Ullico

# BUILDING ON SUCCESS


# ANNUAL REPORT 2015

SOLUTIONS FOR THE UNION WORKPLACE | INSURANCE | INVESTMENTS

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SOLUTIONS FOR THE UNION WORKPLACE | INSURANCE | INVESTMENTS

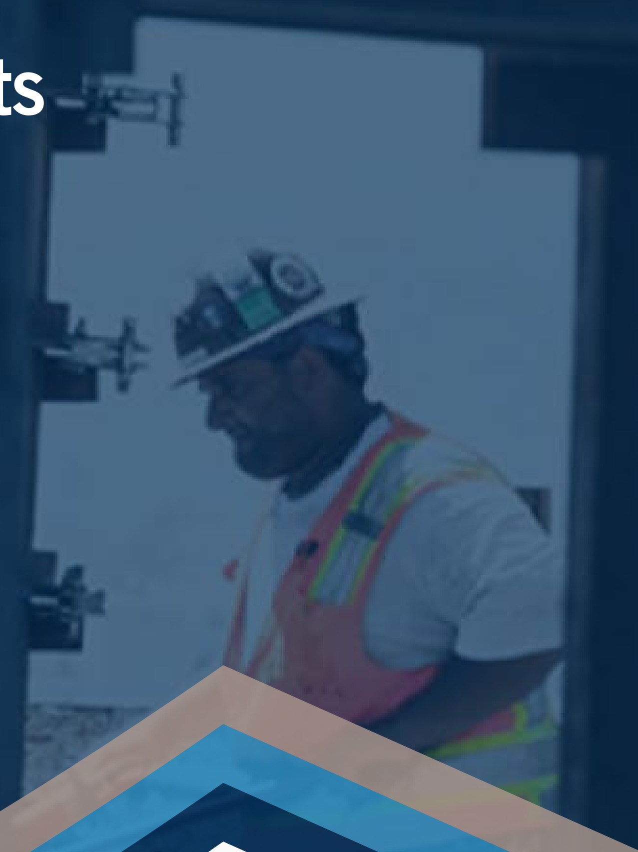
# 2015: Building on Success

Ullico has created momentum in the past several years in its mission to support the labor movement while maximizing shareholder value. In 2015, the Company continued to build on its success with efforts to increase revenue and profitability, while reducing operating expenses.

A large part of the organization's success is from adapting to the changing needs of its clients. Ullico moved forward in developing new solutions, which are contributing to the organization's positive direction now and for the future. Some of those initiatives include:

- Private exchange platform for supplemental insurance
- Defined contribution platform (Ullico Retirement Solutions)
- Cyber liability insurance policies

# 2015 Financial Highlights



Reported

$8.5
Million
in operating income in 2015

Reported

$211
Million
in revenue in 2015
(net earned premiums plus fee income)

**"As President of North America's Building Trades and as Secretary Treasurer of Ullico, it's critically important that the company continue to grow and create the kinds of programs that benefit not just the members of the buildings trades, but everybody in organized labor."**

Sean McGarvey, President, North America's Building Trades Unions

# Life & Health

The Union Labor Life Insurance Company continued its solid growth in 2015 with strong sales and underwriting results. It generated $23 million in new annualized group premium and retained 87% of group business. The longest-term policyholders have been with us since our founding 88 years ago.

Requirements in the Affordable Care Act continue to impact organizations with self-funded health care plans. Union Labor Life furthered its leadership in this area by offering customized group stop loss programs that are now endorsed by six international unions.

These programs allow policyholders and their health and welfare funds to earn dividends based on annual premium and/or claims experience. In 2015, Union Labor Life paid over $3.4 million in dividends to participating health and welfare funds. Overall, Union Labor Life generated nearly $110 million of stop loss premium for the year.

In response to the changing benefit needs of labor, Union Labor Life launched a private exchange platform in 2015. The exchange offers union members and their dependents the ability to purchase supplemental coverages and provides access to medical insurance on the public exchange.

Generated
**$23 Million**
new annualized premiums

Renewed **87%**
of current group business

paid over
**$3.4 Million**
in dividends

generated nearly
**$110 Million**
of stop loss premium for the year.

> “What excites me about my union’s partnership with Ullico is that we’re able to work together to get the job done right for our participants.”

**Kenneth Rigmaiden, General President,**
**International Union of Painters & Allied Trades**

# Casualty Group

Ullico Casualty Group, Inc. (UCG) had a banner year in 2015. UCG's flagship products (fiduciary, fiduciary excess, governmental fiduciary and union liability insurance) performed excellently. UCG also expanded its product lines to answer additional needs of its market.

Gross premiums in the Professional Lines reached an all-time high. Professional Lines experienced 96% retention and 3% growth. UCG's sound underwriting, claims management, and strong broker and policyholder relations are complemented by the unit's solid partnership with Markel American Insurance Company, rated A, XV by AM Best as of December 31, 2015. As a result of the partnership's success, UCG can offer coverage limits up to $25 million in multiemployer fiduciary liability insurance, a $10 million increase.

UCG added more risk solutions to its portfolio to meet the needs of the union workplace. Specifically, it expanded its Commercial Lines offerings for union halls, trust fund offices, and joint apprenticeship training committees across the country. Through the expansion, UCG can now provide the property, auto, general liability, and other property and casualty products for a greater number of the same entities for which it provides professional liability coverages. Commercial Lines experienced 14% growth in written premiums.

UCG also launched a new Cyber Liability product to meet the growing demand of trust funds and unions, which have access to the personal information of their participants and members. If this data is lost or compromised, most states mandate that the entity respond in a timely manner by notifying potentially affected individuals, regulators, and the press. Standalone Cyber Liability insurance coverage offered by UCG responds to both first and third-party claims in the event of a data breach.

Retained **96%**
of current business

**3%**
Growth in the Professional Lines

coverage limits up to
**$25 Million**
in multiemployer fiduciary liability insurance

**14%**
Growth in the Commercial Lines

> "Ullico expertly serves an important role of protecting our unions, our union leaders and our trustees because they understand intimately the industry in which we serve."

Terry O'Sullivan, General President,
Laborers' International Union of North America

# Investment Services

During calendar year 2015, Ullico's Investment Services increased its assets under management by approximately $220 million to reach $3.8 billion.

Ullico's Investment Services division offers investment products and services specifically designed for institutional investors. These investment products are offered by The Union Labor Life Insurance Company and Ullico Investment Advisors, Inc. and sold through the Ullico Investment Company, Inc. (Member FINRA/SIPC).

## Real Estate Investment Group

Ullico's real estate debt products, including its flagship Separate Account J (J for Jobs), have provided more than $15.5 billion in loan financing since inception. In 2015, the funds closed more than 25 loans for $1.3 billion. It is estimated that J for Jobs has created a total of over 297,000 construction jobs and almost 600 million in labor hours since its inception.

Ullico's real estate debt products are managed within Union Labor Life by the Real Estate Investment Group.

## Infrastructure Fund

In 2015, the Ullico Infrastructure Fund completed four transactions, including the closing of a $58 million investment in the Carroll County Energy Project, a 700-megawatt combined cycle natural gas facility to be constructed in northeastern Ohio. It also closed $20 million in financing for the Eagle Creek Renewable Energy Hydroelectric power portfolio. Eagle Creek currently owns and operates 43 hydroelectric facilities in seven states, with expansion underway.

Responding to investment needs for the nation's infrastructure, the Ullico Infrastructure Fund was established in 2010 to assist in the construction, maintenance and refurbishment of America's infrastructure. The fund's investment goal is to achieve risk-adjusted returns with significant annual cash yield and relatively low volatility.

Increased AUM by approximately

# $220Million

To Reach

# $3.8Billion

REIG funds closed more than

# 25Loans for $1.3Billion

**“We’re driving on our grandparents’ design and engineered infrastructure today. It’s time for a rebuild, and our members benefit greatly when those assets are put to good use, it’s an investment in North America.”**

**Eric Dean, General President,
International Association of Bridge, Structural, Ornamental and Reinforcing Iron Workers Union, AFL-CIO**

# Rooted in the American Labor Movement

Founded and owned by labor, Ullico has been committed to giving back to the labor movement and exerting a positive influence on the communities in which we work and live. To honor that commitment, Ullico has teamed with various labor-focused nonprofit organizations and charitable causes that share the same goals that we do—to make the world a better place for working Americans.

In the past year alone we contributed to over 250 organizations that further the mission of the owners and clients that we serve.

> **"I've been an ardent supporter of Ullico for over 45 years. And the reason why is easy; it is a unique company, tailor made to meet our members' needs"**

**Kinsey Robinson, International President, United Union of Roofers, Waterproofers, and Allied Workers**

# Ullico proudly supports many labor and community organizations, including:

## Education:

American Architectural Foundation

Arthur Coia Scholarship & Education Fund

Connell F. Smith/ Homer Brown Scholarship Fund

Economic Policy Institute

I Can Read!

Illinois Labor History Museum

Institute for Labor Studies and Research

James R. Hoffa Memorial Scholarship Fund

John M. Evans Scholarship

Mikva Challenge

OPCMIA Scholarship Fund

Paul Simon Institute – SIU Foundation

Ryan Griffin Memorial Scholarship Foundation

Scott Thomas Palmer Memorial Scholarship

Sheet Metal Workers' International Scholarship Foundation

## Military Veterans:

Folds of Honor

Helmets to Hardhats

Yellow Ribbon Fund

## Health & Wellness:

American Cancer Society

Arizona Myeloma Network

Faces of Our Children

Family Counseling Center Inc.

Labor of Love – Diabetes Research Institute

Laborers C.A.R.E.

Larger than Life

Multiple Sclerosis Walk

Porshard Foundation for Abused Children

St. Jude's Children

Tigerlily Foundation

Prevent Child Abuse Kentucky

Two Rivers Child Advocacy Center

UA Charitable Trust – Mayo Clinic

## Workers' Rights:

Alliance for Retired Americans

International Labor Rights Forum

Interfaith Worker Justice

Jobs with Justice

National Alliance for Fair Contracting

New Jersey Alliance for Action

Peggy Browning Fund

Working America

Workers Defense Project

## Community Organization:

American Friends of Yitzak Rabin

American Ireland Fund

Athletes for Life

City Craft Foundation

City of Rialto – 9th Annual the State of Women Event

Chicago Federation of Labor & Industrial Union Council – Solidarity Labor Day

Construction Industry Workers Charitable

DC Friends of Ireland

Gene Slay's Boys Club of St. Louis

Helmets to Hardhats Toys for Tots

IBEW Local 134 Helping Hands

Illinois Women's Institute for Leadership

Instituto Laboral de la Raza

Southern Illinois Central Labor Council Annual Food Drive

Southern Illinois University

Special Olympics Illinois

The Jewish Labor Committee

The PATCH Foundation

Union Sportsmen's Alliance

Western Works Labor Heritage Festival

Working Theater

# Building a Legacy of Success

In 2015, our Company continued with steady and solid growth of existing products, while launching new initiatives to serve the American labor movement in 2016 and beyond.

