



Audited Financial Report

# United of Omaha Life Insurance Company

A Wholly Owned Subsidiary of  
(Mutual of Omaha Insurance Company)

Statutory Financial Statements as of December 31,  
2017 and 2016, and for the Years Ended December 31,  
2017, 2016, and 2015, Supplemental Schedules as of  
and for the Year Ended December 31, 2017, and  
Independent Auditors' Report

**UNITED OF OMAHA LIFE INSURANCE COMPANY**  
**(A Wholly Owned Subsidiary of Mutual of Omaha Insurance Company)**

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
United of Omaha Life Insurance Company  
Omaha, Nebraska

We have audited the accompanying statutory-basis financial statements of United of Omaha Life Insurance Company (the "Company") (a wholly owned subsidiary of Mutual of Omaha Insurance Company), which comprise the statutory-basis statements of admitted assets, liabilities, and surplus as of December 31, 2017 and 2016, and the related statutory-basis statements of operations, changes in surplus, and cash flows for each of the three years in the period ended December 31, 2017, 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 from 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 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 United of Omaha Life 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; although not reasonably determinable, are presumed to be material.

## **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 United of Omaha Life Insurance Company as of December 31, 2017 and 2016, or the results of its operations or its cash flows for each of the three years in the period ended December 31, 2017.

## **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 United of Omaha Life Insurance Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, 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.

*Deloitte & Touche LLP*

April 19, 2018

**UNITED OF OMAHA LIFE INSURANCE COMPANY**  
**(A Wholly Owned Subsidiary of Mutual of Omaha Insurance Company)**

**STATUTORY STATEMENTS OF ADMITTED ASSETS, LIABILITIES, AND SURPLUS**  
**AS OF DECEMBER 31, 2017 AND 2016**

	2017	2016
<b>ADMITTED ASSETS</b>		
CASH AND INVESTED ASSETS:		
Bonds	\$ 14,898,437,642	\$ 13,797,081,508
Preferred stocks	131,800,000	28,800,000
Common stocks — unaffiliated	47,958,719	23,036,400
Common stocks — affiliated	117,179,140	110,249,977
Mortgage loans — net	2,118,511,798	2,000,163,314
Real estate occupied by the Company — net of accumulated depreciation of \$93,738,865 and \$90,944,932, respectively	48,610,811	49,554,692
Real estate held for sale	-	396,900
Contract loans	184,171,324	179,965,773
Cash and cash equivalents	(4,408,157)	51,472,241
Short-term investments	104,786,154	50,000,000
Securities lending cash collateral	287,498,568	154,808,895
Other invested assets	192,038,263	213,428,353
Total cash and invested assets	18,126,584,262	16,658,958,053
INVESTMENT INCOME DUE AND ACCRUED	140,086,313	129,900,575
PREMIUMS DEFERRED AND UNCOLLECTED	239,338,427	215,070,113
REINSURANCE RECOVERABLE	164,646,349	153,485,454
NET DEFERRED TAX ASSETS	90,804,787	134,613,940
OTHER ASSETS	43,824,661	28,426,038
SEPARATE ACCOUNT ASSETS	3,997,964,477	3,377,775,288
TOTAL ADMITTED ASSETS	<u>\$ 22,803,249,276</u>	<u>\$ 20,698,229,461</u>
<b>LIABILITIES AND SURPLUS</b>		
LIABILITIES:		
Policy reserves:		
Reserves for life policies and contracts	\$ 11,316,572,960	\$ 10,413,337,671
Deposit-type contracts	2,827,783,339	2,691,722,811
Health and accident active life	91,733,969	85,950,238
Total policy reserves	14,236,090,268	13,191,010,720
Claim reserves:		
Policy and contract claims — life	93,199,247	82,222,373
Policy and contract claims — health	762,674,900	731,471,345
Total claim reserves	855,874,147	813,693,718
Premiums paid in advance	25,154,067	25,362,322
Interest maintenance reserve	25,105,099	17,063,974
Asset valuation reserve	145,770,838	122,405,601
General expenses and taxes due or accrued	73,534,869	51,933,478
Payable to parent, subsidiaries, and affiliates — net	132,317,915	116,663,084
Borrowings	346,842,061	225,107,295
Funds held under coinsurance	1,114,811,241	1,107,118,053
Other liabilities	244,066,963	220,583,357
Separate account liabilities	3,997,964,477	3,377,775,288
Total liabilities	21,197,531,945	19,268,716,890
SURPLUS:		
Capital stocks, \$10 par value, 900,000 shares authorized, issued and outstanding	9,000,000	9,000,000
Gross paid-in and contributed surplus	582,558,051	582,558,051
Special surplus	314,716	-
Unassigned surplus	1,013,844,564	837,954,520
Total surplus	1,605,717,331	1,429,512,571
TOTAL LIABILITIES AND SURPLUS	<u>\$ 22,803,249,276</u>	<u>\$ 20,698,229,461</u>

See notes to statutory financial statements.

**UNITED OF OMAHA LIFE INSURANCE COMPANY**  
**(A Wholly Owned Subsidiary of Mutual of Omaha Insurance Company)**

**STATUTORY STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015**

	2017	2016	2015
INCOME:			
Net premiums and annuity considerations	\$ 4,024,870,572	\$ 3,692,085,072	\$ 3,572,460,647
Net investment income	742,432,796	702,647,668	828,993,447
Commissions and expense allowances on reinsurance ceded	150,017,522	106,978,078	86,792,950
Other income	<u>37,976,396</u>	<u>34,438,032</u>	<u>36,924,199</u>
Total income	<u>4,955,297,286</u>	<u>4,536,148,850</u>	<u>4,525,171,243</u>
BENEFITS AND EXPENSES:			
Policyholder benefits	2,534,939,125	2,635,808,148	2,668,812,360
Increase in reserves	913,792,176	569,658,040	499,191,656
Commissions	472,900,474	448,052,058	404,720,170
Operating expenses	<u>916,966,757</u>	<u>849,981,695</u>	<u>736,816,890</u>
Total benefits and expenses	<u>4,838,598,532</u>	<u>4,503,499,941</u>	<u>4,309,541,076</u>
NET GAIN FROM OPERATIONS BEFORE FEDERAL INCOME TAX EXPENSE AND NET REALIZED CAPITAL LOSSES			
	116,698,754	32,648,909	215,630,167
FEDERAL INCOME TAX EXPENSE	<u>43,123,221</u>	<u>23,569,907</u>	<u>38,273,444</u>
NET GAIN FROM OPERATIONS BEFORE NET REALIZED CAPITAL LOSSES			
	73,575,533	9,079,002	177,356,723
NET REALIZED CAPITAL LOSSES — Net of taxes (benefits) of \$3,961,385, \$(1,212,222), and \$1,468,554, and transfers to (from) the interest maintenance reserve of \$11,430,362, \$(704,192), and \$1,401,547, respectively			
	<u>(11,845,687)</u>	<u>(67,427)</u>	<u>(23,716,607)</u>
NET INCOME	<u>\$ 61,729,846</u>	<u>\$ 9,011,575</u>	<u>\$ 153,640,116</u>

See notes to statutory financial statements.

**UNITED OF OMAHA LIFE INSURANCE COMPANY**  
**(A Wholly Owned Subsidiary of Mutual of Omaha Insurance Company)**

**STATUTORY STATEMENTS OF CHANGES IN SURPLUS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015**

	2017	2016	2015
CAPITAL STOCK	\$ 9,000,000	\$ 9,000,000	\$ 9,000,000
GROSS PAID-IN AND CONTRIBUTED SURPLUS	<u>582,558,051</u>	<u>582,558,051</u>	<u>582,558,051</u>
SPECIAL SURPLUS:			
Balance — beginning of year	-	188,293	-
Increase (decrease) in aggregate write-ins	<u>314,716</u>	<u>(188,293)</u>	<u>188,293</u>
Balance — end of year	<u>314,716</u>	<u>-</u>	<u>188,293</u>
UNASSIGNED SURPLUS:			
Balance — beginning of year	837,954,520	849,971,791	831,165,140
Net income	61,729,846	9,011,575	153,640,116
Dividends paid	-	(96,893,320)	-
Change in:			
Net unrealized capital gains (losses) — net of taxes (benefits) of \$3,528,765, \$(3,013,887), and \$(29,204,215), respectively	127,509,106	13,011,251	(75,903,694)
Foreign exchange unrealized capital gains (losses) — net of taxes (benefits) of \$(1,693,148), \$(6,397,183), and \$885,127, respectively	(6,369,460)	(11,880,483)	1,643,807
Net deferred income taxes	(73,181,690)	(8,860,779)	(3,344,152)
Nonadmitted assets	11,798,073	(8,793,465)	(43,060,193)
Reserve on account of change in valuation basis	(19,268,784)	(11,085,245)	(53,185,427)
Asset valuation reserve	(23,365,237)	(7,044,903)	43,045,643
Deferred gain (loss) on reinsurance	97,352,906	110,329,805	(3,841,156)
Aggregate write-ins	<u>(314,716)</u>	<u>188,293</u>	<u>(188,293)</u>
Balance — end of year	<u>1,013,844,564</u>	<u>837,954,520</u>	<u>849,971,791</u>
TOTAL SURPLUS	<u>\$ 1,605,717,331</u>	<u>\$ 1,429,512,571</u>	<u>\$ 1,441,718,135</u>

See notes to statutory financial statements.

**UNITED OF OMAHA LIFE INSURANCE COMPANY**  
**(A Wholly Owned Subsidiary of Mutual of Omaha Insurance Company)**

**STATUTORY STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015**

	2017	2016	2015
<b>CASH FROM (USED FOR) OPERATIONS:</b>			
Net premiums and annuity considerations	\$ 4,177,933,878	\$ 4,027,342,652	\$ 3,657,204,398
Net investment income	724,568,323	686,084,298	729,634,818
Other income	117,651,763	113,206,403	111,460,256
Policyholder benefits	(2,587,650,749)	(2,755,534,999)	(2,731,036,354)
Net transfers (to) from separate accounts	(250,778)	(78,703)	238,575
Commissions and operating expenses	(1,299,484,952)	(1,203,177,105)	(1,080,267,112)
Federal income taxes paid to parent	(38,400,728)	(34,407,646)	(16,880,438)
	<u>1,094,366,757</u>	<u>833,434,900</u>	<u>670,354,143</u>
Net cash from operations			
<b>CASH FROM (USED FOR) INVESTMENTS:</b>			
Proceeds from investments sold, matured or repaid:			
Bonds	2,216,635,328	1,591,913,023	1,670,516,463
Stocks	87,552,402	53,408,644	16,680,246
Mortgage loans	281,412,466	246,701,849	325,887,167
Real estate	2,467,580	777,251	2,128,050
Other invested assets	20,769,186	36,073,102	58,044,454
Net gains (losses) on cash, cash equivalents, and short-term investments	1,511	(1,412)	(985)
Miscellaneous proceeds	12,069,281	1,157,790	7,072,196
Cost of investments acquired:			
Bonds	(3,143,397,015)	(2,800,344,659)	(2,557,947,905)
Stocks	(131,753,600)	(6,124,600)	(52,710,400)
Mortgage loans	(398,750,389)	(419,557,666)	(379,111,785)
Real estate	(4,023,089)	(2,548,222)	(737,768)
Other invested assets	(66,420,347)	(14,641,070)	(16,160,935)
Miscellaneous applications	(5,338,686)	(13,446,280)	-
Net (increase) decrease in contract loans	(5,032,540)	(577,837)	1,570,779
	<u>(1,133,807,912)</u>	<u>(1,327,210,087)</u>	<u>(924,770,423)</u>
Net cash used for investments			
<b>CASH FROM (USED FOR) FINANCING AND MISCELLANEOUS SOURCES:</b>			
Borrowed funds (paid) received	(10,909,092)	(75,909,092)	54,090,908
Net increase in deposit-type contracts	136,060,529	151,936,182	216,862,668
Net increase (decrease) in payable to parent	15,654,831	14,804,228	(17,219,916)
Other cash (applied) provided	(102,459,357)	4,912,387	937,280
	<u>38,346,911</u>	<u>95,743,705</u>	<u>254,670,940</u>
Net cash from financing and miscellaneous sources			
<b>NET CHANGE IN CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS</b>	<b>(1,094,244)</b>	<b>(398,031,482)</b>	<b>254,660</b>
<b>CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS:</b>			
Beginning of year	<u>101,472,241</u>	<u>499,503,723</u>	<u>499,249,063</u>
End of year	<u>\$ 100,377,997</u>	<u>\$ 101,472,241</u>	<u>\$ 499,503,723</u>

(Continued)



**UNITED OF OMAHA LIFE INSURANCE COMPANY**  
**(A Wholly Owned Subsidiary of Mutual of Omaha Insurance Company)**

**STATUTORY STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015**

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	2017	2016	2015
NON-CASH TRANSACTIONS:			
Omaha Reinsurance Company ceded premium settled through funds withheld	\$ 233,352,638	\$ 332,482,986	\$ 152,806,118
Stock and bond conversions	\$ 303,780,926	\$ 127,995,665	\$ 116,015,508
Omaha Reinsurance Company ceded benefits settled through funds withheld	\$ 90,400,213	\$ 83,378,381	\$ 76,646,063
Omaha Reinsurance Company ceded commissions settled through funds withheld	\$ 68,629,690	\$ 26,323,850	\$ 9,950,282
Omaha Reinsurance Company ceded interest settled through funds withheld	\$ 51,139,021	\$ 45,611,612	\$ 41,287,000
Companion assumed premium settled through funds withheld	\$ 29,095,959	\$ 27,750,717	\$ 27,461,888
Capital contribution through payable to subsidiary	\$ 27,000,000	\$ -	\$ 5,000,000
Companion assumed benefits settled through funds withheld	\$ 21,466,803	\$ 17,152,522	\$ 18,338,775
Funds withheld listed as current amounts receivable	\$ 14,456,754	\$ 20,148,796	\$ 6,038,925
Omaha Reinsurance Company ceded policy loans settled through funds withheld	\$ 4,664,187	\$ 3,825,826	\$ 2,846,503
Companion assumed commissions settled through funds withheld	\$ 4,185,231	\$ 4,167,552	\$ 4,486,165
Companion assumed interest settled through funds withheld	\$ 1,708,376	\$ 1,510,740	\$ 1,319,126
Dividend paid in the form of other invested assets	\$ -	\$ 96,893,320	\$ -
Capital distribution - from affiliated LLC	\$ -	\$ -	\$ 78,655,132
Mortgage loan conversions disposed to mortgage loan conversions acquired	\$ -	\$ -	\$ 30,407,771

See notes to statutory financial statements.

(Concluded)

**UNITED OF OMAHA LIFE INSURANCE COMPANY**  
**(A Wholly Owned Subsidiary of Mutual of Omaha Insurance Company)**

**NOTES TO STATUTORY FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017, 2016, AND 2015**

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**1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations** — United of Omaha Life Insurance Company (the “Company”) is a wholly owned subsidiary of Mutual of Omaha Insurance Company (“Mutual of Omaha”), a mutual health and accident and life insurance company, domiciled in the State of Nebraska. The following are wholly owned subsidiaries of the Company: Companion Life Insurance Company (“Companion”); United World Life Insurance Company (“United World”); Property and Casualty Company of Omaha (formerly known as Omaha Life Insurance Company); UM Holdings, L.L.C.; Omaha Reinsurance Company (“Omaha Re”) and Mutual of Omaha Structured Settlement 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 49 states, the District of Columbia, Puerto Rico, Guam, and the U.S. Virgin Islands. Principal products and services provided include individual and group health insurance, individual and group life insurance, annuities, and retirement plans.

**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 (“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 utilize any permitted practices.

