0.590 | 37,654,270 | XXX | XXX | XXX |
| 10. Cash, cash equivalents and short-term investments | 201,309,574 | 3.154 | 201,309,574 | 37,654,270 | 238,963,844 | 3.744 |
| 11. Other invested assets | 215,481,755 | 3.376 | 215,481,755 | 0 | 215,481,755 | 3.376 |
| 12. Total invested assets | 6,382,735,299 | 100.000 | 6,382,735,299 | 37,654,270 | 6,382,735,299 | 100.000 |



SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For The Year Ended December 31, 2016
(To Be Filed by April 1)

Of The Mutual of Omaha Insurance Company.....
ADDRESS (City, State and Zip Code) Omaha , NE 68175
NAIC Group Code 0261 NAIC Company Code 71412 Federal Employer's Identification Number (FEIN) 47-0246511

The Investment Risks Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.

Answer the following interrogatories by reporting the applicable U.S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement\$7,278,931,188

2. Ten largest exposures to a single issuer/borrower/investment.

| | 1 | 2 | 3 | 4 |
|------|---------------------------------------|---|-----------------------|-------------------------------------|
| | Issuer | Description of Exposure | Amount | Percentage of Total Admitted Assets |
| 2.01 | UNITED OF OMAHA LIFE INSURANCE | Insurance Affiliate Stock | \$1,429,512,571 |19.6 % |
| 2.02 | OMAHA FINANCIAL HOLDINGS INC | Non-Insurance Affiliate Stock, Short Term Revolver | \$822,962,825 |11.3 % |
| 2.03 | EAST CAMPUS REALTY | Non-Insurance Affiliate Equity Partnership, Short Term Revolver | \$146,737,016 |2.0 % |
| 2.04 | MCCARTHY CAPITAL MTG INVESTORS LLC .. | Equity Partnerships | \$102,983,777 |1.4 % |
| 2.05 | MUTUAL OF OMAHA HOLDINGS INC | Non-Insurance Affiliate Stock | \$51,532,197 |0.7 % |
| 2.06 | OMAHA HEALTH INSURANCE CO | Insurance Affiliate Stock | \$20,851,814 |0.3 % |
| 2.07 | CORNING INC | Corporate Bonds | \$19,879,478 |0.3 % |
| 2.08 | SOUTH CAROLINA ELEC & GAS CO | Corporate Bonds | \$19,809,395 |0.3 % |
| 2.09 | POTASH CORP OF SASKATCHEWAN | Corporate Bonds | \$19,716,407 |0.3 % |
| 2.10 | CSX CORP | Corporate Bonds | \$19,550,467 |0.3 % |

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC designation.

| | Bonds | 1 | 2 | Preferred Stocks | 3 | 4 |
|------|--------------|-----------------------|-------------|-------------------|--------------------|------------|
| 3.01 | NAIC-1 | \$1,879,247,218 |25.8 % | 3.07 P/RP-1 | \$13,523,362 |0.2 % |
| 3.02 | NAIC-2 | \$1,537,057,677 |21.1 % | 3.08 P/RP-2 | \$28,573,221 |0.4 % |
| 3.03 | NAIC-3 | \$76,906,099 |1.1 % | 3.09 P/RP-3 | \$392,492 |0.0 % |
| 3.04 | NAIC-4 | \$2,236,211 |0.0 % | 3.10 P/RP-4 | \$0 |0.0 % |
| 3.05 | NAIC-5 | \$6,860,442 |0.1 % | 3.11 P/RP-5 | \$0 |0.0 % |
| 3.06 | NAIC-6 | \$21,073,914 |0.3 % | 3.12 P/RP-6 | \$0 |0.0 % |

4. Assets held in foreign investments:

4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets? Yes [] No [X]

If response to 4.01 above is yes, responses are not required for interrogatories 5 - 10.

4.02 Total admitted assets held in foreign investments..... \$643,205,6898.8 %

4.03 Foreign-currency-denominated investments \$00.0 %

4.04 Insurance liabilities denominated in that same foreign currency \$00.0 %

SUPPLEMENT FOR THE YEAR 2016 OF THE Mutual of Omaha Insurance Company

5. Aggregate foreign investment exposure categorized by NAIC sovereign designation:

| | | <u>1</u> | <u>2</u> |
|---|----|-------------|----------|
| 5.01 Countries designated NAIC-1 | \$ | 643,205,689 | 8.8 % |
| 5.02 Countries designated NAIC-2 | \$ | 0 | 0.0 % |
| 5.03 Countries designated NAIC-3 or below | \$ | 0 | 0.0 % |