Our success was highlighted by our third profitable year in a row. Our stop loss sales broke records, helping union healthcare plans remain strong. The Ullico Infrastructure Fund completed four transactions, helping to create jobs and rebuild our nation. Through our flagship J for Jobs, we closed $1.3 billion in real estate loans. That contributed to an increase in Investment Services' assets under management by $220 million.

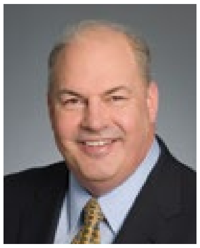
Our leadership team continues to adapt to the changing realities of the market and our customers. We are excited by new guidance from the Department of Labor regarding fiduciary decision-making, supporting what we have long believed: Responsible investment is long-term and takes into account the economic impacts of job-creation and building communities.

And as our world continues to change, we're proud to have launched enhanced and innovative products to address that change. Our cyber liability insurance aims to protect our unions from a growing threat. Through Ullico Retirement Solutions, our defined contribution platform offers 401(k) options that will promote retirement security for union members. Ullico's private exchange solution offers healthcare and supplemental insurance through union-branded websites.

We're honoring our legacy of giving back to the labor movement by supporting labor-focused charity and nonprofit organizations that build communities and empower workers.

We're building on success by honoring the legacy of Ullico and all of organized labor. We're building America's infrastructure, building the middle class and building solutions to keep union workers healthy today and secure in their retirement.

On behalf of our board of directors and senior leadership team, we salute every shareholder for making it possible for Ullico to continue building on success.



**Edward M. Smith**
President & Chief Executive Officer

**Joseph J. Hunt**
Chairman of the Board

# 2015 and 2014 Consolidated Financial Statements

## Management’s Report on Internal Control over Financial Reporting as of December 31, 2015

Management of Ullico Inc. and its subsidiaries (“the Company”) is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed under the supervision of the Company’s principal executive and financial officers and effected by the Company’s board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;

- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company’s assets that could have a material effect on the financial statements.

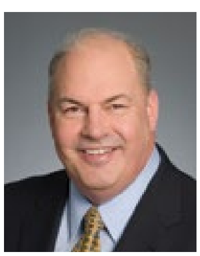
Management has evaluated the effectiveness of its internal control over financial reporting as of December 31, 2015, based on the control criteria established in a report entitled Internal Control-Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on such evaluation, management has concluded that the Company’s internal control over financial reporting was effective as of December 31, 2015.

The effectiveness of our internal control over financial reporting as of December 31, 2015 has been audited by Ernst & Young LLP, the Company’s independent auditors, as stated in their report, which appears herein.

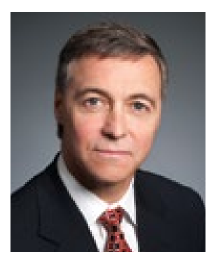
## Management's Report on Disclosure Controls and Procedures as of December 31, 2015

The Company has established disclosure controls and procedures to ensure that material information relating to the Company, including its subsidiaries, is made known to the officers responsible for financial reporting, other members of senior management and to the board of directors. Based upon their evaluation of the effectiveness of the Company's disclosure controls and procedures, the principal executive and financial officers have concluded that such disclosure controls and procedures are effective to ensure that the information required to be disclosed by the Company is recorded, processed, summarized and reported within the appropriate time periods.

The Company intends to review and evaluate the design and effectiveness of its disclosure controls and procedures on an ongoing basis. The Company intends to make all necessary improvements in controls and procedures and correct any deficiencies that may be discovered in the future in order to ensure that senior management has timely access to all material financial and non-financial information concerning the Company's business. While the present design of the Company's disclosure controls and procedures is effective to achieve these results, future events affecting the Company's business may cause management to modify its disclosure controls and procedures.



**Edward M. Smith**
President & Chief Executive Officer



**David J. Barra**
Senior Vice President
Chief Financial Officer

Building a better working world

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## Report of Independent Auditors

Board of Directors and Stockholders
Ullico Inc.

We have audited Ullico Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Ullico Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting as of December 31, 2015. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Ullico Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements of Ullico Inc., and our report dated April 21, 2016 expressed an unqualified opinion thereon.

Ernst & Young LLP

April 21, 2016

Building a better
working world

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## Report of Independent Auditors

Board of Directors and Stockholders
Ullico Inc.

We have audited the accompanying consolidated financial statements of Ullico Inc., which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. 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 financial statements.

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ullico Inc. at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

**Report on Internal Control over Financial Reporting**

We also have audited, in accordance with auditing standards generally accepted in the United States, the Company's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated April 21, 2016 expressed an unqualified opinion thereon.

Ernst & Young LLP

April 21, 2016

**Ullico Inc.**
**CONSOLIDATED BALANCE SHEETS**
**(in thousands)**

| | December 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Fixed maturity and debt securities, at fair value (amortized cost of $301,358 and $281,478) | $ | 307,618 | $ | 298,319 |
| Investments in limited partnerships and limited liability corporations | | 6,928 | | 7,531 |
| Mortgage loans, held for investment | | 19,314 | | 19,961 |
| Total Investments | $ | 333,860 | $ | 325,811 |
| | | | | |
| Cash and cash equivalents | | 28,957 | | 39,921 |
| Accrued investment income | | 3,095 | | 2,863 |
| Premiums, accounts and notes receivable | | 19,159 | | 14,637 |
| Reinsurance recoverable | | 39,440 | | 26,513 |
| Property and equipment, net | | 4,426 | | 5,364 |
| Goodwill, net | | 2,756 | | 3,230 |
| Deferred policy acquisition costs | | 25,816 | | 26,865 |
| Current income tax recoverable | | - | | 140 |
| Deferred income tax | | - | | - |
| Other assets | | 8,907 | | 8,307 |
| Separate account assets | | 2,894,063 | | 2,991,805 |
| **TOTAL ASSETS** | $ | 3,360,479 | $ | 3,445,456 |

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

**Ullico Inc.**
**CONSOLIDATED BALANCE SHEETS**
**(in thousands, except share amounts)**

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| **LIABILITIES** | | |
| Policy and claim reserves: | | |
| Life, accident and health and annuities | $ 204,712 | $ 185,279 |
| Property and casualty | 22,538 | 13,495 |
| Deposit-type annuity contracts | 48,527 | 61,851 |
| Policyholder funds on deposit | 3,935 | 4,472 |
| Policyholder dividends payable | 4,377 | 2,461 |
| Unearned and advance premiums | 12,439 | 11,172 |
| Total Policy Liabilities | 296,528 | 278,730 |
| Accounts payable and other liabilities | 27,306 | 28,608 |
| Reinsurance balances payable | 9,145 | 9,129 |
| Accrued pension and other post-employment benefits ("OPEB") | 18,969 | 20,702 |
| Current income taxes payable | 365 | - |
| Separate account liabilities | 2,894,063 | 2,991,805 |
| **TOTAL LIABILITIES** | $ 3,246,376 | $ 3,328,974 |
| | | |
| **STOCKHOLDERS' EQUITY** | | |
| Capital stock ($25 par value; 2,000,000 shares authorized; issued and outstanding 251,351 at 12/31/15 and 12/31/14) | 6,284 | 6,284 |
| Class A common stock, voting ($1 par value; 20,000,000 shares authorized; issued and outstanding 7,337,036 at 12/31/15 and 8,148,483 at 12/31/14) | 7,337 | 8,148 |
| Class B common stock, nonvoting ($1 par value; 20,000,000 shares authorized; issued and outstanding 1,564,932 at 12/31/15 and 753,485 at 12/31/14) | 1,564 | 753 |
| Additional capital paid-in | 190,524 | 190,524 |
| Accumulated other comprehensive income: | | |
| Unrealized investment gains, net of deferred tax | 4,069 | 10,947 |
| Pension/OPEB liability adjustment, net of deferred tax | 6,027 | 5,779 |
| Accumulated other comprehensive income | 10,096 | 16,726 |
| Retained deficit | (101,702) | (105,953) |
| **TOTAL STOCKHOLDERS' EQUITY** | $ 114,103 | $ 116,482 |
| | | |
| **TOTAL LIABILITIES and STOCKHOLDERS' EQUITY** | $ 3,360,479 | $ 3,445,456 |

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

## Ullico Inc.
## CONSOLIDATED STATEMENTS OF INCOME
### (in thousands)

| | Years Ended | |
|---|---|---|
| | December 31, 2015 | December 31, 2014 |
| **INCOME** | | |
| Premium income: | | |
| Life, accident and health and annuities | $ 130,881 | $ 135,092 |
| Property and casualty | 26,703 | 23,910 |
| Fee based income | 53,249 | 48,238 |
| Net investment income | 11,209 | 11,426 |
| Net realized gains | 1,315 | 2,688 |
| Other income | 2,434 | 2,793 |
| **TOTAL INCOME** | $ 225,791 | $ 224,147 |
| | | |
| **BENEFITS and EXPENSES** | | |
| Life, accident and health and annuities | 98,968 | 99,966 |
| Interest credited to policyholder account balances | 1,424 | 1,473 |
| Losses and loss adjustment expenses - property and casualty | 14,405 | 10,453 |
| Policyholder dividends | 3,875 | 2,077 |
| Total policy benefits and claims expenses | 118,672 | 113,969 |
| Commissions | 26,407 | 24,337 |
| Sales, general and administrative expenses | 67,155 | 74,341 |
| Net change in deferred acquisition costs | 1,049 | (334) |
| Taxes, licenses and fees | 3,966 | 3,683 |
| **TOTAL BENEFITS and EXPENSES** | $ 217,249 | $ 215,996 |
| | | |
| Net income before federal and state income taxes | 8,542 | 8,151 |
| Income tax benefit/(expense) | (4,291) | 3,482 |
| **NET INCOME** | $ 4,251 | $ 11,633 |

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

## Ullico Inc.
## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)
## (in thousands)

| | Years Ended | |
|---|---|---|
| | December 31, 2015 | December 31, 2014 |
| Net income | $ 4,251 | $ 11,633 |
| Other comprehensive income/(loss), net of tax: | | |
| Unrealized investment gains/(losses) arising during the period, net of $(3,090) and $2,534 of tax | (5,739) | 4,704 |
| Reclassification adjustment for unrealized gains on securities included in net income, net of $(614) and $(545) of tax | (1,139) | (1,013) |
| Change in unrealized gains/(losses) on securities, net of $(3,704) and $1,989 of tax | (6,878) | 3,691 |
| Change in pension/OPEB liability, net of $133 and $1,491 of tax | 248 | 2,770 |
| Other comprehensive income/(loss), net of tax | (6,630) | 6,461 |
| **COMPREHENSIVE INCOME/(LOSS)** | $ (2,379) | $ 18,094 |