The State of Nebraska employed a prescribed accounting practice for synthetic guaranteed interest contracts (“synthetic GICs”) that differs from NAIC SAP in how reserves are determined. The following is a reconciliation of the Company’s net income and statutory surplus between the prescribed accounting practices and NAIC SAP as of and for the years ended December 31:

	2017	2016	2015
Net income, Nebraska basis	\$ 61,729,846	\$ 9,011,575	\$ 153,640,116
Nebraska prescribed practice: synthetic GICs	<u>147,409</u>	<u>359,513</u>	<u>(2,407,501)</u>
Net income, NAIC SAP	<u>\$ 61,877,255</u>	<u>\$ 9,371,088</u>	<u>\$ 151,232,615</u>
Statutory surplus, Nebraska basis	\$ 1,605,717,331	\$ 1,429,512,571	\$ 1,441,718,135
Nebraska prescribed practice: synthetic GICs	<u>7,783,006</u>	<u>7,635,597</u>	<u>7,276,083</u>
Statutory surplus, NAIC SAP	<u>\$ 1,613,500,337</u>	<u>\$ 1,437,148,168</u>	<u>\$ 1,448,994,218</u>

The prescribed practice is reflected in net income as an increase in reserve and reserve in liabilities as reserve for life policies and contracts.

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. Exchange Traded Funds, eligible for bond reporting by the NAIC Securities Valuation Office (“SVO Identified Funds-ETFs”), are carried at fair value and classified as bonds, while under GAAP, they are carried at fair value and classified as equity.
- 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 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 or cost, while under GAAP, preferred stocks are carried at their estimated fair value or cost.
- 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 for 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 are reflected in either net investment income or as a realized capital 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 capital 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 as for GAAP.

- h. NAIC SAP policy reserves for life insurance and annuities are based on mortality, lapse, and interest assumptions prescribed or permitted by state statutes. For health insurance, mortality and interest are prescribed, and morbidity and lapse assumptions are Company estimates with statutory limitations. 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. Premium receipts and benefits on universal life-type contracts and deferred annuities are recorded as income and expense under NAIC SAP. Under GAAP, revenues on universal life-type contracts and deferred annuities are comprised of contract charges and fees that are recognized when assessed against the policyholder account balance. In addition, certain of the revenue as defined under deposit accounting is deferred and amortized to income over the expected life of the contract using the product's estimated gross profits, similar to acquisition costs. Premium receipts and benefits paid are considered deposits and withdrawals, respectively, and are recorded as or against interest-bearing liabilities.
- l. Reinsurance recoverables on unpaid losses are reported as a reduction of policy reserves, while under GAAP, they are reported as an asset.
- m. Comprehensive income and its components are not presented in the statutory financial statements.
- n. Subsidiaries are included as common stocks 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.
- 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 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 length and complexity of annuity and life insurance contracts and the risks involved, policy reserves calculated using regulatory prescribed methods and assumptions are often not closely related to the economic liability for the benefits and options promised to policyholders. Reserves are determined using prescribed mortality tables and interest rate assumptions. Prescribed lapse assumptions are permitted on certain universal life contracts. Certain guarantees embedded in the contracts are defined formulaically. Actual mortality, lapse, interest rates, and the nature of the guarantees, will differ from prescribed assumptions and definitions.

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 Company's historical 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. SVO Identified investments, captured within the scope of Statement of Statutory Accounting Principles ("SSAP") No. 26 *Bonds*, are eligible for bond reporting. The Company has elected to value SVO Identified investments at fair value.

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 stated 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.

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 at 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, except impaired loans. Such loans are carried at the lower of the principal balance, 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 loan's 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 in non-accrual status when payments are determined to be uncollectable. 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 to a 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. 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.

Contract loans are carried at unpaid principal balances.

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 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 investments in limited partnerships, receivables for securities, and an approximately 80% ownership of Fulcrum Growth Partners, L.L.C. and Fulcrum Growth Partners III L.L.C (collectively “Fulcrum”). The Company currently recognizes 80% of the contributions and distributions of Fulcrum in its investment in Fulcrum and 72% of net income (loss) based on the partnership agreement provisions. Limited partnerships and the investment in Fulcrum are carried at their underlying GAAP equity, which approximates fair value, with a one quarter lag adjusted for all capital distributions, cash distributions, and impairment charges for the quarter with changes recorded in unrealized capital gains (losses) through surplus. Distributions of income from these investments are recorded in net investment income.

Fulcrum was established for the purpose of investing in nontraditional assets, including private equities, public equities, special situation real estate equities and mezzanine debt. Fulcrum is capitalized through the contributions of the Company and one other owner. Contributions are no longer accepted by Fulcrum. The Company’s investment in Fulcrum in the statements of admitted assets, liabilities, and surplus and net investment income in the statutory statements of operations was as follows:

	<b>2017</b>	<b>2016</b>	<b>2015</b>
As of and for the year ended December 31:			
Investment in Fulcrum	<u>\$ 59,535,910</u>	<u>\$ 60,277,418</u>	<u>\$ 61,694,454</u>
Net investment income	<u>\$ 1,627,704</u>	<u>\$ 9,349,319</u>	<u>\$ 127,035,073</u>

Fulcrum’s assets, liabilities, and results of operations as of and for the nine months ended September 30, were as follows:

	<b>2017</b>	<b>2016</b>	<b>2015</b>
Assets	<u>\$ 84,546,074</u>	<u>\$ 85,579,144</u>	<u>\$ 107,369,016</u>
Liabilities	<u>\$ 137,768</u>	<u>\$ 128,757</u>	<u>\$ 126,979</u>
Net income	<u>\$ 795,751</u>	<u>\$ 9,799,797</u>	<u>\$ 17,522,640</u>

The Company uses derivative financial instruments to reduce exposure to market volatility associated with assets held or liabilities incurred and to change the characteristics of the Company's asset/liability mix, consistent with the Company's risk management activities. The Company writes certain of the options purchased on indexed universal life for Companion, its wholly owned subsidiary.

Derivatives include foreign currency swaps, swaptions, interest rate swaps, warrants, and call spread options. 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. Net settlement amounts on interest rate swaps are recorded as adjustments to net investment income on an accrual basis over the life of the swap. 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. The Company designates certain of its interest rate swaps as fair value hedges when they are highly effective in offsetting the risk of changes in the fair value of the hedged item. For interest rate swaps, the Company is exposed to credit-related losses in the amount of the net interest differential in the event of non-performance by the swap counterparty. For currency swaps and forwards, 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.

The Company uses swaptions to mitigate interest rate risk. Under a swaption, the Company pays a one-time premium to the counterparty while the counterparty agrees to deliver at expiration the value of the underlying swap if that value is positive. The Company's swaptions are not highly correlated or effective so they do not qualify for hedge accounting. Changes in the fair value of the swaptions are included in net unrealized capital gains (losses) within the statutory statements of changes in surplus.

The Company uses call spread options to hedge the crediting rates under equity indexed universal life products to mitigate interest rate fluctuations. The Company received warrants in the course of bond restricting that once exercised can be converted to common stock. The Company does not consider either derivative type as hedges, so changes in the fair value of the options are included in net unrealized capital gains (losses) within the statutory statements of changes in surplus.

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.



**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 four to twenty years. There were \$1,124,870, \$89,038, and \$7,865,131 in fully depreciated write-offs of home office property no longer in use in 2017, 2016, and 2015, respectively. Depreciation and amortization expense was \$4,806,093, \$4,537,558, and \$4,292,526 for the years ended December 31, 2017, 2016, and 2015, respectively.

**Separate Accounts** — The assets of the separate accounts in the statutory statements of admitted assets, liabilities, and surplus are carried at fair value and consist primarily of common stocks and mutual funds held by the Company for the benefit of contract holders under specific individual annuity and life insurance contracts and group annuity contracts. Separate account assets are segregated and are not subject to claims that arise out of any other business of the Company. Deposits and premiums received from and benefits paid to separate account contract holders are reflected in the statutory statements of operations net of reinsurance, but are offset by transfers to and from the separate account. Mortality, policy administration, and surrender charges from all separate accounts are included in other income.

**Policy Reserves** — Policy reserves include life insurance and annuity reserves, active life and unearned premium reserves for health contracts, and reserves for deposit-type contracts.

Life insurance reserves provide amounts adequate to discharge estimated future obligations in excess of estimated future net premiums on policies in force. Such reserves are valued using the net level premium method, the Commissioners' Reserve Valuation Method, or other modified reserve methods. Interest rate assumptions ranged from 2.50% to 6.00% for the years ending December 31, 2017 and 2016. Reserves for individual fixed annuities and supplementary contracts in payout status with life contingencies are maintained using the net level premium method or the Commissioners' Annuity Reserve Valuation Method, with appropriate statutory interest and mortality assumptions computed on the basis of interest ranging from 3.50% to 9.25% for the years ended December 31, 2017 and 2016. Group annuity reserves are valued using the net single premium method with statutory interest and mortality assumptions computed on the basis of interest ranging from 3.50% to 11.25% for the years ended December 31, 2017 and 2016.

Active life reserves for health contracts 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.

Unearned premium reserves are for premiums that have been paid but have not been earned.

Reserves for deposit-type contracts are equal to deposits received and interest credited to the benefit of contract holders, less withdrawals that represent a return to the contract holder. Reserves for annuities certain and supplementary contracts in payout status without life contingencies are determined using a net level premium method. Tabular interest on deposit-type contracts is calculated by formula as described in the NAIC instructions.

**Claim Reserves** — Claim reserves include the amounts estimated for claims that have been reported but not settled and estimates for claims incurred but not reported, 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.

**Reinsurance** — In the normal course of business, the Company assumes and cedes insurance business in order to limit its maximum loss, provide greater diversification of risk, minimize exposures on larger risks and expand certain business lines. The ceding of insurance business does not discharge an insurer from its primary legal liability to a policyholder. The Company remains liable to the extent that a reinsurer is unable to meet its obligations. 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.

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.

Premiums due under reinsurance agreements are reported as negative uncollected premiums in the statutory statements of admitted assets, liabilities, and surplus. Experience refunds related to reinsurance are reported as reinsurance recoverables.

**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 two components: 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 in 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 Annuity Considerations and Related Commissions** — Life premiums are recognized as income over the premium-paying period of the policies. Health and accident premiums are recognized as income over the terms of the policies. Annuity considerations are recognized as income when received. Considerations received on deposit-type funds, which do not contain any life contingencies, are recorded directly to the related liability. 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 is 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 is 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 in the statutory statements of operations.

The Company recognizes OTTI of stocks for declines in value that is other-than-temporary and reports those adjustments as a realized capital loss 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 or the limited partnership reports realized capital losses on their statutory financial statements or 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, 2017 through April 19, 2018, the date these statutory financial statements were available to be issued.

**Accounting Pronouncements** — During 2016, the NAIC issued revisions to SSAP No. 51 *Life Contracts* and SSAP No. 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 were 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.

In March 2017, the NAIC issued revisions to SSAP No. 35R *Guaranty Fund and Other Assessments* to require entities to discount liabilities for guaranty funds and the related assets from insolvencies of entities that wrote long-term care contracts. See Note 12 for the impact on the statutory statements of admitted assets, liabilities, and surplus upon adoption of this guidance on January 1, 2017.

In February 2018, the NAIC issued guidance clarifying disclosures under SSAP 101 *Income Taxes* concerning changes in deferred tax items as of December 31, 2017 related to the Tax Cuts and Jobs Act of 2017 (“Act”) by requiring a narrative disclosure of the change in deferred tax items caused by the tax rate change under the Act. See Note 6 for the required disclosures.

## 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 Capital Gains	Gross Unrealized Capital Losses	Estimated Fair Value
<b>2017</b>				
U.S. government States, territories, and possessions	\$ 86,765,094	\$ 5,255,873	\$ 548,928	\$ 91,472,039
Special revenue	34,754,346	2,548,524	20,889	37,281,981
Hybrid	177,551,338	1,568,403	643,731	178,476,010
Foreign corporate	470,426	27,021	-	497,447
U.S. and Canadian corporate	2,625,217,335	135,121,586	9,081,838	2,751,257,083
SVO Identified Funds - ETFs	8,133,997,805	509,262,568	22,542,732	8,620,717,641
Commercial MBS	51,362,502	-	-	51,362,502
Residential MBS	796,864,742	42,133,138	702,058	838,295,822
Other ABS	900,156,304	36,867,979	9,472,546	927,551,737
	<u>2,091,297,750</u>	<u>31,891,731</u>	<u>5,459,670</u>	<u>2,117,729,811</u>
Total bonds	14,898,437,642	764,676,823	48,472,392	15,614,642,073
Redeemable preferred stocks	<u>31,800,000</u>	<u>1,985,571</u>	<u>-</u>	<u>33,785,571</u>
Total	<u>\$ 14,930,237,642</u>	<u>\$ 766,662,394</u>	<u>\$ 48,472,392</u>	<u>\$ 15,648,427,644</u>
	Carrying Value	Gross Unrealized Capital Gains	Gross Unrealized Capital Losses	Estimated Fair Value
<b>2016</b>				
U.S. government States, territories, and possessions	\$ 89,268,195	\$ 6,782,437	\$ 281,848	\$ 95,768,784
Special revenue	35,026,923	2,529,135	62,272	37,493,786
Hybrid	147,723,495	532,693	1,813,367	146,442,821
Foreign corporate	472,239	-	13,662	458,577
U.S. and Canadian corporate	2,449,986,600	117,778,868	23,759,914	2,544,005,554
Commercial MBS	7,259,646,965	316,857,449	105,578,585	7,470,925,829
Residential MBS	856,054,248	44,307,849	2,864,925	897,497,172
Other ABS	840,849,068	44,167,846	7,139,790	877,877,124
	<u>2,118,053,775</u>	<u>32,261,618</u>	<u>16,598,648</u>	<u>2,133,716,745</u>
Total bonds	13,797,081,508	565,217,895	158,113,011	14,204,186,392
Redeemable preferred stocks	<u>28,800,000</u>	<u>1,553,692</u>	<u>-</u>	<u>30,353,692</u>
Total	<u>\$ 13,825,881,508</u>	<u>\$ 566,771,587</u>	<u>\$ 158,113,011</u>	<u>\$ 14,234,540,084</u>

Bonds with an NAIC designation of 6 of \$1,137,805 and \$50,467,418 as of December 31, 2017 and 2016, 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 95.2% and 94.7% of the Company's total bond portfolio as of December 31, 2017 and 2016, respectively. A portion of the Commercial and Residential MBS portfolios is backed by collateral guaranteed or insured by a United States government agency. As of December 31, 2017 and 2016, 90.7% and 96.9%, respectively, of the Residential MBS portfolio was guaranteed by a government agency. As of December 31, 2017 and 2016, 53.3% and 56.8%, respectively, of the Commercial MBS portfolio was guaranteed by a government agency.