6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign designation:

| | | <u>1</u> | <u>2</u> |
|---|----|-------------|----------|
| Countries designated NAIC - 1: | | | |
| 6.01 Country 1: United Kingdom | \$ | 178,508,607 | 2.5 % |
| 6.02 Country 2: Australia | \$ | 137,498,536 | 1.9 % |
| Countries designated NAIC - 2: | | | |
| 6.03 Country 1: | \$ | 0 | 0.0 % |
| 6.04 Country 2: | \$ | 0 | 0.0 % |
| Countries designated NAIC - 3 or below: | | | |
| 6.05 Country 1: | \$ | 0 | 0.0 % |
| 6.06 Country 2: | \$ | 0 | 0.0 % |

| | | <u>1</u> | <u>2</u> |
|---|----|----------|----------|
| 7. Aggregate unhedged foreign currency exposure | \$ | 0 | 0.0 % |

8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign designation:

| | | <u>1</u> | <u>2</u> |
|---|----|----------|----------|
| 8.01 Countries designated NAIC-1 | \$ | 0 | 0.0 % |
| 8.02 Countries designated NAIC-2 | \$ | 0 | 0.0 % |
| 8.03 Countries designated NAIC-3 or below | \$ | 0 | 0.0 % |

9. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign designation:

| | | <u>1</u> | <u>2</u> |
|---|----|----------|----------|
| Countries designated NAIC - 1: | | | |
| 9.01 Country 1: | \$ | 0 | 0.0 % |
| 9.02 Country 2: | \$ | 0 | 0.0 % |
| Countries designated NAIC - 2: | | | |
| 9.03 Country 1: | \$ | 0 | 0.0 % |
| 9.04 Country 2: | \$ | 0 | 0.0 % |
| Countries designated NAIC - 3 or below: | | | |
| 9.05 Country 1: | \$ | 0 | 0.0 % |
| 9.06 Country 2: | \$ | 0 | 0.0 % |

10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:

| | <u>1</u> | | <u>2</u> | | <u>3</u> | | <u>4</u> |
|-------|--|---|------------------|----|------------|--|----------|
| | Issuer | | NAIC Designation | | | | |
| 10.01 | BAE SYSTEMS HOLDINGS INC - United Kingdom | 2 | | \$ | 15,845,451 | | 0.2 % |
| 10.02 | COMPASS GROUP PLC - United Kingdom | 1 | | \$ | 15,000,000 | | 0.2 % |
| 10.03 | WOLSELEY CAPITAL INC - United Kingdom | 2 | | \$ | 15,000,000 | | 0.2 % |
| 10.04 | LYONDELLBASEL INDUSTRIES NV - Netherlands | 2 | | \$ | 14,734,797 | | 0.2 % |
| 10.05 | BASF SE - Germany | 1 | | \$ | 12,801,496 | | 0.2 % |
| 10.06 | OLDENDORFF DRYBULK GMBH & CO - Germany | 2 | | \$ | 12,000,000 | | 0.2 % |
| 10.07 | STOCKLAND TRUST MANAGEMENT LTD - Australia | 1 | | \$ | 11,000,000 | | 0.2 % |
| 10.08 | EATON CORPORATION - Ireland | 2 | | \$ | 10,920,865 | | 0.2 % |
| 10.09 | MIRVAC GROUP FINANCE LTD - Australia | 2 | | \$ | 10,000,000 | | 0.1 % |
| 10.10 | VITOL FINANCE LTD - Bermuda | 2 | | \$ | 10,000,000 | | 0.1 % |

SUPPLEMENT FOR THE YEAR 2016 OF THE Mutual of Omaha Insurance Company

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:

11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []

If response to 11.01 is yes, detail is not required for the remainder of interrogatory 11.

| | 1 | 2 |
|--|-----------|------------|
| 11.02 Total admitted assets held in Canadian investments | \$0 |0.0 % |
| 11.03 Canadian-currency-denominated investments | \$0 |0.0 % |
| 11.04 Canadian-denominated insurance liabilities | \$0 |0.0 % |
| 11.05 Unhedged Canadian currency exposure | \$0 |0.0 % |

12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions:

12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []

If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.

| | 1 | 2 | 3 |
|--|-----------|------------|---|
| 12.02 Aggregate statement value of investments with contractual sales restrictions | \$0 |0.0 % | |
| Largest three investments with contractual sales restrictions: | | | |
| 12.03 | \$0 |0.0 % | |
| 12.04 | \$0 |0.0 % | |
| 12.05 | \$0 |0.0 % | |

13. Amounts and percentages of admitted assets held in the ten largest equity interests:

13.01 Are assets held in equity interests less than 2.5% of the reporting entity's total admitted assets? Yes [] No [X]

If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.