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

## Ullico Inc.
## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
## (in thousands)

| | Shares | Capital Stock | Class A Common Stock | Class B Common Stock |
|---|---|---|---|---|
| Balance, January 1, 2014 | 9,153 | $ 6,284 | $ 8,148 | $ 753 |
| Balance, December 31, 2014 | 9,153 | $ 6,284 | $ 8,148 | $ 753 |
| Sale of shares between stockholders | | | (811) | 811 |
| Balance, December 31, 2015 | 9,153 | $ 6,284 | $ 7,337 | $ 1,564 |

| | Additional Capital Paid-In | Accumulated Other Comprehensive Income | Retained Deficit | Total |
|---|---|---|---|---|
| Balance, January 1, 2014 | $ 190,524 | $ 10,265 | $ (117,586) | $ 98,388 |
| Net income | | | 11,633 | 11,633 |
| Change in unrealized gain on investments, net | | 3,691 | | 3,691 |
| Change in pension/OPEB liability, net | | 2,770 | | 2,770 |
| Total comprehensive income | | | | 18,094 |
| Balance, December 31, 2014 | $ 190,524 | $ 16,726 | $ (105,953) | $ 116,482 |
| Net income | | | 4,251 | 4,251 |
| Change in unrealized investment gains, net | | (6,878) | | (6,878) |
| Change in pension/OPEB liability, net | | 248 | | 248 |
| Total comprehensive loss | | | | (2,379) |
| Balance, December 31, 2015 | $ 190,524 | $ 10,096 | $ (101,702) | $ 114,103 |

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

**Ullico Inc.**
**CONSOLIDATED STATEMENTS**
**OF CASH FLOWS**
**(in thousands)**

| | Years Ended December 31, 2015 | Years Ended December 31, 2014 |
|---|---|---|
| ***Cash flows from operating activities:*** | | |
| Net income | $ 4,251 | $ 11,633 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Interest credited to policyholder account balances | 1,187 | 1,314 |
| Amortization of deferred policy acquisition costs | 14,516 | 13,349 |
| Capitalization of deferred policy acquisition costs | (13,467) | (13,683) |
| Amortization & depreciation expense | 1,740 | 2,068 |
| Deferred income taxes | 3,704 | (1,989) |
| Net realized gains | (1,315) | (2,688) |
| (Gains)/losses on limited partnership investments, net | 457 | (145) |
| Change in premiums, accounts and notes receivable | (4,522) | 838 |
| Change in reinsurance recoverable/payable | (12,911) | (395) |
| Change in policy liabilities | 31,659 | 18,477 |
| Change in accounts payable and other liabilities | (2,787) | (14,961) |
| Change in current income tax recoverable/payable | 505 | 1,271 |
| Other, net | (254) | 220 |
| Cash provided by operating activities | 22,763 | 15,309 |
| ***Cash flows from investing activities:*** | | |
| Proceeds from sales & maturities of investments: | | |
| Fixed maturity and debt security sales | 37,371 | 53,087 |
| Fixed maturity and debt security maturities | 35,204 | 34,550 |
| Mortgage loans | 647 | 1,599 |
| Limited partnerships | 146 | 172 |
| Purchases of investments: | | |
| Fixed maturities and debt securities | (91,718) | (95,958) |
| Mortgage loans | - | (159) |
| Purchases of property & equipment | (329) | (2,986) |
| Cash used in investing activities | (18,679) | (9,695) |
| ***Cash flows from financing activities:*** | | |
| Investment product deposits | 9,229 | 8,527 |
| Investment product withdrawals | (24,277) | (11,844) |
| Cash used in financing activities | (15,048) | (3,317) |
| Net change in cash and cash equivalents | (10,964) | 2,297 |
| Cash and cash equivalents, beginning of period | 39,921 | 37,624 |
| Cash and cash and cash equivalents, end of period | $ 28,957 | $ 39,921 |

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

## Note 1---Organization and Basis of Presentation

The accompanying consolidated financial statements include the accounts of Ullico Inc., a privately held specialty insurance and investments holding company serving the union workplace, and its subsidiaries (collectively, "Ullico" or "the Company"). Ullico's primary wholly owned subsidiaries include The Union Labor Life Insurance Company ("Union Labor Life"), Ullico Casualty Group, Inc. ("UCG"), Ullico Investment Advisors, Inc. and Ullico Investment Company, Inc.

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). All significant intercompany balances and transactions have been eliminated in consolidation. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from these estimates due to a number of factors, including changes in the level of mortality, morbidity, interest rates, asset valuations, experience development, claims frequency and severity trends and changes in market conditions and such differences could occur in the near term.

### *Nature of Operations*

Union Labor Life was founded in 1925 by the officials of the American Federation of Labor to provide low cost insurance protection to union members and their collectively bargained union benefit plans. Ullico Inc. was formed in 1987 to facilitate the restructuring of the insurance subsidiaries and to enable the Company to expand its investment services capabilities through non-insurance subsidiaries. Ownership of Ullico's stock is generally restricted to international and national trade unions, their members, their members' benefit funds, the Company's pension plan and directors and officers of the Company.

The activities of the Company cover a broad range of insurance and financial products and services provided principally to labor unions, their members and employers of union members, including life and health insurance, property and casualty insurance, investment advisory services, asset management and mortgage banking and servicing activities.

## Note 2---Summary of Significant Accounting Policies

### *Invested Assets*

Fixed maturity and debt securities are designated "available for sale" and are reported at fair value. The fair value of fixed maturity and debt securities is based upon independent market quotations. Other than securities that are other than temporarily impaired, changes in fair value of securities designated as available for sale, net of deferred income taxes, are recorded as a separate component of stockholders' equity, and accordingly have no effect on net income. Cash received from maturities and pay downs is reflected as a component of proceeds from sales and maturities of investments in the statements of cash flows.

Limited partnership investments and limited liability corporations are recorded in accordance with the equity method of accounting.

Mortgage loans are carried at unpaid principal balances, less impairment reserves. For mortgage loans considered impaired, a specific reserve is established. Mortgage loans are considered impaired when it is probable that the Company will be unable to collect amounts due according to the contractual terms of the loan agreement. When a mortgage loan has been determined to be impaired, a reserve is established for the difference between the unpaid principal of the mortgage loan and its fair value. Fair value is based on the lower of either the present value of expected future cash flows discounted at the mortgage loan's effective interest rate or the fair value of the underlying collateral. Changes in the mortgage valuation reserves are reflected in realized gains or losses.

Cash equivalents include money market funds and other investments whose maturities at the time of acquisition were ninety days or less and are readily convertible to known amounts of cash. These investments are carried at cost, which approximates fair value.

Declines in the fair value of invested assets below cost are evaluated for other-than-temporary impairment losses. The portfolio of investments is reviewed on a quarterly basis to determine if an other-than-temporary decline in value has occurred. The decision to impair a security incorporates both quantitative criteria and qualitative information. A number of items factor into the "impairment" decision including, but not limited to: (a) materiality and length of unrealized loss; (b) the financial condition of the issuer; (c) the business plan and trend of the issuer; (d) general market conditions and industry or sector specific factors; (e) interest rate environment and (f) whether the Company intends to sell or thinks it is more likely than not it will be required to sell the security prior to recovery.

If the fair value of a fixed maturity or debt security declines in value below the Company's amortized cost and the Company intends to sell or determines that it will more likely than not be required to sell the security before recovery of its amortized cost basis, management considers the security to be other than temporarily impaired and reports its decline in fair value as a realized investment loss in the consolidated statement of income as the difference between carrying value and fair value. If, however, the Company does not intend to sell the security and determines that it is not more likely than not that it will be required to do so, declines in the fair value are considered, in the judgment of management to be other than temporary and are separated into the amounts representing credit losses and the amounts related to other factors. Amounts representing credit losses are reported as realized investment losses in the consolidated statements of income and amounts related to other factors are included as a component of accumulated other comprehensive income or loss, net of the related income tax benefit. The amount of credit loss is determined by discounting the security's expected cash flows at its effective interest rate at the time of acquisition. Declines in the fair value of all other investments, with the exception of mortgage loans, that are considered in the judgment of management to be other than temporary are reported as realized investment losses in the consolidated statements of income.

*Premium, Accounts and Notes Receivable*

Premiums, accounts and notes receivable consist primarily of accrued premiums receivable from the Company's insurance customers. Premiums, accounts and notes receivable are carried at their estimated collectible amounts, net of any allowance for doubtful accounts, and are periodically evaluated for collectability based on past payment history and current economic conditions.

*Concentration and Credit Risk*

Financial instruments that potentially subject the Company to concentration and credit risk are primarily cash and cash equivalents, investments and accounts receivable. Investments are diversified through many industries and geographic regions through the use of investment managers who employ different investment strategies. The Company limits the amount of credit exposure with any one financial institution and believes that no significant concentration of credit risk exists with respect to cash and investments. The premiums receivable balances are generally diversified due to the distribution of policyholders across many states. The Company also has receivables from reinsurers. Reinsurance contracts do not relieve the Company from its obligations to its policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company periodically evaluates the financial condition of its reinsurers and in certain cases, requires collateral from its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. Management's policy is to review all outstanding receivable balances as well as bad debt write-offs experienced in the past and establish an allowance for doubtful accounts, if deemed necessary. See Note 9, Reinsurance, for additional details on concentration and credit risk related to the Company's reinsurance programs.

*Policy and Claim Reserves and Policyholder Contract Deposits*

Life and health insurance products consist principally of group insurance policies. Most of the Company's group life and health insurance policies are participating. Therefore, in addition to guaranteed benefits, they pay dividends, as declared annually by the Company based on its experience. The group life and health insurance claim reserves are based on projections of historical claim development. The policy reserves, as related to life and health products, are based on assumptions for mortality and morbidity, utilizing interest rates ranging from 2.25% to 6.0%.

Investment-type annuity products consist of single premium annuity contracts. Annuity reserves consist principally of liabilities for group pension funds that are deposited on behalf of groups to provide immediate and future retirement benefits to group members.

Policy reserves and policyholder contract deposits on annuity and universal life insurance products are determined following the retrospective deposit method and consist of policy account values that accrue to the benefit of the policyholder, based on guaranteed rates stated in the policy contract, before deduction of surrender charges.

The reserves for losses and loss adjustment expenses for property and casualty insurance policies include estimates for losses and claims reported prior to the balance sheet date, estimates of claims incurred but not reported based on projections of historical loss developments with consideration given to the risk share arrangements with agents and underwriters that are expected to result in losses that trend below general industry results, and estimates of expenses for investigating, defending and adjusting all incurred and unadjusted claims. Actual amounts could differ from these estimates if these assumptions do not occur as expected. Reserves are continually monitored and reviewed, and any adjustments are reflected in the current period consolidated statement of income.

*Fee Based Income*

Fee based income consists primarily of revenue generated from administrative services, investment management fees charged to Separate Accounts and third parties and managing general agency fees. Investment management fees were approximately $30.2 million and $26.3 million for the periods ended December 31, 2015 and 2014, respectively. Managing general agency fees were $21.2 million and $20.0 million for the periods ended December 31, 2015 and 2014, respectively. The managing general agency fees are the result of fee income generated by UCG from program administrator agreements with Alterra America Insurance Company ("Alterra") and Markel American Insurance Company ("Markel"). Under these agreements, UCG produces and administers a book of fiduciary and union liability business. For these services, UCG receives fees for program agent commission, program administrator commission, claims handling and profit commission. In addition, life and health marketing fees were approximately $1.8 million and $1.9 million for the periods ended December 31, 2015 and 2014, respectively.