Information regarding the Company's investments in structured notes as of December 31, 2017, was as follows:

CUSIP	Actual Cost	Fair Value	Book/Adjusted Carrying Value	Mortgage-Referenced Security
38141GFA7	\$ 5,012,500	\$ 5,000,000	\$ 5,005,634	No

Information regarding the Company's prepayment penalties and acceleration fees in structured notes as of December 31, 2017, was as follows:

	General Account	Separate Account
Number of CUSIPs	56	-
Aggregate amount of investment income	\$ 14,556,040	\$ -

The carrying value and estimated fair value of bonds and redeemable preferred stocks as of December 31, 2017, 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	\$ 356,686,004	\$ 360,798,613
Due after one year through five years	2,322,170,580	2,416,482,889
Due after five years through ten years	2,480,600,473	2,601,958,578
Due after ten years	<u>5,982,461,789</u>	<u>6,385,610,194</u>
	11,141,918,846	11,764,850,274
MBS and other ABS	<u>3,788,318,796</u>	<u>3,883,577,370</u>
Total	<u>\$ 14,930,237,642</u>	<u>\$ 15,648,427,644</u>

Aging of unrealized capital 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 Capital Losses	Estimated Fair Value	Gross Unrealized Capital Losses	Estimated Fair Value	Gross Unrealized Capital Losses
<b>2017</b>						
U.S. government States, territories, and possessions	\$ 20,878,301	\$ 196,486	\$ 24,900,183	\$ 352,442	\$ 45,778,484	\$ 548,928
Special revenue	6,590,367	20,889	-	-	6,590,367	20,889
Foreign corporate	123,076,350	643,731	-	-	123,076,350	643,731
U.S. and Canadian corporate	178,457,769	3,225,663	162,691,637	5,856,175	341,149,406	9,081,838
Commercial MBS	455,909,037	5,914,312	498,669,343	16,628,420	954,578,380	22,542,732
Residential MBS	48,254,361	400,329	6,933,074	301,729	55,187,435	702,058
Other ABS	263,720,541	3,442,676	196,014,132	6,029,870	459,734,673	9,472,546
	<u>435,646,741</u>	<u>2,942,630</u>	<u>152,894,263</u>	<u>2,517,040</u>	<u>588,541,004</u>	<u>5,459,670</u>
Total	<u>\$ 1,532,533,467</u>	<u>\$ 16,786,716</u>	<u>\$ 1,042,102,632</u>	<u>\$ 31,685,676</u>	<u>\$ 2,574,636,099</u>	<u>\$ 48,472,392</u>
	Less than One Year		One Year or More		Total	
	Estimated Fair Value	Gross Unrealized Capital Losses	Estimated Fair Value	Gross Unrealized Capital Losses	Estimated Fair Value	Gross Unrealized Capital Losses
<b>2016</b>						
U.S. government States, territories, and possessions	\$ 45,774,158	\$ 281,848	\$ -	\$ -	\$ 45,774,158	\$ 281,848
Special revenue	6,488,050	62,272	-	-	6,488,050	62,272
Hybrid	58,379,513	1,813,367	-	-	58,379,513	1,813,367
Foreign corporate	458,576	13,662	-	-	458,576	13,662
U.S. and Canadian corporate	490,727,901	18,956,072	50,779,175	4,803,842	541,507,076	23,759,914
Commercial MBS	2,063,745,084	89,748,506	205,914,676	15,830,079	2,269,659,760	105,578,585
Residential MBS	56,012,658	1,633,176	51,513,348	1,231,749	107,526,006	2,864,925
Other ABS	344,663,001	5,979,274	28,416,770	1,160,516	373,079,771	7,139,790
	<u>754,392,945</u>	<u>14,493,904</u>	<u>149,751,298</u>	<u>2,104,744</u>	<u>904,144,243</u>	<u>16,598,648</u>
Total	<u>\$ 3,820,641,886</u>	<u>\$ 132,982,081</u>	<u>\$ 486,375,267</u>	<u>\$ 25,130,930</u>	<u>\$ 4,307,017,153</u>	<u>\$ 158,113,011</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, 2017, 143 securities were in an unrealized capital loss position one year or more with an average credit rating of A2 and were 92.6% investment grade. As of December 31, 2017, 267 securities were in an unrealized capital loss position less than one year with an average credit rating of A1 and were 94.5% investment grade.

Net realized capital losses for the years ended December 31, 2017 and 2016 include losses of \$13,604,142 and \$11,418,708, 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 capital losses for MBS and other ABS as of December 31, 2017, by vintage, were as follows:

	Agency	Non-Agency				Total
		2014 and Prior	2015	2016	2017	
Commercial MBS	\$ -	\$ 149,967	\$ 28,949	\$ 523,142	\$ -	\$ 702,058
Residential MBS	115,337	4,579,273	1,734,851	2,363,762	679,323	9,472,546
Other ABS	<u>5,459,670</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,459,670</u>
	<u>\$ 5,575,007</u>	<u>\$ 4,729,240</u>	<u>\$ 1,763,800</u>	<u>\$ 2,886,904</u>	<u>\$ 679,323</u>	<u>\$ 15,634,274</u>

Within its investments in ABS in the home equity sector, the Company has an exposure to subprime and Alt-A mortgage loans, which it manages in several ways. The Company monitors its exposure level to ABS against its annual investment authorization level approved by the Board of Directors. Restrictions include exposure at the aggregate level to ABS, along with exposure to ratings classes, subsectors, issuers, and specific assets. The Company also continually tracks securities backed by subprime mortgage loans for factors including credit performance, rating agency actions, prepayment trends, and de-levering. Loans with trends that may indicate underperformance are monitored closely for any further deterioration that may result in action by the Company. The Company's subprime and Alt-A mortgage loans as of December 31, 2017 and 2016 have a carrying value of \$2,173,293 and \$5,862,316, respectively, and the fair value of these loans exceeded the cost basis as of December 31, 2017.

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:

	2017	2016	2015
Proceeds from sales or disposals:			
Bonds	<u>\$ 575,410,591</u>	<u>\$ 142,703,463</u>	<u>\$ 99,745,778</u>
Stocks	<u>\$ 9,826,036</u>	<u>\$ 9,075,758</u>	<u>\$ 3,413,577</u>
Net realized capital gains (losses) on bonds and stocks:			
Bonds:			
Gross realized capital gains from sales or other disposals	\$ 24,010,230	\$ 2,590,532	\$ 4,016,949
Gross realized capital losses from sales or other disposals	(2,386,794)	(4,692,675)	(2,562,614)
OTTI losses	<u>(13,604,142)</u>	<u>(11,418,708)</u>	<u>(18,025,089)</u>
Net realized capital gains (losses)	<u>\$ 8,019,294</u>	<u>\$ (13,520,851)</u>	<u>\$ (16,570,754)</u>
Stocks:			
Gross realized capital gains from sales or other disposals	\$ 2,689,073	\$ 2,557,912	\$ 932,231
Gross realized capital losses from sales or other disposals	<u>(58,412)</u>	<u>(662)</u>	<u>-</u>
Net realized capital gains	<u>\$ 2,630,661</u>	<u>\$ 2,557,250</u>	<u>\$ 932,231</u>

Bond income due and accrued of \$4,332,680 and \$4,574,792 related to bonds in default was excluded from investment income during the years ended December 31, 2017 and 2016, respectively.

**Preferred Stocks** — The Company held perpetual preferred stocks invested in a single issuer with carrying amount and estimated fair value of \$100,000,000 as of December 31, 2017, resulting in no unrealized capital loss positions. The Company did not hold any perpetual preferred stock as of December 31, 2016.

**Common Stocks-Unaffiliated** — Included within common stocks-unaffiliated as of December 31, 2017 and 2016 is FHLB capital stocks of \$38,747,500 and \$23,036,400, respectively. As of December 31, 2017 and 2016, \$29,659,100 and \$22,648,424, respectively, were classified as required stocks and the remaining \$9,088,400 and \$387,976, respectively, were classified as excess stocks.

**Mortgage Loans** — The Company invests in mortgage loans collateralized principally by commercial real estate throughout the United States. All of the Company's mortgage loans are managed as two classes and portfolio segments: commercial loans and farm loans. During 2017, the minimum and maximum lending rates for mortgage loans were 3.26% and 4.85%, 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 2017 was 70.6%. Mutual of Omaha and Companion participate in certain of the Company's mortgage loans.

Net realized capital losses for the years ended December 31, 2017, 2016, and 2015 include losses of \$47,918, \$431,803, and \$535,919, respectively, resulting from impairments of mortgage loans.

Mortgage loan participations purchased from one loan originator comprise 24.6% and 32.3% of the portfolio as of December 31, 2017 and 2016, respectively. The properties collateralizing mortgage loans are geographically dispersed throughout the United States, with the largest concentration in California of approximately 18.1% and 19.4% of the portfolio as of December 31, 2017 and 2016, respectively.

The Company participates or is a co-lender in mortgage loan agreements with other lenders for farm and commercial mortgage loans. These amounts were \$1,166,968,979 and \$1,384,498,426 as of December 31, 2017 and 2016, 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's investment in mortgage loans, by credit quality profile, as of December 31, was as follows:

2017	Debt Service Coverage Ratios			Total
	>1.20x	1.00x-1.20x	<1.00x	
Loan-to-value ratios:				
Less than 65%	\$ 1,679,108,605	\$ 153,531,730	\$ 69,353,932	\$ 1,901,994,267
65% to 75%	170,993,946	39,369,663	1,516,810	211,880,419
76% to 80%	3,588,512	-	-	3,588,512
Greater than 80%	1,048,600	-	-	1,048,600
Total	<u>\$ 1,854,739,663</u>	<u>\$ 192,901,393</u>	<u>\$ 70,870,742</u>	<u>\$ 2,118,511,798</u>

  

2016	Debt Service Coverage Ratios			Total
	>1.20x	1.00x-1.20x	<1.00x	
Loan-to-value ratios:				
Less than 65%	\$ 1,516,545,556	\$ 174,614,013	\$ 68,660,103	\$ 1,759,819,672
65% to 75%	196,694,090	34,018,613	2,848,600	233,561,303
76% to 80%	644,300	884,571	518,844	2,047,715
Greater than 80%	2,881,638	1,852,986	-	4,734,624
Total	<u>\$ 1,716,765,584</u>	<u>\$ 211,370,183</u>	<u>\$ 72,027,547</u>	<u>\$ 2,000,163,314</u>

*Non-Accrual and Past Due Loans* — The Company's loans in current status were \$2,117,892,172 and \$1,998,202,711 as of December 31, 2017 and 2016, respectively. The Company's investment in loans that were 30–59 days past due were \$619,626 and \$1,135,847 as of December 31, 2017 and 2016, respectively. The Company had no loans that were 60-89 days past due as of December 31, 2017. The Company's investment in loans that were 60–89 days past due was \$824,756 as of December 31, 2016. The Company had no loans that were 90–179 days or greater than 180 days past due as of December 31, 2017 and 2016. The recorded investment for loans where the interest rate was reduced was \$39,926,679 and \$31,092,714 as of December 31, 2017 and 2016, respectively. The number of loans impacted and the average interest rate reduction was 57 loans and 1.34%, respectively, for the year ended December 31, 2017. The number of loans impacted and the average interest rate reduction was 44 loans and 1.60%, respectively, for the year ended December 31, 2016.

The Company had no loans that were in non-accrual status as of December 31, 2017 and 2016.

*Impaired Loans* — Information related to impaired loans for the Company during 2017 and 2016, was as follows:

As of December 31,	2017	2016
Impaired mortgage loans	\$ 8,513,026	\$ 14,509,199

  

For the Years Ended December 31,	2017	2016
Average recorded investment	\$ 12,001,136	\$ 15,257,100
Interest income recognized	964,161	1,193,845
Interest received	976,254	1,205,568

The Company was not subject to a participant or co-lender mortgage loan agreement for which the Company is restricted from unilaterally foreclosing on the mortgage loan as of December 31, 2017 and 2016.

The Company had no allowance for credit losses as of December 31, 2017 and 2016.

**Restructured Loans** — The recorded investment in loans modified in a TDR were \$7,933,488 and \$10,073,476 during the years ended December 31, 2017 and 2016, respectively. The realized capital losses in a TDR were \$79,003 for the year ended December 31, 2016. There were no realized capital losses in a TDR for the year ended December 31, 2017.

The Company had no TDRs as of December 31, 2017. During the year ended December 31, 2016, the Company modified two loans with a combined principal balance of \$1,287,346 in a TDR. The Company did not have any mortgage loans that were restructured within the previous twelve months and subsequently defaulted on their restructured terms during the period. No additional funds were committed to debtors whose terms have been modified in the years ended December 31, 2017 and 2016.

**Limited Partnerships** — Net realized capital losses for the years ended December 31, 2017, 2016, and 2015 include losses of \$5,475,171, \$7,230,984, and \$2,251,137, 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:

	Gross Restricted Assets	Total Admitted Restricted Assets	Percentage	
			Gross Restricted to Total Assets	Admitted Restricted to Total Admitted Assets
<b>2017</b>				
Collateral held under security lending agreements	\$ 287,498,568	\$ 287,498,568	1.25 %	1.26 %
Letter stock or securities restricted as to sale-excluding FHLB capital stock	100,000,000	100,000,000	0.44	0.44
FHLB capital stocks	38,747,500	38,747,500	0.17	0.17
On deposit with states	5,459,539	5,459,539	0.02	0.02
Pledged collateral to FHLB (including assets backing funding agreements)	862,407,809	862,407,809	3.76	3.78
Pledged as collateral not captured in other categories	18,050,000	18,050,000	0.08	0.08
Total	<u>\$ 1,312,163,416</u>	<u>\$ 1,312,163,416</u>	<u>5.72 %</u>	<u>5.75 %</u>

	Gross Restricted Assets	Total Admitted Restricted Assets	Percentage	
			Gross Restricted to Total Assets	Admitted Restricted to Total Admitted Assets
<b>2016</b>				
Collateral held under security lending agreements	\$ 154,808,895	\$ 154,808,895	0.74 %	0.75 %
FHLB capital stocks	23,036,400	23,036,400	0.11	0.11
On deposit with states	5,218,194	5,218,194	0.03	0.03
Pledged collateral to FHLB (including assets backing funding agreements)	830,345,976	830,345,976	3.98	4.01
Total	<u>\$ 1,013,409,465</u>	<u>\$ 1,013,409,465</u>	<u>4.86 %</u>	<u>4.90 %</u>

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

	<b>2017</b>	<b>2016</b>	<b>2015</b>
Bonds	\$ 640,541,119	\$ 595,473,734	\$ 579,831,400
Preferred stocks	1,168,478	1,814,636	1,873,234
Mortgage loans	95,715,164	92,375,427	99,706,945
Real estate	15,078,888	15,923,714	16,295,891
Contract loans	11,913,709	12,056,284	12,264,684
Cash and cash equivalents	2,549,409	1,352,044	1,007,900
Short-term investments	184,866	1,153,980	1,286,783
Other	<u>14,354,373</u>	<u>19,032,230</u>	<u>147,698,881</u>
Gross investment income	781,506,006	739,182,049	859,965,718
Amortization of IMR	3,389,236	2,965,120	3,195,294
Investment expenses	<u>(42,462,446)</u>	<u>(39,499,501)</u>	<u>(34,167,565)</u>
Net investment income	<u>\$ 742,432,796</u>	<u>\$ 702,647,668</u>	<u>\$ 828,993,447</u>

### 3. STRUCTURED SECURITIES

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

<b>2017</b>	<b>Carrying Value</b>	<b>Gross Unrealized Capital Gains</b>	<b>Gross Unrealized Capital Losses</b>	<b>Estimated Fair Value</b>
MBS:				
Commercial	\$ 796,864,742	\$ 42,133,138	\$ 702,058	\$ 838,295,822
Residential	<u>900,156,304</u>	<u>36,867,979</u>	<u>9,472,546</u>	<u>927,551,737</u>
	1,697,021,046	79,001,117	10,174,604	1,765,847,559
Other ABS	<u>2,091,297,750</u>	<u>31,891,731</u>	<u>5,459,670</u>	<u>2,117,729,811</u>
Total	<u>\$ 3,788,318,796</u>	<u>\$ 110,892,848</u>	<u>\$ 15,634,274</u>	<u>\$ 3,883,577,370</u>
<b>2016</b>	<b>Carrying Value</b>	<b>Gross Unrealized Capital Gains</b>	<b>Gross Unrealized Capital Losses</b>	<b>Estimated Fair Value</b>
MBS:				
Commercial	\$ 856,054,248	\$ 44,307,849	\$ 2,864,925	\$ 897,497,172
Residential	<u>840,849,068</u>	<u>44,167,846</u>	<u>7,139,790</u>	<u>877,877,124</u>
	1,696,903,316	88,475,695	10,004,715	1,775,374,296
Other ABS	<u>2,118,053,775</u>	<u>32,261,618</u>	<u>16,598,648</u>	<u>2,133,716,745</u>
Total	<u>\$ 3,814,957,091</u>	<u>\$ 120,737,313</u>	<u>\$ 26,603,363</u>	<u>\$ 3,909,091,041</u>