| | 1 Issuer | 2 | 3 |
|--|-----------------------|-------------|---|
| 13.02 UNITED OF OMAHA LIFE INSURANCE - Insurance Affiliate Stock | \$1,429,512,571 |19.6 % | |
| 13.03 OMAHA FINANCIAL HOLDINGS INC - Non-Insurance Affiliate Stock | \$765,062,825 |10.5 % | |
| 13.04 MCCARTHY CAPITAL MTG INVESTORS LLC - Equity Partnerships | \$102,983,777 |1.4 % | |
| 13.05 MUTUAL OF OMAHA HOLDINGS INC - Non-Insurance Affiliate Stock | \$51,532,197 |0.7 % | |
| 13.06 OMAHA HEALTH INSURANCE CO - Insurance Affiliate Stock | \$20,851,814 |0.3 % | |
| 13.07 EAST CAMPUS REALTY - Non-Insurance Affiliate Equity Partnerships | \$16,137,016 |0.2 % | |
| 13.08 ING - Equity Partnerships | \$13,641,705 |0.2 % | |
| 13.09 OMAHA INDEMNITY CO - Insurance Affiliate Stock | \$12,411,483 |0.2 % | |
| 13.10 RIDGEWOOD ENERGY GULF OF MEXICO OIL&GAS - Equity Partnerships | \$9,842,512 |0.1 % | |
| 13.11 GOLDPOINT MEZZANINE PARTNERS IV LP - Equity Partnerships | \$6,913,231 |0.1 % | |

SUPPLEMENT FOR THE YEAR 2016 OF THE Mutual of Omaha Insurance Company

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:

14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? Yes [] No [X]

If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.

| | <u>1</u> | <u>2</u> | <u>3</u> |
|---|----------|-------------|----------|
| 14.02 Aggregate statement value of investments held in nonaffiliated, privately placed equities | \$ | 225,401,875 | 3.1 % |
| Largest three investments held in nonaffiliated, privately placed equities: | | | |
| 14.03 MCCARTHY CAPITAL MTG INVESTORS LLC - Equity Partnerships | \$ | 102,983,777 | 1.4 % |
| 14.04 ING - Equity Partnerships | \$ | 13,641,705 | 0.2 % |
| 14.05 RIDGEWOOD ENERGY GULF OF MEXICO - Equity Partnerships | \$ | 9,842,512 | 0.1 % |

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []

If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.

| | <u>1</u> | <u>2</u> | <u>3</u> |
|--|----------|----------|----------|
| 15.02 Aggregate statement value of investments held in general partnership interests | \$ | 0 | 0.0 % |
| Largest three investments in general partnership interests: | | | |
| 15.03 | \$ | 0 | 0.0 % |
| 15.04 | \$ | 0 | 0.0 % |
| 15.05 | \$ | 0 | 0.0 % |

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? Yes [] No [X]

If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

| | <u>1</u> | <u>2</u> | <u>3</u> |
|---|--|-----------|----------|
| | Type (Residential, Commercial, Agricultural) | | |
| 16.02 Commercial - SUNSET LAND COMPANY LLC | \$ | 9,444,279 | 0.1 % |
| 16.03 Commercial - WRAF HOUSING, LLC | \$ | 7,936,767 | 0.1 % |
| 16.04 Commercial - CHRISTIANA TOWN CENTER LLC | \$ | 7,933,614 | 0.1 % |
| 16.05 Commercial - FRIENDLY VILLAGE MOBILEHOME PARK LLC | \$ | 7,436,638 | 0.1 % |
| 16.06 Commercial - 300 W ARTESIA LP | \$ | 5,954,611 | 0.1 % |
| 16.07 Commercial - RIDGEVIEW OFFICE I LLC | \$ | 5,204,640 | 0.1 % |
| 16.08 Commercial - SOMERSET WOODS ASSOCIATES LLC | \$ | 5,000,000 | 0.1 % |
| 16.09 Commercial - SIPPEL ENTERPRISES LP | \$ | 4,874,607 | 0.1 % |
| 16.10 Commercial - WRI RETAIL POOL I, L.P. | \$ | 4,799,043 | 0.1 % |
| 16.11 Commercial - LUND 159 DODGE LLC | \$ | 4,793,719 | 0.1 % |

SUPPLEMENT FOR THE YEAR 2016 OF THE Mutual of Omaha Insurance Company

Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

| | | Loans | |
|--|----------|-------|-------|
| 16.12 Construction loans | \$ | 0 | 0.0 % |
| 16.13 Mortgage loans over 90 days past due | \$ | 0 | 0.0 % |
| 16.14 Mortgage loans in the process of foreclosure | \$ | 0 | 0.0 % |
| 16.15 Mortgage loans foreclosed | \$ | 0 | 0.0 % |
| 16.16 Restructured mortgage loans | \$ | 0 | 0.0 % |