*Premiums, Charges and Benefits*

Premiums for life and accident and health policies are generally recognized when due. Premiums for property and casualty are earned over the contract term. Benefit claims (including an estimated provision for claims incurred but not reported), benefit reserve changes, and expenses (except deferred policy acquisition costs) are charged to income as incurred.

Deposits for certain investment-type annuity and universal life insurance contracts are treated as liabilities rather than as premiums. Revenues for investment-type products consist of policy charges for the cost of insurance, policy initiation, administration and surrenders during the period. Expenses include interest credited to policy account balances and benefit payments made in excess of policy account balances. Credited interest rates ranged from 1.75% to 6.5% in 2015 and 2014.

*Deferred Policy Acquisition Costs ("DAC")*

The Company defers and amortizes costs which are incrementally or directly related to the successful acquisition of new or renewal insurance business. Such costs include commissions and costs of direct marketing the Company's products. The DAC for supplemental insurance is amortized over the expected lifetime of the insurance contracts (typically 10-30 years). DAC associated with property and casualty insurance is amortized to expense as premiums are earned (typically 12 months or less). For traditional life insurance products, DAC is amortized to income in proportion to the estimated premiums on such business. For annuity products, DAC is amortized to expense in relation to estimated gross profits. DAC is reviewed periodically for loss recognition and written down when necessary. Anticipated investment income is considered when determining if a premium deficiency relating to short-duration contracts exists.

*Investment Income*

Investment income primarily consists of interest from fixed maturity and debt securities and net investment income from limited partnership and limited liability corporation interests. Interest is recognized on an accrual basis. Income from limited partnership investments and limited liability corporations is recorded based on the equity method and earnings are included in investment income. Realized gains and losses include gains and losses on investment dispositions and write downs in value due to other-than-temporary declines in fair value. Realized gains and losses on investment dispositions are determined on a specific identification basis.

*Policyholder Dividends*

As of December 31, 2015 and 2014, approximately 99% of the Company's in-force life and health business was written on a participating basis. Dividends are earned by the policyholders ratably over the policy year. Dividends are included in the accompanying financial statements as a liability and as a charge to income in the period incurred. Dividends are paid on the anniversary date of the policy.

*Reinsurance*

The reinsurance recoverable amount reported includes amounts billed to reinsurers on paid policy life and accident and health benefits, as well as estimates of amounts expected to be recovered from reinsurance on amounts that have not yet been paid. Reinsurance recoverable on unpaid policy benefits and claims are estimated based upon assumptions consistent with those utilized in establishing reserves. The Company reviews reinsurance recoverable for collectability and records write-downs if necessary. Premiums, benefits and expenses are recorded net of experience refunds, reserve adjustments and amounts assumed from or ceded to reinsurers, including commission and expense allowances. The reinsurance balances payable amount reported includes amounts billed from reinsurers for premiums ceded which were written by the Company.

### *Separate Accounts*

Union Labor Life maintains separate account assets and liabilities, representing net deposits and accumulated net investment earnings less fees, held primarily for the benefit of tax-qualified group pension contract holders, which are reported at fair value in the Company's consolidated balance sheets. The Company does not bear the investment risk. The assets consist primarily of equity securities, publicly traded long-term bonds, construction and permanent mortgages, real estate equity, cash equivalents and short-term investments. Investments income/(loss) from separate account investments do not impact the Company's consolidated results.

### *Income Taxes*

Current federal income taxes are charged or credited to income based upon amounts estimated to be payable or recoverable as a result of taxable income. Deferred income tax assets have been recorded for temporary differences between the reported amounts of assets and liabilities in the accompanying financial statements and those in the Company's income tax returns. A deferred tax asset valuation allowance is established if it is more likely than not that such an asset would not be realized.

### *Property and Equipment*

Property and equipment are recorded at cost less accumulated depreciation and amortization. Included in property and equipment are capitalized costs related to computer software licenses and software developed for internal use. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Estimated useful lives of depreciated assets are as follows: personal computers (3 years); printers, servers, mainframe equipment, software and furniture and fixtures (5 years). Leasehold improvements are amortized over the shorter of the estimated useful lives of the assets or the related lease term, ranging from 5 to 10 years. Accumulated depreciation on property and equipment was $15.3 million and $15.0 million at December 31, 2015 and December 31, 2014, respectively. Depreciation expense was $1.3 million and $2.1 million for the periods ended December 31, 2015 and 2014, respectively. The Company reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

### *Goodwill*

Goodwill of $2.8 million and $3.2 million as of December 31, 2015 and 2014, respectively, represents the excess of purchase price over fair value of the net assets of acquired entities. In 2015, the Company began amortizing goodwill based upon guidance from Accounting Standards Update 2014-02. This resulted in amortization of $0.5 million recorded through December 2015.

### *Contingent Liabilities*

Amounts related to contingent liabilities are accrued if it is probable that a liability has been incurred and an amount is reasonably estimable.

### *Reserves for Litigation*

The Company is subject to lawsuits in the normal course of business related to its insurance and non-insurance products. At the time when pending or threatened litigation becomes known, management evaluates the merits of the case and, if the potential settlements or judgments are determined to be probable and estimable, a reserve is established in accordance with Financial Accounting Standards Board ("FASB"), Accounting Standards Codification ("ASC"), 450-20, *Contingencies, Loss Contingencies.* These reserves may be adjusted as the case develops. Periodically, and at least quarterly, management assesses all pending cases as a basis for evaluating reserve levels. At that point, any necessary adjustments are made to applicable reserves as determined by management and are included in current operating results. Reserves may be adjusted based upon outside counsel's advice regarding the laws and facts of the case, any revisions in the law applicable to the case, the results of depositions and/or other forms of discovery, general developments as the case progresses such as a favorable or an adverse trial court ruling, whether a verdict is rendered for or against the Company, whether management believes an appeal will be successful, or other factors that may affect the anticipated outcome of the case. Due to the uncertainty of future events, there can be no assurance that actual outcomes will not differ from the assessments made by management. The Company has not recorded a legal contingency reserve as of December 31, 2015 or 2014.

### *Subsequent Events*

The Company has evaluated subsequent events for recognition and disclosure through April 21, 2016, the date the consolidated financial statements were available to be issued and has included any required disclosures in Note 15 of the consolidated financial statements.

*Accounting Pronouncements*

*Revenue Recognition*

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which creates a new comprehensive revenue recognition standard that will serve as a single source of revenue guidance for all companies in all industries. The guidance applies to all companies that either enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards, such as insurance contracts. The revenue recognition guidance for insurance contracts is currently under discussion and will be issued at a later date. Under ASU No. 2014-09, a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under the current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. Subsequently, in August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which defers the Company's date of adoption of ASU No. 2014-09 to the first quarter of 2018. The Company is currently evaluating ASU No. 2014-09 to determine the potential impact that adopting this standard will have on the consolidated financial statements.

*Presentation of an Unrecognized Tax Benefit*

In July 2013, the FASB issued ASU 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.* This standard requires an entity to present unrecognized tax benefits as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. ASU No. 2013-11 became effective for the Company during the first quarter of 2015. The application of the standard did not have a material impact on the consolidated financial statements.

## Note 3---Investment Securities

The amortized cost, gross unrealized gains, gross unrealized losses and fair value of investments as of December 31, 2015 and December 31, 2014 are as follows (in millions):

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Debt securities issued by U.S Treasury and other U.S. government corporations and agencies | $ 24.5 | $ 0.8 | $ - | $ 25.3 |
| Debt securities issued by U.S. states and political subdivisions of states | 58.4 | 4.7 | 0.5 | 62.6 |
| Debt securities issued by foreign governments | 0.5 | 0.1 | - | 0.6 |
| Corporate debt securities | 148.2 | 3.3 | 4.5 | 147.0 |
| Residential mortgage-backed securities | 69.8 | 2.6 | 0.3 | 72.1 |
| **Total** | $ 301.4 | $ 11.5 | $ 5.3 | $ 307.6 |

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Debt securities issued by U.S Treasury and other U.S. government corporations and agencies | $ 49.0 | $ 1.1 | $ - | $ 50.1 |
| Debt securities issued by U.S. states and political subdivisions of states | 52.2 | 5.9 | 0.1 | 58.0 |
| Debt securities issued by foreign governments | 0.5 | 0.1 | - | 0.6 |
| Corporate debt securities | 109.4 | 6.0 | 0.3 | 115.1 |
| Residential mortgage-backed securities | 70.4 | 4.2 | 0.1 | 74.5 |
| **Total** | $ 281.5 | $ 17.3 | $ 0.5 | $ 298.3 |

The Company had $11.4 million of securities on deposit with state regulatory authorities at December 31, 2015 and December 31, 2014.

The Company had $33.6 million and $24.9 million of assets pledged as collateral held in trust for benefit of third parties at December 31, 2015 and December 31, 2014, respectively.

The amortized cost and estimated fair value of fixed maturity securities at December 31, 2015 by contractual maturity are shown below (in millions):

| | Amortized Cost | Fair Value |
|---|---|---|
| Due in one year or less | $ 5.4 | $ 5.5 |
| Due after one year through five years | 63.2 | 65.5 |
| Due after five years through ten years | 76.4 | 78.7 |
| Due after ten years | 156.4 | 157.9 |
| **Total** | $ 301.4 | $ 307.6 |

Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties. Mortgage-backed securities are included based on their final maturity.

Realized gains/(losses) on investments for the periods ended December 31, 2015 and 2014 are summarized as follows (in millions):

| **Realized Gains/(Losses)** | **December 31, 2015** | **December 31, 2014** |
|---|---|---|
| Fixed maturities | $ 1.3 | $ 2.7 |
| Equity securities | - | - |
| Limited partnerships | - | - |
| **Total Realized Gains/(Losses)** | $ 1.3 | $ 2.7 |

The following table shows the Company's investments with gross unrealized losses and their fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2015 (in millions).

| | **Less than 12 months** | | **12 months or more** | | **Total** | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Debt securities issued by U.S Treasury and other U.S. government corporations and agencies | $ 8.8 | $ - | $ 1.1 | $ - | $ 9.9 | $ - |
| Debt securities issued by U.S. states and political subdivisions of states | 9.3 | 0.5 | - | - | 9.3 | 0.5 |
| Corporate debt securities | 81.8 | 4.0 | 2.4 | 0.5 | 84.2 | 4.5 |
| Residential mortgage-backed securities | 29.3 | 0.3 | 2.8 | - | 32.1 | 0.3 |
| **Total** | $ 129.2 | $ 4.8 | $ 6.3 | $ 0.5 | $ 135.5 | $ 5.3 |

The Company's investment portfolio includes $4.8 million of unrealized losses on one hundred forty-six fixed maturity securities that have been in a continuous loss position for less than twelve months. The portfolio includes $0.5 million of unrealized losses on eight fixed maturity securities that have been in a loss position for more than twelve months. The balance in the Company's gross unrealized losses for available-for-sale securities for the period ended December 31, 2015, was attributable primarily to reduced liquidity in several market segments. Based upon the nature of the fixed maturity securities, the Company believes that each issuer will meet all of its financial obligations. The Company does not consider the fixed maturity securities to be other-than-temporarily impaired as of December 31, 2015 and December 31, 2014, based on the other factors described in Note 2 to the consolidated financial statements. In addition, the Company does not intend to sell the related fixed maturity securities and it is not likely that the Company will be required to sell the fixed maturity securities before recovery of their amortized cost bases, which may be maturity.