Aging of unrealized capital 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 Capital Losses	Estimated Fair Value	Gross Unrealized Capital Losses	Estimated Fair Value	Gross Unrealized Capital Losses
<b>2017</b>						
MBS:						
Commercial	\$ 48,254,361	\$ 400,329	\$ 6,933,074	\$ 301,729	\$ 55,187,435	\$ 702,058
Residential	<u>263,720,541</u>	<u>3,442,676</u>	<u>196,014,132</u>	<u>6,029,870</u>	<u>459,734,673</u>	<u>9,472,546</u>
	311,974,902	3,843,005	202,947,206	6,331,599	514,922,108	10,174,604
Other ABS	<u>435,646,741</u>	<u>2,942,630</u>	<u>152,894,263</u>	<u>2,517,040</u>	<u>588,541,004</u>	<u>5,459,670</u>
Total	<u>\$ 747,621,643</u>	<u>\$ 6,785,635</u>	<u>\$ 355,841,469</u>	<u>\$ 8,848,639</u>	<u>\$ 1,103,463,112</u>	<u>\$ 15,634,274</u>
	Less than One Year		One Year or More		Total	
	Estimated Fair Value	Gross Unrealized Capital Losses	Estimated Fair Value	Gross Unrealized Capital Losses	Estimated Fair Value	Gross Unrealized Capital Losses
<b>2016</b>						
MBS:						
Commercial	\$ 56,012,658	\$ 1,633,176	\$ 51,513,348	\$ 1,231,749	\$ 107,526,006	\$ 2,864,925
Residential	<u>344,663,001</u>	<u>5,979,274</u>	<u>28,416,770</u>	<u>1,160,516</u>	<u>373,079,771</u>	<u>7,139,790</u>
	400,675,659	7,612,450	79,930,118	2,392,265	480,605,777	10,004,715
Other ABS	<u>754,392,945</u>	<u>14,493,904</u>	<u>149,751,298</u>	<u>2,104,744</u>	<u>904,144,243</u>	<u>16,598,648</u>
Total	<u>\$ 1,155,068,604</u>	<u>\$ 22,106,354</u>	<u>\$ 229,681,416</u>	<u>\$ 4,497,009</u>	<u>\$ 1,384,750,020</u>	<u>\$ 26,603,363</u>

OTTI is 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 was no OTTI on loan-backed and structured securities related to the intent to sell or inability to hold to maturity during 2017 or 2016. All of the Company's OTTI on loan-backed and structured securities during 2017 and 2016 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:

2017	Amortized Cost Basis Before Current Period OTTI	Present Value of Projected Cash Flows	Recognized OTTI	Amortized Cost Basis After OTTI	Fair Value at the Date of Impairment	Date of Financial Statement Where Reported
CUSIP:						
46625MDB2	\$ 39,668	\$ -	\$ 39,668	\$ -	\$ -	3/31/2017
524685AA2	21,040,415	19,828,312	1,212,103	19,828,312	18,360,135	3/31/2017
05952AAN4	2,130,738	1,479,950	650,788	1,479,950	1,337,997	6/30/2017
46630VAP7	1,040,378	629,860	410,518	629,860	5,768	6/30/2017
05952AAN4	1,478,197	1,431,252	46,944	1,431,252	1,165,177	9/30/2017
46630VAP7	643,884	-	643,884	-	-	9/30/2017
05952AAN4	1,144,768	573,169	571,599	573,169	276,405	12/31/2017
	<u>\$ 27,518,048</u>	<u>\$ 23,942,543</u>	<u>\$ 3,575,504</u>	<u>\$ 23,942,543</u>	<u>\$ 21,145,482</u>	
2016	Amortized Cost Basis Before Current Period OTTI	Present Value of Projected Cash Flows	Recognized OTTI	Amortized Cost Basis After OTTI	Fair Value at the Date of Impairment	Date of Financial Statement Where Reported
CUSIP:						
46630VAP7	\$ 512,662	\$ 429,913	\$ 82,750	\$ 429,913	\$ 24,976	3/31/2016
05952AAN4	2,125,830	2,096,163	29,667	2,096,163	2,096,163	5/31/2016
46625MDB2	546,154	115,599	430,555	115,599	30,000	6/30/2016
929766MZ3	915,860	905,705	10,155	905,705	815,385	6/30/2016
46625MDB2	117,553	81,720	35,833	81,720	720	9/30/2016
760985FR7	269,122	262,944	6,178	262,944	260,931	9/30/2016
929766MZ3	900,803	880,515	20,288	880,515	663,727	9/30/2016
929766NA7	97,753	90,005	7,748	90,005	40,025	9/30/2016
46625MDB2	82,216	39,031	43,186	39,031	360	12/31/2016
524685AA2	1,429,976	1,422,226	7,749	1,422,226	1,422,226	12/31/2016
929766NA7	87,939	-	87,939	-	-	12/31/2016
70469HAA7	1,163,403	851,142	312,261	851,142	634,442	12/31/2016
	<u>\$ 8,249,271</u>	<u>\$ 7,174,963</u>	<u>\$ 1,074,309</u>	<u>\$ 7,174,963</u>	<u>\$ 5,988,955</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
<b>2017</b>				
State and political subdivisions securities	\$ -	\$ 87,803	\$ -	\$ 87,803
Commercial MBS	-	-	276,405	276,405
Other ABS	-	-	516,565	516,565
SVO Identified Funds - ETFs	51,362,502	-	-	51,362,502
Common stocks	9,211,219	38,747,500	-	47,958,719
Securities lending cash collateral	287,498,568	-	-	287,498,568
Derivative cash collateral	18,050,000	-	-	18,050,000
Derivative assets	341,244	20,257,680	-	20,598,924
Derivative liabilities	-	44,471,216	-	44,471,216
	<u>366,463,533</u>	<u>103,564,199</u>	<u>792,970</u>	<u>470,820,702</u>
Total without separate accounts	366,463,533	103,564,199	792,970	470,820,702
Separate accounts	<u>2,359,030,669</u>	<u>1,638,933,808</u>	<u>-</u>	<u>3,997,964,477</u>
Total	<u>\$ 2,725,494,202</u>	<u>\$ 1,742,498,007</u>	<u>\$ 792,970</u>	<u>\$ 4,468,785,179</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
<b>2016</b>				
State and political subdivisions securities	\$ -	\$ 240,492	\$ -	\$ 240,492
U.S. and Canadian corporate securities	-	-	32,900,000	32,900,000
Foreign corporate securities	-	-	8,400,000	8,400,000
Other ABS	-	-	8,404,962	8,404,962
Common Stocks	-	23,036,400	-	23,036,400
Securities lending cash collateral	154,808,895	-	-	154,808,895
Derivative cash collateral	37,880,000	-	-	37,880,000
Derivative assets	-	41,213,191	-	41,213,191
Derivative liabilities	-	4,985,304	-	4,985,304
	<u>192,688,895</u>	<u>69,475,387</u>	<u>49,704,962</u>	<u>311,869,244</u>
Total without separate accounts	192,688,895	69,475,387	49,704,962	311,869,244
Separate accounts	<u>2,010,263,998</u>	<u>1,366,716,872</u>	<u>-</u>	<u>3,376,980,870</u>
Total	<u>\$ 2,202,952,893</u>	<u>\$ 1,436,192,259</u>	<u>\$ 49,704,962</u>	<u>\$ 3,688,850,114</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 year ended December 31, 2017 and 2016, there were no transfers between Level 1 and Level 2.

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**

*SVO Identified Funds-ETFs and Common Stocks* — These securities are principally valued using the market approach. The valuation of these securities is based principally on observable inputs including quoted prices in active markets.

*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.

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

*Separate Accounts* — Separate accounts are comprised primarily of money market instruments, mutual funds, collective investment trusts, exchange traded funds, and common stock. Valuation is based on actively traded money market instruments, mutual funds, collective investment trusts, exchange traded funds, and common stocks that have daily quoted net asset values for identical assets that the Company can access.

### **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.

*Common Stocks-Unaffiliated* — These securities are only redeemable at par, so the fair value is presumed to be par.

*Derivative Assets and Liabilities* — These derivatives include swaptions, foreign currency swaps, and call spread options, and are principally valued using an income approach. Valuations are based on present value techniques and option pricing models, which utilize significant inputs that may include implied volatility, the swap yield curve, LIBOR basis curves, repurchase rates, currency spot rates, and cross currency basis curves.

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

### 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.

*Structured Securities comprised of Commercial MBS and 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.

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, 2017 and 2016, were as follows:

	Balance January 1, 2017	Capital Gains (Losses) Included in		Purchases	Sales and Repayments	Net Transfers Into Level 3	Net Transfers Out of Level 3	Balance December 31, 2017
		Realized Capital Gains (Losses)	Included in Surplus					
U.S. and Canadian corporate securities	\$ 32,900,000	\$ -	\$ 114,882	\$ -	\$ (33,014,882)	\$ -	\$ -	\$ -
Foreign corporate services	8,400,000	-	-	-	(8,400,000)	-	-	-
Commercial MBS	-	(1,269,331)	(296,764)	-	(273,151)	2,115,651	-	276,405
Other ABS	8,404,962	-	(131,070)	-	(8,608,469)	851,142	-	516,565
Total	<u>\$ 49,704,962</u>	<u>\$ (1,269,331)</u>	<u>\$ (312,952)</u>	<u>\$ -</u>	<u>\$ (50,296,502)</u>	<u>\$ 2,966,793</u>	<u>\$ -</u>	<u>\$ 792,970</u>
	Balance January 1, 2016	Capital Gains (Losses) Included in		Purchases	Sales and Repayments	Net Transfers Into Level 3	Net Transfers Out of Level 3	Balance December 31, 2016
		Realized Capital Gains (Losses)	Included in Surplus					
U.S. and Canadian corporate securities	\$ -	\$ (3,600,000)	\$ (114,882)	\$ -	\$ (34,085)	\$ 36,648,967	\$ -	\$ 32,900,000
Foreign corporate services	-	(3,600,000)	-	-	-	12,000,000	-	8,400,000
Commercial MBS	26,775	(95,687)	21,567	-	47,345	-	-	-
Other ABS	1,551,451	-	(5,584)	-	(5,184,865)	12,043,960	-	8,404,962
Total	<u>\$ 1,578,226</u>	<u>\$ (7,295,687)</u>	<u>\$ (98,899)</u>	<u>\$ -</u>	<u>\$ (5,171,605)</u>	<u>\$ 60,692,927</u>	<u>\$ -</u>	<u>\$ 49,704,962</u>

**Fair Value of Financial Instruments** — The carrying values, estimated fair values, and the level within the fair value hierarchy in which the Company’s financial instruments fall as of December 31, were as follows:

	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3	Not Practicable (Carrying Value)
<b>2017</b>						
Financial assets:						
Bonds	\$ 14,898,437,642	\$ 15,614,642,073	\$ 51,362,502	\$ 14,340,958,455	\$ 1,222,321,116	\$ -
Preferred stocks	131,800,000	133,785,571	-	33,785,571	-	100,000,000
Common stocks — unaffiliated	47,958,719	47,958,719	9,211,219	38,747,500	-	-
Mortgage loans	2,118,511,798	2,144,690,214	-	-	2,144,690,214	-
Contract loans	184,171,324	184,171,324	-	-	-	184,171,324
Cash and cash equivalents	(4,408,157)	(4,407,262)	(6,417,462)	2,010,200	-	-
Short-term investments	104,786,154	104,786,045	-	104,786,045	-	-
Securities lending cash collateral	287,498,568	287,498,568	287,498,568	-	-	-
Derivative assets	20,598,924	20,598,924	341,244	20,257,680	-	-
Financial liabilities:						
Deposit-type contracts	2,827,783,339	2,833,258,590	-	-	2,833,258,590	-
Securities lending cash collateral	287,498,568	287,498,568	287,498,568	-	-	-
Derivative cash collateral	1,010,000	1,010,000	1,010,000	-	-	-
Derivative liabilities	44,471,216	44,471,216	-	44,471,216	-	-
Borrowings	59,343,493	63,457,656	-	63,457,656	-	-
<b>2016</b>						
Financial assets:						
Bonds	\$ 13,797,081,508	\$ 14,204,186,392	\$ -	\$ 12,954,687,447	\$ 1,249,498,944	\$ -
Preferred stocks	28,800,000	30,353,692	-	30,353,692	-	-
Common stocks — unaffiliated	23,036,400	23,036,400	-	23,036,400	-	-
Mortgage loans	2,000,163,314	2,022,208,344	-	-	2,022,208,344	-
Contract loans	179,965,773	179,965,773	-	-	-	179,965,773
Cash and cash equivalents	51,472,241	51,472,241	51,472,241	-	-	-
Short-term investments	50,000,000	50,000,000	-	50,000,000	-	-
Securities lending cash collateral	154,808,895	154,808,895	154,808,895	-	-	-
Derivative assets	41,213,191	41,213,191	-	41,213,191	-	-
Financial liabilities:						
Deposit-type contracts	2,691,722,811	2,585,791,579	-	-	2,585,791,579	-
Securities lending cash collateral	154,808,895	154,808,895	154,808,895	-	-	-
Derivative cash collateral	37,880,000	37,880,000	37,880,000	-	-	-
Derivative liabilities	4,985,304	4,985,304	-	4,985,304	-	-
Borrowings	70,298,400	77,037,214	-	77,037,214	-	-

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

The fair values of cash collateral, common stocks-unaffiliated, and derivative financial instruments 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. It is not practicable to measure the value in certain private preferred stock and the carrying value approximates the 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.

*Contract Loans* — Contract loans are stated at the aggregate unpaid balance. It is not practicable to determine fair value as contract loans are often repaid by reducing the policy benefits and have variable maturity dates.

*Cash and Cash Equivalents* — The fair value for cash equivalents includes a bond with less than a year to maturity, are valued using a discounted cash flow methodology using standard market observable inputs, and inputs derived from, or corroborated by, market observable data, including the market yield curve, duration, call provisions, observable prices, and spreads for similar publicly traded issues that incorporate the credit quality and industry sector of the issuer. The carrying amount for cash and other cash equivalents approximates fair value.

*Short-Term Investments* — The fair values for short-term investments includes public bonds with less than a year to maturity, are valued using a discounted cash flow methodology using standard market observable inputs, and inputs derived from, or corroborated by, market observable data, including the market yield curve, duration, call provisions, observable prices, and spreads for similar publicly traded issues that incorporate the credit quality and industry sector of the issuer. The carrying amount for the other short-term investments approximates fair value.

*Deposit-Type Contracts* — The fair values of Guaranteed Interest Contracts, annuities, and supplementary contracts without life contingencies in payout status are estimated by calculating an average present value of expected cash flows over a broad range of interest rate scenarios using the current market risk-free interest rates adjusted for spreads required for publicly traded bonds issued by comparably rated insurers. The carrying amounts for all other deposit-type contracts approximates their fair value.

*Borrowings* — The fair values of long-term FHLB borrowings are estimated by discounting expected future cash flows using current interest rates for debt with comparable terms. The fair values of other borrowings are deemed to be the same as its carrying value.