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

| Loan to Value | Residential | | Commercial | | Agricultural | |
|----------------------|-------------------|------------|---------------------|------------|--------------|------------|
| | 1 | 2 | 3 | 4 | 5 | 6 |
| 17.01 above 95%..... | \$0 |0.0 % | \$0 |0.0 % | \$0 |0.0 % |
| 17.02 91 to 95%..... | \$0 |0.0 % | \$0 |0.0 % | \$0 |0.0 % |
| 17.03 81 to 90%..... | \$533,230 |0.0 % | \$0 |0.0 % | \$0 |0.0 % |
| 17.04 71 to 80%..... | \$3,538,899 |0.0 % | \$4,793,719 |0.1 % | \$0 |0.0 % |
| 17.05 below 70%..... | \$1,384,002 |0.0 % | \$207,786,646 |2.9 % | \$0 |0.0 % |

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []

If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

Largest five investments in any one parcel or group of contiguous parcels of real estate.

| | Description | | | 2 | | 3 | |
|-------------|-------------|--|--|---|-------|---|--|
| | 1 | | | | | | |
| 18.02 | \$ | | | 0 | 0.0 % | | |
| 18.03 | \$ | | | 0 | 0.0 % | | |
| 18.04 | \$ | | | 0 | 0.0 % | | |
| 18.05 | \$ | | | 0 | 0.0 % | | |
| 18.06 | \$ | | | 0 | 0.0 % | | |

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans:

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []

If response to 19.01 is yes, responses are not required for the remainder of Interrogatory 19.

| | 1 | 2 | 3 |
|---|-----------|-------|---|
| 19.02 Aggregate statement value of investments held in mezzanine real estate loans: | \$0 | 0.0 % | |
| Largest three investments held in mezzanine real estate loans: | | | |
| 19.03 | \$0 | 0.0 % | |
| 19.04 | \$0 | 0.0 % | |
| 19.05 | \$0 | 0.0 % | |

SUPPLEMENT FOR THE YEAR 2016 OF THE Mutual of Omaha Insurance Company

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

| | At Year End | | 1st Quarter | At End of Each Quarter | |
|--|---------------|-------|----------------|------------------------|---------------|
| | 1 | 2 | 3 | 2nd Quarter | 3rd Quarter |
| | | | | 4 | 5 |
| 20.01 Securities lending agreements (do not include assets held as collateral for such transactions) | \$ 35,938,090 | 0.5 % | \$ 107,348,008 | \$ 127,442,293 | \$ 91,757,437 |
| 20.02 Repurchase agreements | \$ 0 | 0.0 % | \$ 0 | \$ 0 | \$ 0 |
| 20.03 Reverse repurchase agreements | \$ 0 | 0.0 % | \$ 0 | \$ 0 | \$ 0 |
| 20.04 Dollar repurchase agreements | \$ 0 | 0.0 % | \$ 0 | \$ 0 | \$ 0 |
| 20.05 Dollar reverse repurchase agreements | \$ 0 | 0.0 % | \$ 0 | \$ 0 | \$ 0 |

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps, and floors:

| | Owned | | 3 | Written | |
|-------------------------|-------|-------|------|---------|-------|
| | 1 | 2 | | 4 | |
| 21.01 Hedging | \$ 0 | 0.0 % | \$ 0 | \$ 0 | 0.0 % |
| 21.02 Income generation | \$ 0 | 0.0 % | \$ 0 | \$ 0 | 0.0 % |
| 21.03 Other | \$ 0 | 0.0 % | \$ 0 | \$ 0 | 0.0 % |

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

| | At Year End | | 1st Quarter | At End of Each Quarter | |
|-------------------------|--------------|-------|-------------|------------------------|-------------|
| | 1 | 2 | 3 | 2nd Quarter | 3rd Quarter |
| | | | | 4 | 5 |
| 22.01 Hedging | \$ 1,171,012 | 0.0 % | \$ 293,531 | \$ 441,586 | \$ 794,031 |
| 22.02 Income generation | \$ 0 | 0.0 % | \$ 0 | \$ 0 | \$ 0 |
| 22.03 Replications | \$ 0 | 0.0 % | \$ 0 | \$ 0 | \$ 0 |
| 22.04 Other | \$ 0 | 0.0 % | \$ 0 | \$ 0 | \$ 0 |

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

| | At Year End | | 1st Quarter | At End of Each Quarter | |
|-------------------------|-------------|-------|-------------|------------------------|-------------|
| | 1 | 2 | 3 | 2nd Quarter | 3rd Quarter |
| | | | | 4 | 5 |
| 23.01 Hedging | \$ 0 | 0.0 % | \$ 0 | \$ 0 | \$ 0 |
| 23.02 Income generation | \$ 0 | 0.0 % | \$ 0 | \$ 0 | \$ 0 |
| 23.03 Replications | \$ 0 | 0.0 % | \$ 0 | \$ 0 | \$ 0 |
| 23.04 Other | \$ 0 | 0.0 % | \$ 0 | \$ 0 | \$ 0 |