The following table shows the Company's investments with gross unrealized losses and their fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2014 (in millions).

| | Less than 12 months | | 12 months or more | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Debt securities issued by U.S Treasury and other U.S. government corporations and agencies | $ 8.9 | $ - | $ 2.2 | $ - | $ 11.1 | $ - |
| Debt securities issued by U.S. states and political subdivisions of states | 0.3 | - | 2.1 | 0.1 | 2.4 | 0.1 |
| Corporate debt securities | 19.8 | 0.3 | 5.0 | - | 24.8 | 0.3 |
| Residential mortgage-backed securities | 9.2 | 0.1 | 1.7 | - | 10.9 | 0.1 |
| **Total** | $ 38.2 | $ 0.4 | $ 11.0 | $ 0.1 | $ 49.2 | $ 0.5 |

Net unrealized appreciation/(depreciation) on securities as of December 31, 2015 and December 31, 2014 is summarized as follows (in millions):

| | **December 31, 2015** | **December 31, 2014** |
|---|---|---|
| Fixed maturities | $ 6.2 | $ 16.8 |
| Less: Deferred income taxes | (2.1) | (5.9) |
| **Net Unrealized Appreciation** | $ 4.1 | $ 10.9 |

Net investment income, by type of investment, is as follows for the periods ended December 31, 2015 and 2014 (in millions):

| | **December 31, 2015** | **December 31, 2014** |
|---|---|---|
| Gross investment income/(loss): | | |
| Fixed maturities | $ 11.4 | $ 10.8 |
| Mortgage loans, held for investment | 1.1 | 1.2 |
| Limited partnerships | (0.4) | 0.2 |
| Gross investment income | 12.1 | 12.2 |
| Less: Investment expenses | (0.9) | (0.8) |
| **Net investment income** | $ 11.2 | $ 11.4 |

## Note 4---Fair Value of Financial Instruments

The Company has adopted ASC 820, *Fair Value Measurements and Disclosures,* for all financial instruments accounted for at fair value in the Company's financial statements. ASC 820 established a new framework for measuring fair value and expands related disclosures. Broadly, the framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. It also establishes market or observable inputs as the preferred source of values, followed by assumptions based on hypothetical transactions in the absence of market inputs.

ASC 820 specifies that a hierarchy of valuation techniques be determined for each asset based on whether the inputs to the valuation technique for those assets are observable or unobservable. Observable inputs reflect market data corroborated by independent sources while unobservable inputs reflect assumptions that are not observable in an active market or are developed internally. These two types of inputs create three valuation hierarchy levels:

- Level 1 valuations reflect quoted market or exchange prices for the actual or identical assets or liabilities in active markets.

- Level 2 valuations reflect inputs other than quoted prices in Level 1 which are observable. The inputs can include some or all of the following into a valuation model:

    - quoted prices on similar assets in active markets
    - quoted prices on actual assets that are not active
    - inputs other than quoted prices such as yield curves, volatilities, prepayments speeds
    - inputs derived from market data

- Level 3 valuations reflect valuations in which one or more of the significant valuation inputs are not observable in an active market, there is limited if any market activity, and/or are based on management inputs into a valuation model.

The Company maintains policies and procedures to value instruments using the best and most relevant data available. The Company determines the fair value of financial assets utilizing prices obtained from a third party pricing service. Typical inputs used to determine fair value include, but are not limited to, reported trades, broker/dealer prices, benchmark yields and issuer spreads. In addition, the Company has an investment management team that reviews the valuation, including independent price validation for certain instruments.

The following section describes the valuation methodologies the Company uses to measure the financial instruments at fair value.

### *Investments in Fixed Maturity and Debt Securities*

All fixed maturity and debt securities are considered available for sale and consist of: United States ("US") Treasury notes and bonds which trade actively and are categorized as Level 1; corporate bonds, government or agency debt, securitized debt (collateralized mortgage obligation or mortgage backed security) and private placements have valuations that use such inputs as dealer quotations, matrix pricing methodology, similar traded securities, and other observable data to generate their fair values which result in a Level 2 categorization.

### *Investments in Cash Equivalents*

Investments in cash equivalents consist of money market fund holdings, US Treasury bills and certificates of deposit. All of these instruments have readily available market or exchange prices in an active market and are classified as Level 1 assets.

### *Separate Account Assets*

The amount shown on the balance sheet represents the total of all Separate Account assets held in each of the accounts managed within the Company. Assets held in the Separate Accounts consists of US Treasury bills, US Treasury bonds, cash, common stock and investments in money market funds all of which are Level 1 assets as their values are readily available in the open market. Corporate bonds, corporate commercial paper, government or agency debt and securitized debt are valued using the market approach and priced using pricing models or matrix pricing making them Level 2 assets. Mortgage loans are fair valued internally using a discounted cash flow method and are categorized as Level 3 assets. Real estate is fair valued internally using a combination of external appraisals, internal valuations, and management's best estimates based on actual market metrics as observed on an asset by asset basis from month to month and is categorized as Level 3 assets.

The following table presents the Company's assets measured at fair value on a recurring basis at December 31, 2015 (in millions):

| Balance Sheet Line Item | Asset Category | Level 1 | Level 2 | Level 3 | Fair value at 12/31/2015 |
|---|---|---|---|---|---|
| Fixed Maturities | | | | | |
| | Debt securities issued by U.S Treasury and other U.S. government corporations and agencies | $ 9.8 | $ 15.5 | $ - | $ 25.3 |
| | Debt securities issued by U.S. states and political subdivisions of states | - | 62.6 | - | 62.6 |
| | Debt securities issued by foreign governments | - | 0.6 | - | 0.6 |
| | Corporate debt securities | - | 147.0 | - | 147.0 |
| | Residential mortgage-backed securities | - | 72.1 | - | 72.1 |
| Fixed Maturities Total | | 9.8 | 297.8 | - | 307.6 |
| Cash Equivalents | Money market funds | 23.9 | - | - | 23.9 |
| Cash Equivalents Total | | 23.9 | - | - | 23.9 |
| Total Investments | | $ 33.7 | $ 297.8 | $ - | $ 331.5 |

There were no transfers between Level 1 and Level 2 during 2015 or 2014.

The following table presents the Company's assets measured at fair value on a recurring basis at December 31, 2014 (in millions):

| Balance Sheet Line Item | Asset Category | Level 1 | Level 2 | Level 3 | Fair value at 12/31/2014 |
|---|---|---|---|---|---|
| Fixed Maturities | | | | | |
| | Debt securities issued by U.S Treasury and other U.S. government corporations and agencies | $ 9.3 | $ 40.8 | $ - | $ 50.1 |
| | Debt securities issued by U.S. states and political subdivisions of states | - | 58.0 | - | 58.0 |
| | Debt securities issued by foreign governments | - | 0.6 | - | 0.6 |
| | Corporate debt securities | - | 115.1 | - | 115.1 |
| | Residential mortgage-backed securities | | 74.5 | - | 74.5 |
| Fixed Maturities Total | | 9.3 | 289.0 | - | 298.3 |
| Cash Equivalents | Debt securities issued by U.S Treasury and other U.S. government corporations and agencies | 0.4 | - | - | 0.4 |
| | Money market funds | 37.0 | - | - | 37.0 |
| Cash Equivalents Total | | 37.4 | - | - | 37.4 |
| Total Investments | | $ 46.7 | $ 289.0 | $ - | $ 335.7 |

The following table details assets measured at fair value on a recurring basis at December 31, 2015 for all Separate Accounts (in millions). Note that the Balance Sheet categories "Separate Account Assets" and "Separate Account Liabilities" include receivables and other items that are not required to be disclosed under ASC 820.

| | Asset Category | Level 1 | Level 2 | Level 3 | Fair value at 12/31/2015 |
|---|---|---|---|---|---|
| Equities | Common Stock | $ 55.4 | $ - | $ - | $ 55.4 |
| Equities Total | | 55.4 | - | - | 55.4 |
| Fixed Maturities | | | | | |
| | Debt securities issued by U.S Treasury and other U.S. government corporations and agencies | - | 26.8 | - | 26.8 |
| | Debt securities issued by foreign governments | - | 0.1 | - | 0.1 |
| | Commercial mortgage-backed securities | - | 251.6 | - | 251.6 |
| | Corporate debt securities | - | 6.9 | - | 6.9 |
| | Asset-backed securities | - | 15.3 | - | 15.3 |
| | Residential mortgage-backed securities | - | 218.9 | - | 218.9 |
| Fixed Maturities Total | | - | 519.6 | - | 519.6 |
| Cash Equivalents | | | | | |
| | Debt securities issued by U.S Treasury and other U.S. government corporations and agencies | - | 28.2 | - | 28.2 |
| | Corporate debt securities | - | 85.0 | - | 85.0 |
| | Money market funds | 227.7 | - | - | 227.7 |
| Cash Equivalents Total | | 227.7 | 113.2 | - | 340.9 |
| Mortgage Loans | Mortgage Loans | - | - | 1,800.7 | 1,800.7 |
| Real Estate | Real Estate | - | - | 93.6 | 93.6 |
| Total Separate Account Investments | | $ 283.1 | $ 632.8 | $ 1,894.3 | $ 2,810.2 |

The following table presents additional information about valuation methodologies and inputs used for investments that are measured at fair value and categorized within Level 3 as of December 31, 2015 (in millions):

| Investment Type | Fair Value | Valuation Techniques | Unobservable Inputs | Range | Weighted Average |
|---|---|---|---|---|---|
| Mortgage Loans | $ 713.9 | Discounted Cash Flow | Discount rates | 3.15-5.27% | 4.43% |
| | | | Cap rates | 3.95-10.0% | 5.92% |
| | | | Market rates | 2.5-8.0% | 5.33% |
| Mortgage Loans | 1,086.8 | Held at Par (a) | N/A | N/A | N/A |
| Real Estate | 93.6 | Appraisal Value (b) | N/A | N/A | N/A |
| Total Level 3 investments | $ 1,894.3 | | | | |

(a) Approximates fair value.

(b) The fair value of the investment is based on a third party appraisal report performed at foreclosure and is adjusted for subsequent sales and assessed monthly for impairment.

There were no transfers between Level 1 and Level 2 during 2015 or 2014.

The following table summarizes the changes in financial assets classified in Level 3 for Separate Accounts from January 1, 2015 to December 31, 2015 (in millions):

| Separate Account Assets | Real Estate | Mortgage Loans | Total |
|---|---|---|---|
| Balance, January 1, 2015 | $ 52.9 | $ 1,700.8 | $ 1,753.7 |
| Total gain or losses (realized/unrealized): | | | |
| Realized gains/(losses) attributable to variable annuity contract holders | 3.3 | (6.5) | (3.2) |
| Unrealized gains/(losses) attributable to variable annuity contract holders | - | (1.3) | (1.3) |
| Purchases/Mortgage Loan Fundings | - | 593.7 | 593.7 |
| Sales/Repayments | (13.2) | (435.4) | (448.6) |
| Mortgages foreclosed on and converted to real estate owned | 50.6 | (50.6) | - |
| Balance, December 31, 2015 | $ 93.6 | $ 1,800.7 | $ 1,894.3 |

The gains/(losses) for the period included in unrealized gains/(losses) attributable to variable annuity contract relating to mortgage loans still held at December 31, 2015 was $(5.1) million.