## 5. DERIVATIVE FINANCIAL INSTRUMENTS

The following tables summarize the Company's derivative financial instruments as of December 31:

2017	Contracts	Notional Amount	Credit Exposure	Carrying Value		Estimated Fair Value	
				Assets	Liabilities	Assets	Liabilities
Foreign currency swap	N/A	\$ 688,809,975	\$ 10,978,713	\$ 17,667,187	\$ 44,445,870	\$ 17,667,187	\$ 44,445,870
Call spread options	N/A	33,131,897	-	2,590,492	25,346	2,590,492	25,346
Warrants	<u>14,338</u>	<u>N/A</u>	<u>-</u>	<u>341,245</u>	<u>-</u>	<u>341,245</u>	<u>-</u>
Total	<u>14,338</u>	<u>\$ 721,941,872</u>	<u>\$ 10,978,713</u>	<u>\$ 20,598,924</u>	<u>\$ 44,471,216</u>	<u>\$ 20,598,924</u>	<u>\$ 44,471,216</u>

2016	Contracts	Notional Amount	Credit Exposure	Carrying Value		Estimated Fair Value	
				Assets	Liabilities	Assets	Liabilities
Foreign currency swap	N/A	\$ 431,375,297	\$ 6,771,783	\$ 40,606,731	\$ 4,985,304	\$ 40,606,731	\$ 4,985,304
Swaptions	N/A	1,650,000,000	3,761,481	-	-	-	-
Call spread options	<u>N/A</u>	<u>9,762,310</u>	<u>-</u>	<u>606,460</u>	<u>-</u>	<u>606,460</u>	<u>-</u>
Total	<u>N/A</u>	<u>\$ 2,091,137,607</u>	<u>\$ 10,533,264</u>	<u>\$ 41,213,191</u>	<u>\$ 4,985,304</u>	<u>\$ 41,213,191</u>	<u>\$ 4,985,304</u>

The following changes in value of derivatives for the years ended December 31, were reported in the statutory financial statements as follows:

	<b>Unassigned Surplus</b>	<b>Net Realized Capital Losses</b>	<b>Net Investment Income</b>
<b>2017</b>			
Foreign currency swaps	\$ (62,400,110)	\$ 403,937	\$ 5,899,395
Swaptions	3,444,375	(3,444,375)	-
Call spread options	<u>940,642</u>	<u>766,678</u>	<u>-</u>
Total	<u>\$ (58,015,093)</u>	<u>\$ (2,273,760)</u>	<u>\$ 5,899,395</u>
<b>2016</b>			
Interest-rate swaps	\$ 674,166	\$ (324,000)	\$ (427,744)
Foreign currency swaps	8,708,002	1,448,487	3,539,998
Swaptions	6,875,000	(6,875,000)	-
Call spread options	<u>126,419</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 16,383,587</u>	<u>\$ (5,750,513)</u>	<u>\$ 3,112,254</u>
<b>2015</b>			
Interest-rate swaps	\$ 665,005	\$ -	\$ (916,292)
Foreign currency swaps	17,528,787	-	2,085,462
Swaptions	<u>1,545,185</u>	<u>(3,052,500)</u>	<u>-</u>
Total	<u>\$ 19,738,977</u>	<u>\$ (3,052,500)</u>	<u>\$ 1,169,170</u>

Certain of the Company's derivative instruments contain provisions requiring collateral against the fair value subject to minimum transfer amounts. The aggregate fair value of all the derivative instruments with collateral features was a liability of \$24,213,536 and an asset of \$35,836,545 on December 31, 2017 and 2016, respectively. The Company pledged \$18,050,000 of cash collateral as of December 31, 2017. There was no cash collateral pledged by the Company as of December 31, 2016. The Company was holding \$1,010,000 and \$37,880,000 of cash collateral as of December 31, 2017 and 2016, respectively.

## 6. INCOME TAXES

The Company's federal income tax return is consolidated with the following entities: Mutual of Omaha, Companion, United World Life, Property and Casualty Company of Omaha, Omaha Re, Mutual of Omaha Structured Settlement Company, Mutual of Omaha Holdings, Inc. and its subsidiaries, Omaha Financial Holdings, Inc. and its subsidiaries, Mutual of Omaha Medicare Advantage Company, and The Omaha Indemnity Company. The Company also files state income tax returns in various jurisdictions.

Income taxes are allocated among the companies pursuant to a written agreement approved by the Board of Directors. Each company's provision for federal income taxes is based on separate return calculations with credit for net operating losses and capital losses allowed only as each company would utilize such losses on a separate return basis with limited exceptions.

On December 22, 2017, the Act was signed into law. The Act included numerous changes, including a permanent reduction in the federal corporate income tax rate from 35% to 21%, effective January 1, 2018. As a result of the reduction in rates, the deferred tax asset was reduced, which resulted in a decrease of \$101,821,330 to surplus for the year ended December 31, 2017. See the effective tax rate reconciliation table below for details of this adjustment.

In the event of future tax losses, such losses cannot be carried back to prior years, but carry forward indefinitely where such carry forward is limited to a deduction equal to 80% of the taxable income in any one year.

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

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

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

	<b>2017</b>	<b>2016</b>	<b>2015</b>
Current federal income tax expense	\$ 42,992,987	\$ 23,519,700	\$ 38,208,236
Current foreign income tax expense	<u>130,234</u>	<u>50,207</u>	<u>65,208</u>
Federal income tax expense	43,123,221	23,569,907	38,273,444
Federal income tax expense (benefit) on net realized capital losses	<u>3,961,385</u>	<u>(1,212,222)</u>	<u>1,468,554</u>
Total federal and foreign income tax expense	47,084,606	22,357,685	39,741,998
Change in net deferred income taxes	<u>73,181,690</u>	<u>8,860,779</u>	<u>3,344,152</u>
Total federal income tax expense incurred	<u>\$ 120,266,296</u>	<u>\$ 31,218,464</u>	<u>\$ 43,086,150</u>

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

	2017	2016	2015
Net gain from operations before federal income taxes and net realized capital losses	\$ 116,698,754	\$ 32,648,909	\$ 215,630,167
Net realized capital gains (losses) before federal income taxes and transfers to IMR	<u>3,546,061</u>	<u>(1,983,843)</u>	<u>(20,846,506)</u>
Total pre-tax gain	120,244,815	30,665,066	194,783,661
Statutory tax rate	<u>35 %</u>	<u>35 %</u>	<u>35 %</u>
Expected federal income taxes incurred	42,085,686	10,732,773	68,174,281
Affiliate reinsurance reserve transfer	9,270	33,202,358	152,138
Prior year tax benefits	(3,415,267)	(1,201,315)	-
Dividends received deduction	(1,153,030)	(1,329,025)	(1,443,314)
Amortization of IMR	(1,186,233)	(1,037,792)	(1,118,353)
Change in nonadmitted assets	(6,793,528)	(4,461,228)	(3,057,351)
Reserve changes in surplus	(6,744,074)	(3,879,836)	(18,614,899)
Other	<u>(4,357,858)</u>	<u>(807,471)</u>	<u>(1,006,352)</u>
Federal income tax expense at effective rate before 2017 tax legislation	18,444,966	31,218,464	43,086,150
Impact of 2017 tax legislation	<u>101,821,330</u>	<u>-</u>	<u>-</u>
Total federal income tax expense at effective tax rate after 2017 tax legislation	<u>\$ 120,266,296</u>	<u>\$ 31,218,464</u>	<u>\$ 43,086,150</u>

The statute of limitations has closed on all years through 2013. Therefore, the years after 2013 remain subject to audit by federal and state tax jurisdictions.

There were no net operating loss carryforwards as of December 31, 2017.

For the years ended December 31, 2017 and 2016, there was no income tax accrual for uncertain tax positions. As of December 31, 2017, 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, 2017 and 2016, the Company had no statutory valuation allowance reducing its DTA.



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

	<b>2017</b>		
	<b>Ordinary</b>	<b>Capital</b>	<b>Total</b>
Gross DTA	\$ 317,901,849	\$ 6,750,462	\$ 324,652,311
Nonadmitted DTA	<u>(61,927,211)</u>	<u>-</u>	<u>(61,927,211)</u>
Net admitted DTA	255,974,638	6,750,462	262,725,100
DTL	<u>(165,169,851)</u>	<u>(6,750,462)</u>	<u>(171,920,313)</u>
Net DTA	<u>\$ 90,804,787</u>	<u>\$ -</u>	<u>\$ 90,804,787</u>
	<b>2016</b>		
	<b>Ordinary</b>	<b>Capital</b>	<b>Total</b>
Gross DTA	\$ 334,364,478	\$ 23,268,310	\$ 357,632,788
Nonadmitted DTA	<u>(93,135,365)</u>	<u>-</u>	<u>(93,135,365)</u>
Net admitted DTA	241,229,113	23,268,310	264,497,423
DTL	<u>(106,615,173)</u>	<u>(23,268,310)</u>	<u>(129,883,483)</u>
Net DTA	<u>\$ 134,613,940</u>	<u>\$ -</u>	<u>\$ 134,613,940</u>

In the calculation of the net admitted DTA, the capital DTL noted above is limited to the gross capital DTA. The excess of the capital DTL over the capital DTA has been reclassified to ordinary DTL in accordance with SSAP 101, paragraph 11.c.

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

	<b>2017</b>		
	<b>Ordinary</b>	<b>Capital</b>	<b>Total</b>
Federal income taxes paid in prior years recoverable through loss carrybacks	\$ -	\$ -	\$ -
Adjusted gross DTA expected to be realized (lesser of 1 or 2)	<u>89,499,790</u>	<u>1,304,997</u>	<u>90,804,787</u>
1. Adjusted gross DTA expected to be realized following the balance sheet date	89,499,790	1,304,997	90,804,787
2. Adjusted gross DTA allowed per limitation threshold	227,230,921	-	227,230,921
Adjusted gross DTA that can be offset against DTL	<u>166,474,848</u>	<u>5,445,465</u>	<u>171,920,313</u>
DTA admitted as the result of application of SSAP 101	<u>\$ 255,974,638</u>	<u>\$ 6,750,462</u>	<u>\$ 262,725,100</u>
	<b>2016</b>		
	<b>Ordinary</b>	<b>Capital</b>	<b>Total</b>
Federal income taxes paid in prior years recoverable through loss carrybacks	\$ 56,752,076	\$ 4,987,425	\$ 61,739,501
Adjusted gross DTA expected to be realized (lesser of 1 or 2)	<u>72,874,439</u>	<u>-</u>	<u>72,874,439</u>
1. Adjusted gross DTA expected to be realized following the balance sheet date	72,874,439	-	72,874,439
2. Adjusted gross DTA allowed per limitation threshold	194,222,477	-	194,222,477
Adjusted gross DTA that can be offset against DTL	<u>111,602,598</u>	<u>18,280,885</u>	<u>129,883,483</u>
DTA admitted as the result of application of SSAP 101	<u>\$ 241,229,113</u>	<u>\$ 23,268,310</u>	<u>\$ 264,497,423</u>

The authorized control level risk-based capital (“RBC”) ratio percentages used to determine recovery period and threshold limitation amounts were 840% and 809% as of December 31, 2017 and 2016, respectively. The amounts of adjusted capital and surplus used to determine recovery period and threshold limitations were \$1,667,687,639 and \$1,424,916,972 as of December 31, 2017 and 2016, respectively.

The Company has not utilized an income tax planning strategy for the realization of the DTA for 2017 and 2016.

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

	<u>2017</u>	<u>2016</u>	<u>Change</u>
DTA:			
Ordinary:			
Policy reserves	\$ 169,477,505	\$ 109,381,253	\$ 60,096,252
Investments	45,132	1,326,627	(1,281,495)
Deferred acquisition costs	125,345,514	196,323,644	(70,978,130)
Compensation and benefit accrual	5,858,959	9,545,286	(3,686,327)
Other expense accruals	3,036,011	817,251	2,218,760
Receivables — nonadmitted	748,916	1,922,486	(1,173,570)
Other nonadmitted assets	12,829,032	13,913,899	(1,084,867)
Other	<u>560,780</u>	<u>1,134,032</u>	<u>(573,252)</u>
Subtotal	317,901,849	334,364,478	(16,462,629)
Nonadmitted DTA	<u>(61,927,211)</u>	<u>(93,135,365)</u>	<u>31,208,154</u>
Admitted ordinary DTA	<u>255,974,638</u>	<u>241,229,113</u>	<u>14,745,525</u>
Capital:			
Investments	<u>6,750,462</u>	<u>23,268,310</u>	<u>(16,517,848)</u>
Admitted capital DTA	<u>6,750,462</u>	<u>23,268,310</u>	<u>(16,517,848)</u>
Admitted DTA	<u>262,725,100</u>	<u>264,497,423</u>	<u>(1,772,323)</u>
DTL:			
Ordinary:			
Investments	(6,615,592)	(24,112,728)	17,497,136
Fixed assets	(6,472,281)	(11,156,963)	4,684,682
Reserve basis adjustment	(114,131,661)	(29,261,822)	(84,869,839)
Advance commissions	(9,265,998)	(12,114,906)	2,848,908
Other	<u>(2,899,783)</u>	<u>(4,568,935)</u>	<u>1,669,152</u>
Subtotal	<u>(139,385,315)</u>	<u>(81,215,354)</u>	<u>(58,169,961)</u>
Capital:			
Investments	(31,578,189)	(47,073,447)	15,495,258
Real estate	<u>(956,809)</u>	<u>(1,594,682)</u>	<u>637,873</u>
Subtotal	<u>(32,534,998)</u>	<u>(48,668,129)</u>	<u>16,133,131</u>
DTL	<u>(171,920,313)</u>	<u>(129,883,483)</u>	<u>(42,036,830)</u>
Net admitted DTA	<u>\$ 90,804,787</u>	<u>\$ 134,613,940</u>	<u>\$ (43,809,153)</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:

	<u>2017</u>	<u>2016</u>	<u>Change</u>
DTA	\$ 324,652,311	\$ 357,632,788	\$(32,980,477)
DTL	<u>(171,920,313)</u>	<u>(129,883,483)</u>	<u>(42,036,830)</u>
Net DTA	<u>\$ 152,731,998</u>	<u>\$ 227,749,305</u>	(75,017,307)
Tax effect of unrealized capital gains			<u>1,835,617</u>
Change in net deferred income taxes			<u>\$(73,181,690)</u>
	<u>2016</u>	<u>2015</u>	<u>Change</u>
DTA	\$ 357,632,788	\$ 347,463,749	\$ 10,169,039
DTL	<u>(129,883,483)</u>	<u>(120,264,735)</u>	<u>(9,618,748)</u>
Net DTA	<u>\$ 227,749,305</u>	<u>\$ 227,199,014</u>	550,291
Tax effect of unrealized capital losses			<u>(9,411,070)</u>
Change in net deferred income taxes			<u>\$ (8,860,779)</u>

## 7. RELATED PARTY INFORMATION

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

	<b>Admitted</b>	<b>Nonadmitted</b>	<b>Admitted</b>	<b>Nonadmitted</b>
Fulcrum Growth Partners, L.L.C.	\$ 1,401,185	\$ -	\$ 4,128,525	\$ -
Fulcrum Growth Partners III, L.L.C.	58,134,725	-	56,148,893	-
UM Holdings, L.L.C.	-	166,302	-	30,648
Earnest SLR Trust	37,914,030	1,948,477	-	-
Legacy Benefits Ins Settlement	18,672,413	-	-	-

The audited statutory surplus of the Company's wholly owned insurance SCA, Omaha Re, reflects a departure from NAIC SAP for a prescribed practice from the NDOI, which requires an excess of loss asset be recorded as an admitted asset. The Company, however, has adjusted the investment in Omaha Re to be consistent with NAIC SAP, which does not allow the excess of loss asset to be an admitted asset.

The Company has an investment in an insurance SCA, Companion, for which the audited statutory surplus and income reflects a departure from NAIC SAP. Companion is domiciled in the State of New York and is required to record assets and liabilities under state law, if different from NAIC SAP. In 2017, this increased net income by \$14,021,022 and decreased surplus \$13,754,140. In 2016, this increased net income by \$842,573 and decreased surplus \$27,775,162. The differences primarily relate to reserve valuations under New York Regulation 147. The Company's investment in Companion was \$57,412,745 and \$47,893,084 at December 31, 2017 and 2016, respectively. The investment would have been \$71,166,885 and \$75,668,246 at December 2017 and 2016, respectively, without the prescribed practices. The RBC of Companion would not have triggered a regulatory event if the prescribed practice was not used.