The following table details assets measured at fair value on a recurring basis at December 31, 2014 for all Separate Accounts (in millions). Note that the Balance Sheet categories "Separate Account Assets" and "Separate Account Liabilities" include receivables and other items that are not required to be disclosed under ASC 820.

| | Asset Category | Level 1 | Level 2 | Level 3 | Fair value at 12/31/2014 |
|---|---|---|---|---|---|
| Equities | Common Stock | $ 54.9 | $ - | $ - | $ 54.9 |
| Equities Total | | 54.9 | - | - | 54.9 |
| Fixed Maturities | | | | | |
| | Debt securities issued by U.S Treasury and other U.S. government corporations and agencies | - | 23.4 | - | 23.4 |
| | Debt securities issued by foreign governments | - | 0.1 | - | 0.1 |
| | Commercial mortgage-backed securities | - | 380.7 | - | 380.7 |
| | Corporate debt securities | - | 7.4 | - | 7.4 |
| | Asset-backed securities | - | 1.8 | - | 1.8 |
| | Residential mortgage-backed securities | - | 292.0 | - | 292.0 |
| Fixed Maturities Total | | - | 705.4 | - | 705.4 |
| Cash Equivalents | | | | | |
| | Debt securities issued by U.S Treasury and other U.S. government corporations and agencies | - | - | - | - |
| | Corporate debt securities | - | 158.3 | - | 158.3 |
| | Money market funds | 120.9 | - | - | 120.9 |
| Cash Equivalents Total | | 120.9 | 158.3 | - | 279.2 |
| Mortgage Loans | Mortgage Loans | - | - | 1,700.8 | 1,700.8 |
| Real Estate | Real Estate | - | - | 52.9 | 52.9 |
| Total Separate Account Investments | | $ 175.8 | $ 863.7 | $ 1,753.7 | $ 2,793.2 |

The following table presents additional information about valuation methodologies and inputs used for investments that are measured at fair value and categorized within Level 3 as of December 31, 2014 (in millions):

| Investment Type | Fair Value | Valuation Techniques | Unobservable Inputs | Range | Weighted Average |
|---|---|---|---|---|---|
| Mortgage Loans | $ 494.2 | Discounted Cash Flow | Discount rates | 2.47-5.43% | 4.16% |
| | | | Cap rates | 3.05-10.5% | 6.47% |
| | | | Market rates | 2.5-8.0% | 5.82% |
| Mortgage Loans | 1,156.0 | Held at Par (a) | N/A | N/A | N/A |
| Mortgage Loans | 50.6 | Appraisal Value (b) | N/A | N/A | N/A |
| Real Estate | 52.9 | Appraisal Value (b) | N/A | N/A | N/A |
| Total Level 3 investments | $ 1,753.7 | | | | |

(a) Approximates fair value.
(b) The fair value of the investment is based on a third party appraisal report performed at foreclosure and is adjusted for subsequent sales and assessed monthly for impairment.

There were no transfers between Level 1 and Level 2 during 2014 or 2013.

The following table summarizes the changes in financial assets classified in Level 3 for Separate Accounts from January 1, 2014 to December 31, 2014 (in millions):

| Separate Account Assets | Real Estate | Mortgage Loans | Total |
|---|---|---|---|
| Balance, January 1, 2014 | $ 72.2 | $ 1,823.8 | $ 1,896.0 |
| Total gain or losses (realized/unrealized): | | | |
| Realized gains/(losses) attributable to variable annuity contract holders | 2.9 | (64.2) | (61.3) |
| Unrealized gains/(losses) attributable to variable annuity contract holders | - | 58.2 | 58.2 |
| Purchases/Mortgage Loan Fundings | - | 813.9 | 813.9 |
| Sales/Repayments | (22.2) | (930.9) | (953.1) |
| Transfers in and out of Level 3 | - | - | - |
| Balance, December 31, 2014 | $ 52.9 | $ 1,700.8 | $ 1,753.7 |

The gains/(losses) for the period included in unrealized gains/(losses) attributable to variable annuity contract relating to mortgage loans still held at December 31, 2014 was $4.9 million.

Changes in Separate Account assets are fully offset by the same change in Separate Account liabilities. There is no impact on the consolidated statement of income in regards to these changes.

There were no assets in the Company's general account measured at fair value on a non-recurring basis as of December 31, 2015 and December 31, 2014.

ASC 825, *Disclosures about Fair Value of Financial Instruments,* requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheets, for which it is practicable to estimate that value. In cases where quoted market prices are not available for identical or comparable financial instruments, fair values are based on estimates using the present values of estimated cash flows or other valuation techniques. Estimated fair values can be significantly affected by the methods and assumptions used, including the discount rate and estimates as to the amounts and timing of future cash flows. Accordingly, the fair values may not represent actual values of the financial instruments that could have been realized by the Company as of year-end or that will be realized in the future.

Fair values for the Company's insurance contracts other than investment contracts are not required to be disclosed under ASC 825. However, the estimated fair value and future cash flows of liabilities under all insurance contracts are taken into consideration in the Company's overall management of interest rate risk, which minimizes exposure to changing interest rates through the matching of investment maturities with amounts due under insurance contracts. Management believes that disclosing the estimated fair value of all assets without a corresponding revaluation of all liabilities associated with insurance contracts can be misinterpreted. The aggregate fair value amounts presented do not represent the actual value of the Company.

The following summarizes the major methods and assumptions used in estimating the fair value of financial instruments.

Limited partnerships and limited liability corporations are reported under the equity method of accounting. The carrying value of the limited partnerships and limited liability corporations is assumed to approximate its fair value. The fair value of mortgage loans is estimated through the use of discounted cash flow techniques using interest rates currently being offered for similar loans to borrowers with similar credit ratings. Mortgage loans with similar characteristics are aggregated for purposes of this analysis. Deposit-type annuity contracts with defined maturities and policyholder funds on deposit liabilities are valued using discounted cash flow techniques based upon interest rates currently being offered by the Company for similar contracts with maturities consistent with the contracts being valued. Deposit-type annuity contracts with no defined maturities are valued using discounted cash flow techniques based upon a risk free interest rate, adjusted for Company specific non-performance risk and a non-stochastic process margin or the amount payable on demand at the reporting date. Other assets and liabilities considered financial instruments such as premium and accounts receivable, accrued investment income and cash are generally of a short-term nature and their carrying values are deemed to approximate fair value.

| (in millions) | **December 31, 2015** | | **December 31, 2014** | |
|---|---|---|---|---|
| Financial Instrument | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Investments in limited partnerships and limited liability corporations | $ 6.9 | $ 6.9 | $ 7.5 | $ 7.5 |
| Mortgage loans held for investment | 19.3 | 19.6 | 20.0 | 20.8 |
| Policyholder funds on deposit | 3.9 | 3.9 | 4.5 | 4.5 |
| Deposit-type annuity contracts | 48.5 | 47.9 | 61.9 | 60.6 |

## Note 5---Mortgage Loans - Held for Investment

Mortgage loans held for investment and the related valuation reserves, if any, are as follows at December 31, 2015 and December 31, 2014 (in millions):

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Commercial mortgages | $ 19.1 | $ 19.8 |
| Residential mortgages | 0.2 | 0.2 |
| Less: Mortgage valuation reserves | - | - |
| **Net Mortgage Loans** | $ 19.3 | $ 20.0 |

The Company's mortgage loans held for investment, net of related reserves, if any, for significant states at December 31, 2015 are as follows (dollars in millions):

| | Number | Balance | % of portfolio |
|---|---|---|---|
| California | 1 | $ 8.0 | 41.5% |
| Michigan | 1 | 7.8 | 40.4% |
| Virginia | 2 | 2.9 | 15.0% |
| Illinois | 1 | 0.4 | 2.1% |
| Other states | 3 | 0.2 | 1.0% |
| **Total** | 8 | $ 19.3 | 100.0% |

## Note 6---Property and Equipment

Property and equipment consisted of the following at December 31, 2015 and December 31, 2014 (in millions):

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Leasehold improvements | $ 2.8 | $ 2.8 |
| Furniture and equipment | 4.2 | 4.7 |
| Software | 12.7 | 12.9 |
| Property and equipment, at cost | 19.7 | 20.4 |
| Less: Accumulated depreciation and amortization | (15.3) | (15.0) |
| **Net Property and Equipment** | $ 4.4 | $ 5.4 |

## Note 7---Deferred Policy Acquisition Costs

Policy acquisition costs deferred for amortization against future income and the related amortization charged to expense are as follows as of and for the periods ended December 31, 2015 and December 31, 2014 (in millions):

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Balance, January 1 | $ 26.9 | $ 26.5 |
| Costs deferred during the period: | | |
| Direct marketing costs | 0.7 | 2.3 |
| Commissions | 11.1 | 9.9 |
| Underwriting, compensation and other acquisition costs | 1.6 | 1.5 |
| Total Costs deferred during the period | 13.4 | 13.7 |
| Less: Costs amortized during the period | (14.5) | (13.3) |
| **Balance** | $ 25.8 | $ 26.9 |

No premium deficiency reserve was established at December 31, 2015 or 2014 as the sum of expected estimated losses and loss adjustment expenses, unamortized acquisition costs and maintenance costs did not exceed unearned premium.

## Note 8---Claim Reserves

Activity in the liability for unpaid life and health claims as of and for the periods ended December 31, 2015 and December 31, 2014 is summarized as follows (in millions):

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Balance, January 1 | $ 79.3 | $ 63.2 |
| Less: reinsurance recoverables | 7.9 | 6.5 |
| Net balance, January 1 | 71.4 | 56.7 |
| Incurred related to: | | |
| Current year | 108.1 | 113.0 |
| Prior years | (7.9) | (4.2) |
| Total Incurred | 100.2 | 108.8 |
| Paid related to: | | |
| Current year | 49.5 | 54.5 |
| Prior years | 42.9 | 39.6 |
| Total Paid | 92.4 | 94.1 |
| Net balance | 79.2 | 71.4 |
| Plus: reinsurance recoverables | 21.7 | 7.9 |
| Total claim reserves | 100.9 | $ 79.3 |
| Total policy reserves | 103.8 | 106.0 |
| Total life, accident and health and annuity reserves | $ 204.7 | $ 185.3 |

The Company's life and accident and health operations experienced net favorable prior year reserve development of $7.9 million for the period ended December 31, 2015. The following products had favorable prior year reserve development: medical stop loss ($7.2 million), supplemental health ($1.3 million), supplemental life ($0.2 million), and group disability ($0.2 million). The following products experienced unfavorable prior year reserve development: group life ($0.6 million), individual agency health ($0.3 million), and individual health conversions ($0.1 million). The overall favorable reserve development was due to better than anticipated experience for benefits and claims expense and represents the Company's best estimates.

The Company's life and accident and health operations experienced favorable prior year reserve development of $4.2 million for the period ended December 31, 2014. The following products had favorable prior year reserve development: medical stop loss ($2.8 million), specialty and other health ($0.5 million), and supplemental health ($1.2 million). The following products experienced unfavorable prior year reserve development: group life ($0.2 million) and individual agency health ($0.1 million). The overall favorable reserve development was due to better than anticipated experience for benefits and claims expense and represents the Company's best estimates.

Activity in the liability for unpaid property and casualty losses and loss adjustment expenses ("LAE") as of and for the periods ended December 31, 2015 and December 31, 2014 is summarized as follows (in millions):

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Balance, January 1 | $ 13.5 | $ 4.2 |
| Less: reinsurance recoverables | - | - |
| Net balance, January 1 | 13.5 | 4.2 |
| Incurred related to: | | |
| Current year | 14.6 | 11.3 |
| Prior years | (0.2) | (0.8) |
| Total Incurred | 14.4 | 10.5 |
| Paid related to: | | |
| Current year | 1.6 | 0.6 |
| Prior years | 3.8 | 0.6 |
| Total Paid | 5.4 | 1.2 |
| Net balance | 22.5 | 13.5 |
| Plus: reinsurance recoverables | - | - |
| Total property and casualty reserves | $ 22.5 | $ 13.5 |

The Company's property and casualty operations experienced favorable prior year reserve development of $0.2 million and $0.8 million for the periods ended December 31, 2015 and December 31, 2014, respectively. The prior year favorable reserve development for 2015 and 2014 is related to the professional lines of business.

Increases and decreases of this nature occur as the result of claim settlements during the current year, and as additional information is received regarding unpaid additional claims. Recent loss development trends are also taken into account in evaluating the overall adequacy of unpaid losses and LAE.

## Note 9---Reinsurance

In the normal course of business, the Company assumes risks from and cedes certain parts of its risks to other insurance companies. The primary purpose of ceded reinsurance is to limit losses from large exposures.

Reinsurance contracts do not relieve the Company of its obligations to policyholders. To the extent that reinsuring companies are later unable to meet obligations under reinsurance agreements, the Company would be liable for these obligations. The Company evaluates the financial condition of its reinsurers and attempts to limit its exposure to any one reinsurer.

Union Labor Life maintains certain reinsurance agreements under excess of loss, quota share, and catastrophe coverage. For Stop Loss contracts effective before October 1, 2015, the Company retains $1.25 million less the underlying self-insured deductible plus 25% quota share on claims between $1.25 million and $2.0 million. For policies effective October 1, 2015 or later, the Company retains $1.5 million less the underlying self-insured deductible and reinsures 100% of the excess.

Effective October 1, 2012, certain life insurance, individual agency and group conversion life policies issued by Union Labor Life and Ullico Life Insurance Company ("Ullico Life") were 100% ceded to Southern Financial Life Insurance Company ("SFIC"), a Louisiana domestic company. As of December 31, 2015, there was approximately $14.0 million in reserves ceded to SFIC.

Effective October 1, 2012, Union Labor Life entered into a 30% modified coinsurance ("modco") arrangement on its medical stop loss business with Canada Life Assurance Company. Under this agreement, Union Labor Life will retain its liability on the policies net of the reinsured obligation. The amount of ceded premium and claims was $25.8 million and $16.6 million for 2015 and $27.0 million and $15.7 million for 2014, respectively. The amount of stop loss modco reserve adjustment for 2015 was an increase of $2.7 million. The amount of stop loss modco reserve adjustment for 2014 was an increase of $4.9 million.

During 2006, certain annuity and life policies issued by Ullico Life Insurance Company and 100% co-insured with Sagicor Life Insurance Company (a Texas domestic company and formerly American Founders Life Insurance Company) were assumed by Sagicor Life Insurance Company, thereby releasing Ullico Life Insurance Company of any current or future liability related to these policies. As of December 31, 2015, there was approximately $1.6 million in reserves ceded to Sagicor Life.

Starting in 2009, Union Labor Life entered into a reinsurance arrangement with Fidelity Security Life Insurance Company ("Fidelity Security Life") and Gerber Life Insurance Company ("Gerber") whereby stop loss premium is written on Fidelity Security Life and Gerber paper. Union Labor Life then assumes 95% and 90% of the written premium from Fidelity Security Life and Gerber, respectively. In January of 2013, the relationship with Gerber was ended and an agreement with Fidelity Security Life Insurance of New York was entered into in its place. Effective January 1, 2015, the Fidelity Security Life treaty had been amended and Union Labor Life assumed 80% of the stop loss premium written on Fidelity Security paper. In addition, a new treaty was enacted effective January 1, 2015 between Union Labor Life and Fidelity Security Life whereby Fidelity Security assumed 20% of the stop loss premium written on Union Labor Life's paper.

Labor Captive participates in a single reinsurance arrangement. Effective February 1, 2013, Labor Captive assumed 60% of the first $2.0 million of loss per occurrence. This agreement covers fiduciary and union liability policies produced by UCG as program administrator for Alterra and Markel. Effective January 1, 2015, Labor Captive assumed 65% of the first $2.0 million of loss per occurrence. For 2015, the total maximum exposure per occurrence for 2015 is $1.3 million (65% times $2.0 million) compared to $1.2 million (60% times $2.0 million) in prior years.

The effects of reinsurance on premium income and benefits and claims incurred for the periods ended December 31, 2015 and 2014 are as follows (in millions):

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Life, health and annuities premium income: | | |
| Direct | $ 155.3 | $ 143.3 |
| Assumed | 24.6 | 28.7 |
| Ceded | (49.0) | (36.9) |
| Net premium income earned | $ 130.9 | $ 135.1 |
| | | |
| Property and casualty premiums written: | | |
| Direct | $ - | $ - |
| Assumed | 27.8 | 25.0 |
| Ceded | - | - |
| Net premium income written | $ 27.8 | $ 25.0 |
| | | |
| Property and casualty premiums earned: | | |
| Direct | $ - | $ - |
| Assumed | 26.7 | 23.9 |
| Ceded | - | - |
| Net premium income earned | $ 26.7 | $ 23.9 |
| | | |
| Life, health and annuities benefits and claims incurred: | | |
| Direct | $ 120.2 | $ 102.8 |
| Assumed | 16.3 | 20.4 |
| Ceded | (37.5) | (23.2) |
| Net benefits and claims incurred | $ 99.0 | $ 100.0 |
| | | |
| Property and casualty benefits and claims incurred: | | |
| Direct | $ - | $ - |
| Assumed | 14.4 | 10.5 |
| Ceded | - | - |
| Net benefits and claims incurred | $ 14.4 | $ 10.5 |

Total amounts recoverable from reinsurers at December 31, 2015 and 2014 are $39.4 million and $26.5 million, respectively.

Reinsurance recoverables from reinsurers grouped by their A.M. Best rating for December 31, 2015 are as follows (in millions):

| A.M. Best Rating | Unpaid Losses | Paid Losses | Other | Total |
|---|---|---|---|---|
| A++ | $0.6 | - | - | $0.6 |
| A+ | 1.0 | 3.8 | 1.4 | 6.2 |
| A | 8.6 | 0.4 | 0.1 | 9.1 |
| A- | 9.9 | - | 0.1 | 10.0 |
| B++ | 0.1 | - | - | 0.1 |
| B+ | - | - | - | - |
| B | - | - | 0.1 | 0.1 |
| Not rated by A.M. Best | 13.0 | 0.3 | - | 13.3 |
| Total | $33.2 | $4.5 | $1.7 | $39.4 |

Reinsurance recoverables from reinsurers grouped by their A.M. Best rating for December 31, 2014 are as follows (in millions):

| A.M. Best Rating | Unpaid Losses | Paid Losses | Other | Total |
|---|---|---|---|---|
| A++ | $0.7 | - | - | $0.7 |
| A+ | 2.5 | 4.0 | 0.6 | 7.1 |
| A | 2.5 | - | - | 2.5 |
| A- | 1.9 | - | 0.1 | 2.0 |
| B++ | 0.2 | - | - | 0.2 |
| B+ | - | - | - | - |
| Not rated by A.M. Best | 13.6 | 0.3 | 0.1 | 14.0 |
| Total | $21.4 | $4.3 | $0.8 | $26.5 |

Certain of the Company's reinsurance agreements require the reinsurer to set up letters of credit or trust accounts as collateral for the Company's benefit in the event of insolvency.

The following collateral is available to the Company for amounts recoverable from reinsurers as of December 31, 2015 (in millions):

| | Regulation 114 Trust | Letters of Credit | Total |
|---|---|---|---|
| Southern Financial Life Insurance Company | $14.1 | - | $14.1 |

The following collateral is available to the Company for amounts recoverable from reinsurers as of December 31, 2014 (in millions):

| | Regulation 114 Trust | Letters of Credit | Total |
|---|---|---|---|
| Southern Financial Life Insurance Company | $14.8 | - | $14.8 |

## Note 10---Benefit Plans

*Company Benefit Plans*

Effective July 1, 2012, the Company merged its Ullico Inc. Pension Plan and Trust (the "Plan"), a single employer defined benefit plan, into the AFL-CIO Staff Retirement Plan, a multiemployer defined benefit plan with a fiscal year end of June 30. The Company also began contributing to the AFL-CIO Staff Retirement Plan, which covers certain eligible employees. The risks of participating in a multiemployer plan are different from single-employer plans as assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers. In addition, if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. If the Company chooses to stop participating in the multiemployer plan it may be required to pay the plan a withdrawal penalty based on the underfunded status of the plan. The AFL-CIO Staff Retirement Plan records the present value of retirement incentive contributions using a discount rate of 7.5%. The Company's year-to-date contributions to the AFL-CIO Staff Retirement Plan represented more than 5% of all participating employer's total contributions for the fiscal year ending June 30, 2015.

The financial health of a multiemployer plan is indicated by the zone status, as defined by the Pension Protection Act of 2006, which represents the funded status of the plan as certified by the plan's actuary. Plans in the red zone are less than 65% funded, the yellow zone are between 65% and 80% funded and green zone are at least 80% funded.

The following information details the Company's participation in the AFL-CIO Staff Retirement Plan:

Employer Identification Number/Pension Plan Number: 52-6044583-001

Pension Protection Act Zone Status as of June 30, 2015: Green

Company Contributions through December 31, 2015 and 2014: $5.6 million and $6.9 million

The AFL-CIO Staff Retirement Plan's investment strategy includes investing in securities which provide long-term appreciation and revenue generation. The strategy also includes investments in hedge funds in order to attain above average rates of returns and long-term capital growth.

The Company also sponsors an unfunded non-qualified defined benefit plan and a defined contribution savings and investment plan, as well as other postretirement health and life insurance benefits to eligible retirees. The Company made matching contributions to its defined contribution savings and investment plan of $0.7 million for the periods ending December 31, 2015 and 2014.