During 2015, mortgage loan and real estate transfers between the Company and UM Holdings, L.L.C., were at fair value. The Company had no recorded losses on the transfer of real estate to UM Holdings L.L.C. The Company's contributions to and distributions from UM Holdings L.L.C. in 2015 were as follows:

	<b>Cash</b>	<b>Mortgage Loans</b>	<b>Total</b>
<b>Contributions:</b>			
May 11, 2015	<u>\$ -</u>	<u>\$ 221,468</u>	<u>\$ 221,468</u>
<b>Distributions:</b>			
May 14, 2015	\$ 150,000	\$ -	\$ 150,000
May 29, 2015	-	221,468	221,468
December 21, 2015	<u>110,000</u>	<u>-</u>	<u>110,000</u>
	<u>\$ 260,000</u>	<u>\$ 221,468</u>	<u>\$ 481,468</u>

The Company has reinsurance agreements with affiliate entities. The Company assumes certain group and individual life insurance from Companion. The Company cedes certain individual life insurance to Omaha Re. The Company cedes certain individual health insurance to Mutual of Omaha. See Note 9 for impacts on the statutory financial statements due to these agreements.

The Company has a bilateral unsecured internal borrowing agreement with Mutual of Omaha that renews annually and allows Mutual of Omaha to borrow up to \$250,000,000 from the Company. The interest rate for borrowing under this agreement in 2017 was from 0.75% to 1.50% and 0.45% during 2016. The amount outstanding as of December 31, 2017 was \$96,000,000 and was included in short-term investments. The amount outstanding as of December 31, 2016 was \$50,000,000 and was included in short-term investments. The Company received interest payments of \$181,651 and \$130,890 for the years ended December 31, 2017 and 2016, respectively. No interest payments were received for the years ended December 31, 2015.

The Company previously entered into a line of credit agreement with Omaha Financial Holdings, Inc. ("OFHI") at an interest rate of 2.45% and allowed OFHI to borrow up to \$100,000,000 less any outstanding balances on promissory notes from the Company. On September 22, 2015, the line of credit matured and was not renewed. The Company received interest payments of \$825,105 for the year ended December 31, 2015.

On June 21, 2017, a cash return of capital of \$5,000,000 was made to the Company by Omaha Re.

On August 21, 2017, a cash return of capital of \$6,500,000 was made to the Company by Omaha Re.

On December 22, 2017, the Company made a cash capital contribution of \$5,000,000 to Omaha Re.

On December 27, 2017, a cash return of capital of \$46,423,966 was made to the Company by Omaha Re.

On December 27, 2017, a securities and related interest return of capital of \$81,381,102 was made to the Company by Omaha Re.

The Company recorded a capital contribution of \$27,000,000 as a payable to Companion as of December 31, 2017, which was settled with cash on February 15, 2018.

On January 19, 2016, the Company made a cash capital contribution of \$5,000,000 to Companion, which was accrued on December 31, 2015.

On April 1, 2016, the Company paid a dividend of \$96,893,320 to Mutual of Omaha in the form of a transferred private equity investment.

On December 27, 2016, the Company made a cash capital contribution of \$5,000,000 to Omaha Re.

On December 29, 2016, a cash return of capital of \$24,000,000 was made to the Company by Omaha Re.

On September 4, 2015, the Company made a cash capital contribution of \$1,000,000 to Omaha Life Insurance Company.

On September 28, 2015, a cash return of capital of \$1,000,000 was made to the Company by Omaha Life Insurance Company.

On December 30, 2015, the Company made a cash capital contribution of \$10,000,000 to Companion.

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. Any amounts due to or from each affiliated company are presented on a net basis in the statutory financial statements.

Mutual of Omaha and certain of its direct and indirect subsidiaries, including the Company, 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 Mutual of Omaha and are subject to allocation among Mutual of Omaha and its subsidiaries. Management believes the measures used to allocate expenses among companies provide a reasonable allocation that conforms to NAIC guidelines. Additionally, certain amounts are paid or collected by Mutual of Omaha on behalf of the Company and are generally settled within 30 days. Amounts due to the parent from the Company for these services were included in payable to parent, subsidiaries, and affiliates and were \$66,785,947 and \$75,160,231 as of December 31, 2017 and 2016, respectively.

## 8. BORROWINGS

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

FHLB advances due in 2023 at 5.03% interest rate	\$ 59,343,493
Securities lending	<u>287,498,568</u>
	<u>\$ 346,842,061</u>

The Company has a borrowing agreement with the FHLB under which the Company pledges bonds in return for extensions of credit. The Company and Mutual of Omaha have jointly authorized a maximum extension of credit with the FHLB of \$1,000,000,000 with a maximum of \$600,000,000 available for funding agreement contracts. The maximum amount borrowed by the Company under this agreement, excluding funding agreement contracts, was \$249,272,722 during the year ended December 31, 2017. The Company held \$3,473,913 and \$2,406,788 of FHLB stocks as part of this borrowing agreement as of December 31, 2017 and 2016, respectively.

The liability for the funding agreements was \$600,000,000 as of December 31, 2017 and 2016, and was included in deposit-type contracts. As of December 31, 2017, the related accrued interest was \$731,272 and is due in 2018. The related accrued interest as of December 31, 2016 was \$330,863 and was due in 2017. The Company held \$35,273,587 and \$20,629,612 of FHLB stocks as part of these contracts as of December 31, 2017 and 2016, respectively.

As of December 31, 2017, the funding agreement contracts mature as follows:

2018	\$ 235,000,000
2019	167,000,000
2020	105,000,000
2021	<u>93,000,000</u>
	<u>\$ 600,000,000</u>

The Company had MBS pledged as collateral with carrying values of \$862,407,809 and \$830,345,976, respectively, and with fair values of \$894,612,391 and \$868,666,303 pledged under these agreements as of December 31, 2017 and 2016, respectively.

The Company had securities loaned to third parties of \$387,190,944 and \$159,831,672 as of December 31, 2017 and 2016, respectively. The Company received cash collateral of \$287,498,568 and \$154,808,895 through these security lending agreements as of December 31, 2017 and 2016, respectively, and is reported as a liability for funds held for securities on loan included in borrowings on the statutory statements of admitted assets, liabilities, and surplus. The securities loaned as of December 31, 2017 and 2016 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, 2017, were as follows:

30 days or less	\$ 95,550,539
31 to 60 days	63,951,101
61 to 90 days	50,183,954
91 to 120 days	24,316,554
121 to 180 days	34,043,176
181 to 365 days	<u>19,453,244</u>
 Total collateral received	 <u>\$ 287,498,568</u>

The Company and Mutual 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, 2017 and 2016, the Company had no outstanding borrowings under these agreements. Interest expense of \$6,464, \$478, and \$112 was incurred for the years ended December 31, 2017, 2016, and 2015, respectively.

The Company and Mutual of Omaha, have bilateral unsecured internal borrowing agreements for \$250,000,000 as of December 31, 2017 and 2016. As of December 31, 2017 and 2016, the Company had no outstanding borrowings under these agreements. Interest expense of \$367,038 and \$6,368 was incurred for the years ended December 31, 2017 and 2015, respectively. No interest expense was incurred for the year ended December 31, 2016.

The Company has an agreement to sell and repurchase securities. Under this agreement, the Company obtains the use of funds for a period not to exceed 30 days. Maximum borrowings allowed under this agreement is \$500,000,000. The Company had no outstanding borrowings under this agreement as of December 31, 2017 and 2016. Interest expense of \$46,466, \$21, and \$626 was incurred for the years ended December 31, 2017, 2016, and 2015, respectively.

## 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.

The Company has a reinsurance agreement with Omaha Re executed in 2012 with certain amendments executed in the years 2014 through 2017 to allow for additional life insurance policies to be part of the agreement or to change certain other terms and conditions. This agreement cedes certain term and universal life policies issued from January 1, 2003 through September 30, 2013 to Omaha Re. A new reinsurance agreement with Omaha Re was executed in 2016 and amended in 2017 which cedes added certain term life insurance policies issued from October 1, 2013 through December 31, 2017. The 2017 amendment allows for policies issued through December 31, 2019 to be ceded subject to certain limits. Both agreements provide coinsurance to the Company on an indemnity basis for all liabilities arising from the life insurance policies covered under each agreement and are accounted for on a funds withheld basis.



The current agreement was modeled under NAIC Actuarial Guideline XLVIII (“AG48”). This agreement cedes policies that meet the definition of Covered Policies as that term is defined in Section 4 of AG48. Funds consisting of Primary Security, in an amount at least equal to the Required Level of Primary Security, are held by the Company on a funds withheld basis. Funds consisting of Other Security, in an amount equal to the portion of the statutory reserves as to which Primary Security is not held, are held on behalf of the Company as security as part of the reinsurance arrangement.

The Company’s significant financial impacts of the reinsurance arrangement with Omaha Re for the years ended December 31, were as follows:

	<b>2017</b>	<b>2016</b>	<b>2015</b>
Statutory statements of operations:			
Net premium considerations	\$ 4,341,942	\$ 205,649,999	\$ 13,838,072
Increase in reserves	4,341,942	239,656,539	940,271
Statutory statements of admitted assets, liabilities, and surplus:			
Reserves for life policies and contracts	\$ 4,341,942	\$ 239,656,539	\$ 13,838,072
Funds held under coinsurance increase	123,006,964	57,806,891	13,403,393
Deferred gain reflected in unassigned surplus	127,369,906	119,664,966	434,679

Deferred gains are amortized into operations as earnings emerge from the business reinsured. During 2017, 2016, and 2015, the Company amortized \$30,017,000, \$9,335,161, and \$4,275,835, respectively, into other income.

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

	<b>2017</b>	<b>2016</b>	<b>2015</b>
Premium considerations:			
Assumed:			
Affiliates	\$ 29,188,457	\$ 28,275,660	\$ 27,360,025
Non-affiliates	<u>313,795</u>	<u>251,394</u>	<u>432,138</u>
	<u>\$ 29,502,252</u>	<u>\$ 28,527,054</u>	<u>\$ 27,792,163</u>
Ceded:			
Affiliates	\$ 506,783,451	\$ 600,313,247	\$ 353,308,611
Non-affiliates	<u>318,378,426</u>	<u>166,839,018</u>	<u>126,081,773</u>
	<u>\$ 825,161,877</u>	<u>\$ 767,152,265</u>	<u>\$ 479,390,384</u>
Commissions and expense allowances on reinsurance ceded:			
Affiliates	\$ 107,237,758	\$ 85,538,596	\$ 69,853,575
Non-affiliates	<u>42,779,763</u>	<u>21,439,482</u>	<u>16,939,376</u>
	<u>\$ 150,017,521</u>	<u>\$ 106,978,078</u>	<u>\$ 86,792,951</u>
Policyholder benefits:			
Assumed:			
Affiliates	\$ 21,465,374	\$ 16,919,675	\$ 16,940,877
Non-affiliates	<u>1,962,291</u>	<u>1,541,418</u>	<u>77,447</u>
	<u>\$ 23,427,665</u>	<u>\$ 18,461,093</u>	<u>\$ 17,018,324</u>
Ceded:			
Affiliates	\$ 259,034,823	\$ 224,231,502	\$ 191,450,096
Non-affiliates	<u>310,790,274</u>	<u>203,872,386</u>	<u>112,573,925</u>
	<u>\$ 569,825,097</u>	<u>\$ 428,103,888</u>	<u>\$ 304,024,021</u>
Operating expenses (including change in loading):			
Ceded:			
Affiliates	<u>\$ 16,727,781</u>	<u>\$ 39,863,778</u>	<u>\$ 3,405,770</u>

A summary of the impact of reinsurance operations on the statements of admitted assets, liabilities, and surplus as of December 31, was as follows:

	2017	2016
Reserves for policies and contracts:		
Assumed:		
Affiliates	\$ 30,575,573	\$ 29,954,443
Non-affiliates	<u>778,642</u>	<u>846,747</u>
	<u>\$ 31,354,215</u>	<u>\$ 30,801,190</u>
Ceded:		
Affiliates	\$ 2,393,447,596	\$ 2,123,184,348
Non-affiliates	<u>353,983,234</u>	<u>343,664,530</u>
	<u>\$ 2,747,430,830</u>	<u>\$ 2,466,848,878</u>
Policy and contract claims:		
Assumed:		
Affiliates	<u>\$ 4,257,506</u>	<u>\$ 3,007,418</u>
Ceded:		
Affiliates	\$ 52,211,924	\$ 43,938,624
Non-affiliates	<u>84,191,218</u>	<u>83,912,374</u>
	<u>\$ 136,403,142</u>	<u>\$ 127,850,998</u>
Premiums deferred and uncollected:		
Ceded:		
Affiliates	\$ 177,336,301	\$ 153,691,286
Non-affiliates	<u>93,088,150</u>	<u>88,752,784</u>
	<u>\$ 270,424,451</u>	<u>\$ 242,444,070</u>
Funds held under reinsurance treaties included in reinsurance recoverable (all related party)	<u>\$ 47,711,040</u>	<u>\$ 42,553,414</u>
Funds held under reinsurance treaties included in funds held under coinsurance (all related party)	<u>\$ 1,114,811,241</u>	<u>\$ 1,107,118,053</u>

## 10. EMPLOYEE BENEFIT PLANS

The Company participates in three plans sponsored by its parent, Mutual of Omaha. These plans are a qualified, non-contributory defined benefit pension plan, a 401(k) defined contribution plan, and a postretirement benefit plan that provides certain health care and life insurance benefits to retired employees. Effective January 1, 2005, the defined benefit pension plan was amended to freeze plan benefits for participants under 40 years of age. No benefits are available under the defined benefit pension plan for employees hired on or after January 1, 2005. Substantially, all employees are eligible for the 401(k) Plan, while only employees hired before 1995 are eligible for the postretirement benefit plan. The Company has no legal obligation for benefits under these plans. Mutual of Omaha allocates expense amounts for these plans to the Company based on various cost allocation methods.

The Company's share of net expense for these plans for the years ended December 31, was as follows:

	2017	2016	2015
Defined benefit pension plan	\$ 14,009,810	\$ 17,172,668	\$ 16,074,503
401(k) defined contribution plan	15,912,697	11,484,563	9,439,727
Postretirement benefit plan	641,215	2,542,642	2,576,182

Plan assets for the defined benefit pension plan included a group annuity contract issued by the Company with a balance of \$635,311,213 and \$627,181,325 as of December 31, 2017 and 2016, respectively. Plan assets for the postretirement benefit plan were invested in a group annuity contract issued by the Company with a balance of \$8,177,337 and \$10,630,817 as of December 31, 2017 and 2016, respectively. Plan assets for the 401(k) plan included a group annuity contract issued by the Company with a balance of \$156,854,368 and \$168,614,700 as of December 31, 2017 and 2016, respectively.

## 11. SURPLUS AND DIVIDEND RESTRICTIONS

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

	2017	2016	2015
Unrealized capital losses	\$ (136,940,976)	\$ (258,080,622)	\$ (259,211,390)
Nonadmitted assets	(126,584,107)	(138,382,180)	(129,588,715)
AVR	(145,770,838)	(122,405,601)	(115,360,698)

The minimum statutory capital and surplus necessary to satisfy regulatory requirements was \$396,856,520 as of December 31, 2017 ("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.

Regulatory restrictions limit the amount of dividends available for distribution without prior approval of the NDOI. As of December 31, 2017, the maximum dividend allowed was \$159,671,733.

## 12. COMMITMENTS AND CONTINGENCIES

The Company had unfunded investment commitments for bonds, mortgage loans, and other invested assets of \$319,134,387 and \$181,487,530 as of December 31, 2017 and 2016, 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 \$10,742,308 and \$1,555,201 as of December 31, 2017 and 2016, respectively. The Company estimated its premium tax credits that it will receive related to guaranty funds of \$20,396,921 and \$4,455,275 as of December 31, 2017 and 2016, respectively.

The Company recognized discounted and undiscounted amounts, based on 4.25%, relating to Penn Treaty Network America and its subsidiaries (together "Penn Treaty") during 2017. As of December 31, 2017, the discounted and undiscounted liabilities and receivables were \$8,589,539 and \$19,164,245, and \$7,722,565 and \$16,546,070, respectively. There are 50 jurisdictions for liabilities and premium tax credits by insolvency. Amounts used for the Penn Treaty accruals are the discounted amounts reported by the National Organization of Life and Health Insurance Guaranty Association.

The Company has adopted resolutions to guarantee timely payment of certain liabilities incurred by Mutual of Omaha Structured Settlement Company. The liabilities subject to this guarantee as of December 31, 2017 are \$775,227,840.

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.

## 13. LEASES

The Company and Mutual 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, 2017, were as follows:

2018	\$ 9,609,141
2019	6,775,792
2020	5,024,765
2021	3,559,396
2022	2,147,580
Thereafter	<u>10,321,193</u>
Total	<u>\$ 37,437,867</u>

The Company's allocated rental expense for the years ended December 31, 2017, 2016, and 2015, were \$20,635,411, \$17,022,741, and \$19,199,267, respectively.

## 14. DIRECT PREMIUM WRITTEN

The Company's direct life, health, and annuity premium written by third-party administrators were \$99,184,513, \$143,295,031, and \$98,134,213 during the years ended December 31, 2017, 2016, and 2015, respectively.

## 15. RETROSPECTIVELY RATED CONTRACTS

The Company estimates accrued retrospective premium adjustments for its group life and health insurance business based upon premium, claims, and expense experience for each retrospectively rated policy. This method may result in the calculation of an asset or liability for certain retrospectively rated policies.

The amount of net premium earned by the Company that was subject to retrospective rating features were approximately \$5,600,000, \$7,300,000, and \$7,700,000 for group life business and \$2,900,000, \$4,900,000, and \$2,500,000 for group health business during the years ended December 31, 2017, 2016, and 2015, respectively. The net premium represent 2.3%, 2.0%, and 2.0% of the total net premium for group life business and 0.5%, 1.0%, and 0.5% of the total net premium for group health business during the years ended December 31, 2017, 2016, and 2015, respectively.

## 16. LIABILITY FOR POLICY AND CONTRACT CLAIMS — HEALTH

A reconciliation of the policy and contract claims — health, which includes both claim liabilities and reserves, as of December 31, was as follows:

	2017	2016
Health balance at January 1	\$ 781,832,988	\$ 729,248,369
Reinsurance recoverable	<u>50,361,643</u>	<u>46,057,348</u>
Net balance at January 1	<u>731,471,345</u>	<u>683,191,021</u>
Incurred related to:		
Current year	928,910,214	950,608,550
Prior years	<u>(20,018,289)</u>	<u>7,799,169</u>
Total incurred	<u>908,891,925</u>	<u>958,407,719</u>
Paid related to:		
Current year	658,471,064	692,632,919
Prior years	<u>219,217,306</u>	<u>217,494,476</u>
Total paid	<u>877,688,370</u>	<u>910,127,395</u>
Net balance at December 31	762,674,900	731,471,345
Reinsurance recoverable	<u>58,498,125</u>	<u>50,361,643</u>
Balance at December 31	<u>\$ 821,173,025</u>	<u>\$ 781,832,988</u>

During 2017, experience related to prior years was favorable due to favorable runout within most health and accident coverages and a decrease in long term disability reserves for a termination assumption update. In 2016, incurred claims related to prior years were positive primarily due to unfavorable runout within certain health and accident coverages on a non-interest adjusted basis. On an interest adjusted basis, prior years incurred claims were favorable.

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

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

	2017	2016
Prior year accrual	\$ 25,159,847	\$ 23,492,281
Incurred claim adjustment expenses	41,684,552	49,568,454
Paid claim adjustment expenses	<u>(39,760,903)</u>	<u>(47,900,888)</u>
Total	<u>\$ 27,083,496</u>	<u>\$ 25,159,847</u>

## 17. RESERVES FOR LIFE, ANNUITY AND DEPOSIT-TYPE CONTRACTS

The Company waives deduction of deferred fractional premiums upon death of the insured and returns any portion of the final premium for periods beyond the monthly policy anniversary following the date of death. Surrender values are not promised in excess of the legally computed reserves.

For plans introduced prior to 1989, substandard reserves for policies with a substandard underwriting class were set equal to the excess of the reserve calculated using the appropriate substandard multiple mortality table over the reserve calculated using the standard mortality table, where both calculations use the same valuation interest rate and reserve method. For plans of insurance introduced after 1988 with a substandard underwriting class and for all policies with a flat extra substandard premium, substandard reserves were set equal to the unearned portion of the substandard premiums.

As of December 31, 2017 and 2016, the Company had insurance in force with a face value of \$52,831,512,203 and \$51,631,052,652, respectively, for which the gross premiums were less than the net premiums according to the valuation standards set by the NDOI. Reserves to cover the above insurance totaled \$160,558,815 and \$168,014,912 as of December 31, 2017 and 2016, respectively.

The mortality assumptions used for calculating reserves for anticipated anti-selection mortality on term conversions were updated resulting in an increase in reserves and a corresponding charge to surplus of \$16,466,357 and \$5,614,615 in 2017 and 2016, respectively.

The mortality assumptions used for calculating certain life deficiency reserves were updated resulting in an increase in reserves and a corresponding charge to surplus of \$2,802,427 and \$59,076,252 in 2017 and 2016, respectively.

The Company changed the effective dates for individual life policy reprints from issue date estimates to application signed dates during 2017 resulting in an increase policy reserves and corresponding charge to income of \$2,800,000.

During third quarter 2016, the Company reduced certain universal life reserves to the statutory minimums. As a result of this change, reserves decreased \$53,605,622 with a corresponding increase in surplus.

## 18. ANALYSIS OF ANNUITY RESERVES AND DEPOSIT LIABILITIES BY WITHDRAWAL CHARACTERISTICS

The withdrawal characteristics of the Company's annuity reserves and deposit-type contracts as of December 31, were as follows:

	General Account	Separate Account Non-guaranteed	Total	% of Total
<b>2017</b>				
Annuity reserves and deposit funds liabilities — subject to discretionary withdrawal:				
With fair value adjustment	\$ 1,306,832,783	\$ -	\$ 1,306,832,783	10.0 %
At book value less current surrender charge of 5% or more	131,485,867	-	131,485,867	1.0
At fair value	<u>-</u>	<u>3,931,858,313</u>	<u>3,931,858,313</u>	<u>30.1</u>
Total with adjustment or at fair value	1,438,318,650	3,931,858,313	5,370,176,963	41.1
At book value without adjustment (minimal or no charge)	2,035,317,682	-	2,035,317,682	15.6
Not subject to discretionary withdrawal	<u>5,647,081,011</u>	<u>336,762</u>	<u>5,647,417,773</u>	<u>43.3</u>
Gross total	9,120,717,343	3,932,195,075	13,052,912,418	<u>100.0 %</u>
Reinsurance ceded	<u>29,889,701</u>	<u>-</u>	<u>29,889,701</u>	
Net total	<u>\$ 9,090,827,642</u>	<u>\$ 3,932,195,075</u>	<u>\$ 13,023,022,717</u>	
<b>2016</b>				
Annuity reserves and deposit funds liabilities — subject to discretionary withdrawal:				
With fair value adjustment	\$ 1,272,974,751	\$ -	\$ 1,272,974,751	10.8 %
At book value less current surrender charge of 5% or more	145,645,348	-	145,645,348	1.2
At fair value	<u>-</u>	<u>3,319,011,737</u>	<u>3,319,011,737</u>	<u>28.4</u>
Total with adjustment or at fair value	1,418,620,099	3,319,011,737	4,737,631,836	40.4
At book value without adjustment (minimal or no charge)	1,999,088,678	-	1,999,088,678	17.0
Not subject to discretionary withdrawal	<u>4,999,599,959</u>	<u>253,707</u>	<u>4,999,853,666</u>	<u>42.6</u>
Gross total	8,417,308,736	3,319,265,444	11,736,574,180	<u>100.0 %</u>
Reinsurance ceded	<u>31,032,076</u>	<u>-</u>	<u>31,032,076</u>	
Net total	<u>\$ 8,386,276,660</u>	<u>\$ 3,319,265,444</u>	<u>\$ 11,705,542,104</u>	

Annuity reserves and deposit funds liabilities subject to discretionary withdrawal at fair value includes runoff variable annuity reserves for policies which are 100% ceded under a modified coinsurance reinsurance agreement to a third party. A portion of these policies may be subject to surrender charges at certain policy durations.

There were no annuity reserves or deposit liabilities in guaranteed separate accounts as of December 31, 2017 and 2016.



The following information is obtained from the applicable exhibit in the Company's annual statement and related separate accounts annual statement, both of which were filed with the NDOI and are provided to reconcile annuity reserves, supplementary contracts with life contingencies, and deposit-type funds to amounts reported in the statutory financial statements as of December 31.

	2017	2016
Life and accident and health annual statement:		
Exhibit 5, Annuities section — net total	\$ 6,257,750,384	\$ 5,689,047,134
Exhibit 5, Supplementary Contracts with Life Contingencies section — net total	5,293,919	5,506,715
Exhibit 7, Deposit-Type Contracts, Line 14, Column 1	<u>2,827,783,339</u>	<u>2,691,722,811</u>
Subtotal	9,090,827,642	8,386,276,660
Separate accounts annual statement:		
Exhibit 3, Line 0299999, Column 2	101,430,370	94,274,909
Page 3, Line 2, Column 3 — Other Contract Deposit Funds	<u>3,830,764,705</u>	<u>3,224,990,535</u>
Total	<u>\$ 13,023,022,717</u>	<u>\$ 11,705,542,104</u>

## 19. PREMIUMS DEFERRED AND UNCOLLECTED

Deferred and uncollected life insurance premiums and annuity considerations as of December 31, were as follows:

Type	2017		2016	
	Gross	Net of Loading	Gross	Net of Loading
Ordinary first year business	\$ 107,112,491	\$ 12,683,309	\$ 93,677,014	\$ 10,337,332
Ordinary renewal	389,095,035	305,984,157	346,616,425	276,412,408
Group life	<u>(61,807,352)</u>	<u>(62,612,758)</u>	<u>(55,211,102)</u>	<u>(56,038,615)</u>
Total	<u>\$ 434,400,174</u>	<u>\$ 256,054,708</u>	<u>\$ 385,082,337</u>	<u>\$ 230,711,125</u>

## 20. SEPARATE ACCOUNTS

Information regarding the non-guaranteed separate accounts of the Company as of December 31, was as follows:

	2017	2016
For the years ended December 31:		
Premiums and considerations	\$ 3,886,984	\$ 4,210,326
Deposits	<u>1,504,047,869</u>	<u>1,506,560,862</u>
Premiums, considerations, and deposits	<u>\$ 1,507,934,853</u>	<u>\$ 1,510,771,188</u>
As of December 31:		
Reserves by valuation basis — fair value	<u>\$ 3,990,779,494</u>	<u>\$ 3,371,315,165</u>
Reserves by withdrawal characteristics — fair value	<u>\$ 3,990,779,494</u>	<u>\$ 3,371,315,165</u>
Transfers as reported in the statutory statements of operations of the separate accounts annual statement:		
Transfers to separate accounts	\$ 3,886,984	\$ 4,223,366
Transfers from separate accounts	<u>11,653,182</u>	<u>11,788,916</u>
Net transfers of the general account	(7,766,198)	(7,565,550)
Reinsurance of separate account business	<u>7,766,198</u>	<u>7,565,550</u>
Net transfers as reported in the statutory statements of operations	<u>\$ -</u>	<u>\$ -</u>

The Company holds no guaranteed separate accounts or reserves in separate accounts for asset default risk in lieu of AVR as of December 31, 2017 and 2016.

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**SUPPLEMENTAL SCHEDULES**

## INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

To the Board of Directors  
United of Omaha Life Insurance Company  
Omaha, Nebraska

Our 2017 audit was conducted for the purpose of forming an opinion on the 2017 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, 2017, are presented for purposes of additional analysis and are not a required part of the 2017 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 2017 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 2017 statutory-basis financial statements as a whole.

*Deloitte & Touche LLP*

April 19, 2018

**UNITED OF OMAHA LIFE INSURANCE COMPANY**  
**(A Wholly Owned Subsidiary of Mutual of Omaha Insurance Company)**

**SUPPLEMENTAL SCHEDULE OF SELECTED FINANCIAL DATA**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017**

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Investment income earned:	
U.S. government bonds	\$ 28,381,756
Other bonds (unaffiliated)	611,473,927
Bonds of affiliates	685,436
Preferred stocks (unaffiliated)	1,168,478
Preferred stocks of affiliates	-
Common stocks (unaffiliated)	1,370
Common stocks of affiliates	-
Mortgage loans	95,715,164
Real estate	15,078,888
Contract loans	11,913,709
Cash and cash equivalents	2,549,409
Short-term investments	184,866
Other invested assets	7,356,608
Derivative instruments	5,899,394
Aggregate write-ins for investment income	<u>1,097,001</u>
Gross investment income	<u>\$ 781,506,006</u>
Real estate owned — book value less encumbrances	<u>\$ 48,610,811</u>
Mortgage loans — book value:	
Farm mortgages	\$ -
Residential mortgages	-
Commercial mortgages	<u>2,118,511,798</u>
Total mortgage loans	<u>\$ 2,118,511,798</u>
Mortgage loans by standing — book value:	
Good standing	<u>\$ 2,118,511,798</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>\$ 161,281,936</u>
Collateral loans	<u>\$ -</u>

(Continued)

**UNITED OF OMAHA LIFE INSURANCE COMPANY**  
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**SUPPLEMENTAL SCHEDULE OF SELECTED FINANCIAL DATA**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017**

Bonds and stocks of subsidiaries and affiliates — book value:	
Bonds	\$ <u>          -</u>
Preferred stocks	\$ <u>          -</u>
Common stocks	\$ <u>  117,179,140</u>
Bonds and Short-term Investments by NAIC designation and maturity:	
Bonds by maturity — statement value:	
Due within one year or less	\$ 996,136,920
Over 1 year and through 5 years	4,519,664,530
Over 5 years through 10 years	3,254,718,568
Over 10 years through 20 years	2,986,718,719
Over 20 years	3,197,631,857
No maturity date	<u>51,362,502</u>
Total by maturity	<u>\$ 15,006,233,096</u>
Bonds and Short-term Investments by NAIC designation — statement value:	
NAIC 1	\$ 7,734,409,631
NAIC 2	6,554,739,407
NAIC 3	596,026,982
NAIC 4	98,816,637
NAIC 5	21,102,634
NAIC 6	<u>1,137,805</u>
Total by NAIC designation	<u>\$ 15,006,233,096</u>
Total bonds publicly traded	<u>\$ 6,348,020,208</u>
Total bonds privately placed	<u>\$ 8,658,212,888</u>
Preferred stocks — statement value	<u>\$ 131,800,000</u>
Common stocks	<u>\$ 165,137,859</u>
Short-term investments — book value	<u>\$ 104,786,154</u>
Options, caps, and floors owned — statement value	<u>\$ (23,872,292)</u>
Options, caps, and floors written and in force — statement value	<u>\$ -</u>
Collar, swap, and forward agreements open — current value	<u>\$ -</u>
Cash on deposit	<u>\$ (13,079,297)</u>

(Continued)

**UNITED OF OMAHA LIFE INSURANCE COMPANY**  
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**SUPPLEMENTAL SCHEDULE OF SELECTED FINANCIAL DATA**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017**

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Life insurance in force (in thousands):	
Industrial	\$ <u>          -</u>
Ordinary	\$ <u>174,446,938</u>
Credit life	\$ <u>          -</u>
Group life	\$ <u>187,579,820</u>
Amount of accidental death insurance in force under ordinary policies (in thousands)	\$ <u>  4,188,307</u>
Life insurance with disability provisions in force (in thousands):	
Industrial	\$ <u>          -</u>
Ordinary	\$ <u>  9,611,243</u>
Credit life	\$ <u>          -</u>
Group life	\$ <u>179,388,641</u>
Supplementary contracts in force:	
Ordinary — not involving life contingencies:	
Amount on deposit	\$ <u>  42,033,177</u>
Income payable	\$ <u>      943,750</u>
Ordinary — involving life contingencies — income payable	\$ <u>      697,195</u>
Group — not involving life contingencies:	
Amount on deposit	\$ <u>          -</u>
Income payable	\$ <u>          -</u>
Group — involving life contingencies — income payable	\$ <u>      16,694</u>
Annuities:	
Ordinary:	
Immediate — amount of income payable	\$ <u> 117,643,106</u>
Deferred — fully paid account balance	\$ <u>1,406,292,274</u>
Deferred — not fully paid account balance	\$ <u>  799,104,197</u>

(Continued)

**UNITED OF OMAHA LIFE INSURANCE COMPANY**  
**(A Wholly Owned Subsidiary of Mutual of Omaha Insurance Company)**

**SUPPLEMENTAL SCHEDULE OF SELECTED FINANCIAL DATA**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017**

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Group:	
Amount of income payable	<u>\$ 249,563,251</u>
Fully paid account balance	<u>\$ 425,750,869</u>
Not fully paid account balance	<u>\$ 17,811,197</u>
Accident and health insurance — Premiums in force:	
Ordinary	<u>\$ 1,074,781,833</u>
Group	<u>\$ 644,526,691</u>
Credit	<u>\$ -</u>
Deposit funds and dividend accumulations:	
Deposit funds — account balance	<u>\$ 2,785,741,364</u>
Dividend accumulations — account balance	<u>\$ 8,798</u>
Claim payments 2017:	
Group accident and health — year ended December 31, 2017:	
2017	<u>\$ 167,606,786</u>
2016	<u>\$ 74,509,983</u>
2015	<u>\$ 28,033,474</u>
2014	<u>\$ 15,198,587</u>
2013	<u>\$ 7,769,341</u>
2012 & prior	<u>\$ 37,556,547</u>
Other accident and health — year ended December 31, 2017:	
2017	<u>\$ 490,864,278</u>
2016	<u>\$ 56,176,833</u>
2015	<u>\$ 276,664</u>
2014	<u>\$ (88,416)</u>
2013	<u>\$ (71,064)</u>
2012 & prior	<u>\$ (144,643)</u>

(Continued)



**UNITED OF OMAHA LIFE INSURANCE COMPANY**  
**(A Wholly Owned Subsidiary of Mutual of Omaha Insurance Company)**

**SUPPLEMENTAL SCHEDULE OF SELECTED FINANCIAL DATA**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017**

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Claim payments 2017 (continued):

Other coverages that use developmental methods to calculate claim reserves:

2017	\$	-
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	86,765,094	0.479	86,765,094	0	86,765,094	0.479
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	100,166,530	0.553	100,166,530	0	100,166,530	0.553
1.3 Non-U.S. government (including Canada, excluding mortgaged-backed securities)	19,195,635	0.106	19,195,635	0	19,195,635	0.106
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S. :						
1.41 States, territories and possessions general obligations	15,087,803	0.083	15,087,803	0	15,087,803	0.083
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	92,447,558	0.510	92,447,558	0	92,447,558	0.510
1.44 Industrial development and similar obligations	8,490,000	0.047	8,490,000	0	8,490,000	0.047
1.5 Mortgage-backed securities (includes residential and commercial MBS):						
1.51 Pass-through securities:						
1.511 Issued or guaranteed by GNMA	422,709,512	2.332	422,709,512	0	422,709,512	2.332
1.512 Issued or guaranteed by FNMA and FHLMC	97,246,875	0.536	97,246,875	0	97,246,875	0.536
1.513 All other	35,951,428	0.198	35,951,428	0	35,951,428	0.198
1.52 CMOs and REMICs:						
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	599,599,324	3.308	599,599,324	0	599,599,324	3.308
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	14,757,006	0.081	14,757,006	0	14,757,006	0.081
1.523 All other	112,447,795	0.620	112,447,795	0	112,447,795	0.620
2. Other debt and other fixed income securities (excluding short-term):						
2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	9,695,641,151	53.489	9,695,641,151	0	9,695,641,151	53.489
2.2 Unaffiliated non-U.S. securities (including Canada)	3,560,017,903	19.640	3,560,017,903	0	3,560,017,903	19.640
2.3 Affiliated securities	37,914,030	0.209	37,914,030	0	37,914,030	0.209
3. Equity interests:						
3.1 Investments in mutual funds	0	0.000	0	0	0	0.000
3.2 Preferred stocks:						
3.21 Affiliated	0	0.000	0	0	0	0.000
3.22 Unaffiliated	131,800,000	0.727	131,800,000	0	131,800,000	0.727
3.3 Publicly traded equity securities (excluding preferred stocks):						
3.31 Affiliated	0	0.000	0	0	0	0.000
3.32 Unaffiliated	9,211,219	0.051	9,211,219	0	9,211,219	0.051
3.4 Other equity securities:						
3.41 Affiliated	117,179,140	0.646	117,179,140	0	117,179,140	0.646
3.42 Unaffiliated	38,747,500	0.214	38,747,500	0	38,747,500	0.214
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	14,000,000	0.077	14,000,000	0	14,000,000	0.077
4.3 Single family residential properties	0	0.000	0	0	0	0.000
4.4 Multifamily residential properties	0	0.000	0	0	0	0.000
4.5 Commercial loans	2,104,511,798	11.610	2,104,511,798	0	2,104,511,798	11.610
4.6 Mezzanine real estate loans	0	0.000	0	0	0	0.000
5. Real estate investments:						
5.1 Property occupied by company	48,610,812	0.268	48,610,812	0	48,610,812	0.268
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	184,171,324	1.016	184,171,324	0	184,171,324	1.016
7. Derivatives	20,598,924	0.114	20,598,924	0	20,598,924	0.114
8. Receivables for securities	10,157,405	0.056	10,157,405	0	10,157,405	0.056
9. Securities Lending (Line 10, Asset Page reinvested collateral)	287,498,568	1.586	287,498,568	XXX	XXX	XXX
10. Cash, cash equivalents and short-term investments	100,377,997	0.554	100,377,997	287,498,568	387,876,565	2.140
11. Other invested assets	161,281,936	0.890	161,281,936	0	161,281,936	0.890
12. Total invested assets	18,126,584,262	100.000	18,126,584,262	287,498,568	18,126,584,262	100.000



# SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For The Year Ended December 31, 2017  
(To Be Filed by April 1)

Of The United of Omaha Life Insurance Company.....  
 ADDRESS (City, State and Zip Code) Omaha , NE 68175 .....  
 NAIC Group Code 0261 ..... NAIC Company Code 69868 ..... Federal Employer's Identification Number (FEIN) 47-0322111 .....

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. .... \$ .....18,805,284,799

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	ESSENCE GROUP HOLDINGS CORP .....	Preferred Stock .....	\$ .....100,000,000	.....0.5 %
2.02	MUTUAL OF OMAHA INSURANCE CO .....	Insurance Affiliate Short Term Revolver .....	\$ .....96,000,000	.....0.5 %
2.03	FULCRUM GROWTH PARTNERS .....	Equity Partnerships .....	\$ .....58,134,725	.....0.3 %
2.04	COMPANION LIFE INSURANCE CO .....	Insurance Affiliate Stock .....	\$ .....57,412,745	.....0.3 %
2.05	PHILLIPS 66 COMPANY .....	Corporate Bonds .....	\$ .....56,152,615	.....0.3 %
2.06	APPLE INC .....	Corporate Bonds .....	\$ .....56,068,941	.....0.3 %
2.07	COMCAST CORP .....	Corporate Bonds .....	\$ .....54,762,073	.....0.3 %
2.08	BROOKFIELD FINANCE LLC .....	Corporate Bonds .....	\$ .....53,021,810	.....0.3 %
2.09	QUALCOMM INCORPORATED .....	Corporate Bonds .....	\$ .....52,850,653	.....0.3 %
2.10	MICROSOFT CORP .....	Corporate Bonds .....	\$ .....52,507,997	.....0.3 %

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

	Bonds		Preferred Stocks	
	1	2	3	4
3.01	NAIC-1 .....	\$ .....7,734,409,631 .....41.1 %	3.07 P/RP-1 .....	\$ .....31,800,000 .....0.2 %
3.02	NAIC-2 .....	\$ .....6,554,739,407 .....34.9 %	3.08 P/RP-2 .....	\$ .....0 .....0.0 %
3.03	NAIC-3 .....	\$ .....596,026,982 .....3.2 %	3.09 P/RP-3 .....	\$ .....0 .....0.0 %
3.04	NAIC-4 .....	\$ .....98,816,637 .....0.5 %	3.10 P/RP-4 .....	\$ .....0 .....0.0 %
3.05	NAIC-5 .....	\$ .....21,102,634 .....0.1 %	3.11 P/RP-5 .....	\$ .....0 .....0.0 %
3.06	NAIC-6 .....	\$ .....1,137,805 .....0.0 %	3.12 P/RP-6 .....	\$ .....100,000,000 .....0.5 %

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..... \$ .....3,599,962,048 .....19.1 %

4.03 Foreign-currency-denominated investments ..... \$ .....0 .....0.0 %

4.04 Insurance liabilities denominated in that same foreign currency ..... \$ .....0 .....0.0 %

SUPPLEMENT FOR THE YEAR 2017 OF THE United of Omaha Life Insurance Company

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

	1	2
5.01 Countries designated NAIC-1 .....	\$ 3,580,232,048	19.0 %
5.02 Countries designated NAIC-2 .....	\$ 6,000,000	0.0 %
5.03 Countries designated NAIC-3 or below .....	\$ 13,730,000	0.1 %

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

	1	2
Countries designated NAIC - 1:		
6.01 Country 1: United Kingdom .....	\$ 1,107,584,458	5.9 %
6.02 Country 2: Australia .....	\$ 670,815,919	3.6 %
Countries designated NAIC - 2:		
6.03 Country 1: Spain .....	\$ 6,000,000	0.0 %
6.04 Country 2: .....	\$ 0	0.0 %
Countries designated NAIC - 3 or below:		
6.05 Country 1: Bahamas .....	\$ 13,730,000	0.1 %
6.06 Country 2: .....	\$ 0	0.0 %

	1	2
7. Aggregate unhedged foreign currency exposure .....	\$ 600,667	0.0 %

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

	1	2
8.01 Countries designated NAIC-1 .....	\$ 600,667	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:

	1	2
Countries designated NAIC - 1:		
9.01 Country 1: United Kingdom .....	\$ 600,667	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:

	1	2	3	4
	Issuer	NAIC Designation		
10.01	DEUTSCHE TELEKOM INTL FIN BV - Netherlands	2	\$ 46,385,192	0.2 %
10.02	GPT RE LIMITED - Australia	1	\$ 45,000,000	0.2 %
10.03	JOHNSON CONTROLS INTL PLC - Ireland	2	\$ 44,874,647	0.2 %
10.04	WOLSELEY CAPITAL INC - United Kingdom	2	\$ 44,134,023	0.2 %
10.05	COVENT GARDEN GRP HLDGS LTD - United Kingdom	1	\$ 43,241,600	0.2 %
10.06	INVESCO FINANCE PLC - United Kingdom	1	\$ 41,986,370	0.2 %
10.07	CARIBBEAN UTILITIES CO LTD - Cayman Islands	1	\$ 41,000,000	0.2 %
10.08	MEDTRONIC INC - Ireland	1	\$ 40,348,877	0.2 %
10.09	EATON CORPORATION - Ireland	2	\$ 38,453,059	0.2 %
10.10	TRITON CONTAINER INTL LIMITED - Bermuda	2	\$ 38,428,571	0.2 %

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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 [ <input type="checkbox"/> ]	No [ <input checked="" type="checkbox"/> ]
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 .....	\$ 651,202,314	3.5 %
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 [ <input checked="" type="checkbox"/> ]	No [ <input type="checkbox"/> ]
If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.			
		1	2
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 [ <input checked="" type="checkbox"/> ]	No [ <input type="checkbox"/> ]
If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.			
		1	2
	Issuer		3
13.02	.....	\$ 0	0.0 %
13.03	.....	\$ 0	0.0 %
13.04	.....	\$ 0	0.0 %
13.05	.....	\$ 0	0.0 %
13.06	.....	\$ 0	0.0 %
13.07	.....	\$ 0	0.0 %
13.08	.....	\$ 0	0.0 %
13.09	.....	\$ 0	0.0 %
13.10	.....	\$ 0	0.0 %
13.11	.....	\$ 0	0.0 %

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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 [ X ] No [ ]

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

1	2	3
14.02 Aggregate statement value of investments held in nonaffiliated, privately placed equities .....	\$ .....0	.....0.0 %
Largest three investments held in nonaffiliated, privately placed equities:		
14.03 .....	\$ .....0	.....0.0 %
14.04 .....	\$ .....0	.....0.0 %
14.05 .....	\$ .....0	.....0.0 %

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.

1	2	3
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.

1	2	3
Type (Residential, Commercial, Agricultural)		
16.02 Commercial - THE LINKS AT BENTONVILLE LP .....	\$ .....35,056,382	.....0.2 %
16.03 Commercial - THE IRVINE COMPANY LLC .....	\$ .....34,976,712	.....0.2 %
16.04 Commercial - SLG 220 NEWS OWNER LLC .....	\$ .....34,966,334	.....0.2 %
16.05 Commercial - BRE/OC RED HILL LLC .....	\$ .....29,995,083	.....0.2 %
16.06 Commercial - SUNSET LAND COMPANY LLC .....	\$ .....26,388,749	.....0.1 %
16.07 Commercial - WRI RETAIL POOL I, L.P. ....	\$ .....25,264,295	.....0.1 %
16.08 Commercial - ALEXANDER 375 WEST BROADWAY LLC .....	\$ .....20,000,000	.....0.1 %
16.09 Commercial - AMERICAN FIDELITY ASSURANCE COMPANY .....	\$ .....19,637,236	.....0.1 %
16.10 Commercial - BERKSHIRE MALL LLC .....	\$ .....18,278,441	.....0.1 %
16.11 Commercial - SOMERSET WOODS ASSOCIATES LLC .....	\$ .....18,000,000	.....0.1 %

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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 .....	\$	7,933,488	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%.....	\$ 0	0.0 %	\$ 1,048,600	0.0 %	\$ 0	0.0 %
17.04 71 to 80%.....	\$ 0	0.0 %	\$ 20,211,208	0.1 %	\$ 0	0.0 %
17.05 below 70%.....	\$ 0	0.0 %	\$ 2,083,251,990	11.1 %	\$ 14,000,000	0.1 %

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	1		2		3	
	1	2	1	2	1	2
18.02 .....	\$	0	\$	0	\$	0.0 %
18.03 .....	\$	0	\$	0	\$	0.0 %
18.04 .....	\$	0	\$	0	\$	0.0 %
18.05 .....	\$	0	\$	0	\$	0.0 %
18.06 .....	\$	0	\$	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.

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

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

	At Year End		1st Quarter 3	At End of Each Quarter	
	1	2		2nd Quarter 4	3rd Quarter 5
20.01 Securities lending agreements (do not include assets held as collateral for such transactions)	\$ 381,603,107	2.0 %	\$ 343,967,005	\$ 328,291,730	\$ 332,367,905
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			Written	
	1	2	3	4	
21.01 Hedging	\$ 2,590,493	0.0 %	\$ 0	0.0 %	
21.02 Income generation	\$ 0	0.0 %	\$ (25,346)	0.0 %	
21.03 Other	\$ 341,244	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 3	At End of Each Quarter	
	1	2		2nd Quarter 4	3rd Quarter 5
22.01 Hedging	\$ 10,978,713	0.1 %	\$ 7,787,201	\$ 8,915,619	\$ 9,942,316
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 3	At End of Each Quarter	
	1	2		2nd Quarter 4	3rd Quarter 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