Information with respect to the Company's non-qualified pension and other postretirement benefit plan obligation is as follows (in millions):

| *Obligations and Funded Status* | Non-qualified Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| **Change in benefits obligation** | | | | |
| Benefit obligation at beginning of year | $ 12.6 | $ 10.7 | $ 8.1 | $ 15.2 |
| Service cost | 0.1 | 0.1 | 0.1 | 0.1 |
| Interest cost | 0.5 | 0.5 | 0.3 | 0.6 |
| Plan amendments | - | (0.3) | - | (9.9) |
| Actuarial loss/(gain) | (0.9) | 2.1 | (0.8) | 3.0 |
| Benefits paid | (0.4) | (0.5) | (0.6) | (0.9) |
| Transfer to other plan | - | - | - | - |
| Benefit obligation at end of year | $ 11.9 | $ 12.6 | $ 7.1 | $ 8.1 |

The amount recorded in 2014 related to plan amendments to postretirement benefits resulted from significant changes the Company made to the retiree life insurance and healthcare benefits provided to retired management employees. The Company no longer fully subsidizes retirees' annual life and health insurance costs. The plan amendments resulted in a decrease in the Company's postretirement benefit obligations in the amount of $1.1 million for life insurance and $8.8 million for healthcare.

| | Non-qualified Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| **Change in plan assets** | | | | |
| Fair value of plan assets beginning of year | | | | |
| Market adjustment | - | - | - | - |
| Actual return on plan assets | - | - | - | - |
| Employer contribution | 0.4 | 0.5 | 0.6 | 0.9 |
| Benefits paid | (0.4) | (0.5) | (0.6) | (0.9) |
| Administrative expenses | - | - | - | - |
| Transfer to other plan | - | - | - | - |
| Fair value of plan assets end of year | $ - | $ - | $ - | $ - |

Information for the Company's non-qualified pension and other postretirement benefit plans with accumulated benefit obligation in excess of plan assets is as follows (in millions):

| | Non-qualified Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Accumulated benefit obligation | $ 11.9 | $ 12.6 | $ - | $ - |
| Benefit obligation | 11.9 | 12.6 | 7.1 | 8.1 |
| Fair value of assets | - | - | - | - |
| Funded status | $ (11.9) | $ (12.6) | $ (7.1) | $ (8.1) |
| Amounts recognized in the consolidated balance sheet consist of: | | | | |
| Current liabilities | (0.5) | (0.6) | (0.5) | (0.6) |
| Non-current liabilities | (11.4) | (12.0) | (6.6) | (7.5) |

| | Non-qualified Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Amounts recognized in Accumulated Other Comprehensive Income consist of: | | | | |
| Net actuarial loss/(gain) | $ 2.3 | $ 3.5 | $ 3.0 | $ 4.1 |
| Prior service cost/(credit) | (0.3) | (0.2) | (14.3) | (16.2) |
| Net amount recognized | $ 2.0 | $ 3.3 | $ (11.3) | $ (12.1) |

The other changes in plan assets and benefit obligations recognized in other comprehensive income are as follows (in millions):

| | Non-qualified Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Prior service cost/(credit) | $ - | $ (0.3) | $ - | $ (9.9) |
| Net loss/(gain) | (0.9) | 2.1 | (0.8) | 2.9 |
| Amortization of prior service credit/(cost) | - | (0.2) | 1.9 | 1.2 |
| Amortization of net gain/(loss) | (0.3) | - | (0.3) | (0.1) |
| Total recognized in other comprehensive income | $ (1.2) | $ 1.6 | $ 0.8 | $ (5.9) |
| Total recognized in other comprehensive income and net periodic benefit cost | $ (0.3) | $ 2.4 | $ (0.4) | $ (6.3) |

The components of net periodic benefit cost are as follows (in millions):

| | Non-qualified Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Service cost | $ 0.1 | $ 0.1 | $ 0.1 | $ 0.1 |
| Interest cost | 0.5 | 0.5 | 0.3 | 0.6 |
| Expected return on plan assets | - | - | - | - |
| Amortization of prior service cost | - | 0.2 | (1.9) | (1.2) |
| Amortization of net loss/(gain) | 0.3 | - | 0.3 | 0.1 |
| Net periodic benefit cost | $ 0.9 | $ 0.8 | $ (1.2) | $ (0.4) |

Information regarding the estimated amortization amounts for the year ended December 31, 2016 is as follows (in millions):

| | Non-qualified Pension Benefits | Postretirement Benefits |
|---|---|---|
| Amortization of prior service cost/(credit) | $ (0.1) | $ (1.9) |
| Amortization of net loss/(gain) | 0.2 | 0.2 |
| Total | $ 0.1 | $ (1.7) |

The rate assumptions utilized as of December 31, 2015 and December 31, 2014 are as follows:

| | Non-qualified Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Discount Rate | 4.3% | 3.9% | 4.1% | 3.9% |
| Expected return on plan assets | - | - | - | - |
| Rate of compensation increase | 3.0% | 3.0% | 3.0% | 3.0% |

The Company uses December 31 as the measurement date for its non-qualified pension and other postretirement benefit plans.

For postretirement health benefit measurement purposes, an 8.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for the year ending December 31, 2015. The rate was assumed to decrease gradually to 5.0% until 2021 and remain at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage-point change in the assumed health care cost trend rates would have the following effects:

| | 1 Percentage Point Increase | 1 Percentage Point Decrease |
|---|---|---|
| Effect on Total of Service and Interest Cost for year ended December 31, 2015 | $0.1 million | $(0.1) million |
| Effect on Benefit Obligation as of December 31, 2015 | $0.5 million | $(0.4) million |

As of December 31, 2015, the following benefit payments, which reflect expected future services, are expected to be paid from the benefit plans (in millions). These benefit payments are calculated using the same rate assumptions previously noted.

| | Non-qualified Pension Benefits | Postretirement Benefits |
|---|---|---|
| 2016 | $ 0.5 | $ 0.5 |
| 2017 | 0.5 | 0.5 |
| 2018 | 0.5 | 0.5 |
| 2019 | 0.5 | 0.5 |
| 2020 | 0.6 | 0.5 |
| 2021-2025 | 3.3 | 2.3 |

## Note 11---Income Taxes

The Company files a consolidated life-nonlife Federal income tax return including all eligible subsidiaries. The components of income tax (expense)/benefit are as follows (in millions):

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Federal Income Tax (Expense)/Benefit | | |
| Current | $ (0.7) | $ - |
| Deferred | (3.6) | 3.5 |
| Federal income tax (expense)/benefit | (4.3) | 3.5 |
| State Income Tax Expense | | |
| Current | - | - |
| Deferred | - | - |
| State income tax expense | - | - |
| **Income Tax (Expense)/Benefit** | $ (4.3) | $ 3.5 |

The reconciliation of Federal taxes computed at the statutory rate of 35% to the income tax (expense)/benefit is as follows (in millions):

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Federal income tax (expense)/benefit at statutory rate | $ (3.0) | $ (2.9) |
| Valuation allowance | (0.5) | 4.2 |
| Deconsolidation of deferred tax assets | - | 1.0 |
| Net operating loss adjustment | - | 1.0 |
| Other, net | (0.8) | 0.2 |
| **Federal Income Tax (Expense)/Benefit** | $ (4.3) | $ 3.5 |

The tax effects of items comprising the Company's net Federal deferred income tax asset are as follows at December 31, 2015 and December 31, 2014 (in millions):

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Federal Deferred Tax Asset | | |
| Insurance reserves | $ 5.5 | $ 5.5 |
| Pension and postretirement benefits | 6.6 | 7.2 |
| Deferred real estate and capital loss | 1.6 | 0.7 |
| Tax effect of net operating loss carryforwards | 60.8 | 62.7 |
| Tax credit carryover | 1.6 | 1.8 |
| Policyholder dividends | 1.5 | 0.9 |
| Other | 0.5 | 0.5 |
| Valuation allowance | (64.3) | (63.8) |
| Subtotal Federal deferred tax asset | 13.8 | 15.5 |
| Federal Deferred Tax Liability | | |
| Deferred policy acquisition costs and ceding commissions | 8.4 | 8.5 |
| Developed software and excess depreciation | 0.6 | 0.8 |
| Limited partnership investments | 2.4 | - |
| Unrealized capital gains and investments | 2.4 | 6.2 |
| Subtotal Federal deferred tax liability | 13.8 | 15.5 |
| **Net Federal Deferred Tax Asset** | $ - | $ - |

As of December 31, 2015, the Company has concluded that it is more likely than not that the benefit from net operating loss carryforwards and other deferred tax assets may not be realized in the foreseeable future. Based on this assessment, the Company has recorded a valuation allowance of $64.3 million against the deferred tax asset, in accordance with ASC 740, *Accounting for Income Taxes.*

As of December 31, 2015, the Company has federal regular-tax net operating loss carry forwards of $173.8 million, which may be used to offset future taxable income. Regular tax net operating loss carry forwards consist of $173.8 million for the non-life companies which start to expire in 2024.

As of December 31, 2015, the life subgroup had a capital loss carryover of $0.8 million, which starts to expire in 2016.

The Company paid $0.2 million of federal income tax for the year ended December 31, 2015 and no federal income tax for the year ended December 31, 2014.

There are no penalties on income taxes paid or accrued as of December 31, 2015 or 2014. There are no material unrecognized tax benefits within the meaning of ASC 740-10-65-2 and management does not expect any significant increase or decrease within the following 12 months. The Company recognizes interest and penalties accrued, if any, related to unrecognized tax benefits as a component of income tax expense. Tax years that remain open and subject to examination by the Internal Revenue Service are calendar years 2012 and forward.

## Note 12---Commitments and Contingencies

*Leases*

The Company leases office space, data processing and copier equipment and certain other equipment under operating leases expiring on various dates between 2015 and 2025. Most of the leases contain renewal and purchase options based on prevailing fair market values. Lease payments totaled $3.3 million and $4.5 million for the periods ended December 31, 2015 and 2014, respectively.

Aggregate future minimum rent payments required under non-cancelable operating leases in effect at December 31, 2015 is summarized as follows (in millions):

| Period ending December 31 | Minimum Lease Payments |
|---|---|
| 2016 | $ 3.2 |
| 2017 | 3.1 |
| 2018 | 3.1 |
| 2019 | 1.9 |
| 2020 | 0.9 |
| Thereafter | 3.8 |
| **Total** | $ 16.0 |

*Financial Instruments with Off-Balance-Sheet Risk*

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet its financing needs. These financial instruments include investment commitments related to separate account mortgage loans. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets.

At December 31, 2015 and December 31, 2014, the Company had combined outstanding commitments to fund mortgage loans for Union Labor Life for the benefit of Separate Account J and W1 of approximately $1.5 billion and $1.1 billion, respectively.

Union Labor Life, on behalf of Separate Account J, maintained a line of credit with Canadian Imperial Bank of Commerce in the amount of $50.0 million as of December 31, 2014. The line of credit was terminated in June 2015.

Union Labor Life had a revolving credit facility agreement through December 31, 2015 with the International Brotherhood of Teamsters Voluntary Employee Benefits Trust for a maximum amount of $2.0 million. No draws were taken in 2015 or 2014. The agreement was not renewed for 2016.

*FDIC Limit*

The Company maintains its own funds in bank accounts with balances in excess of the FDIC insurance limit.

*Audits, Investigations, Litigation and Unasserted Claims*

Ullico and its subsidiaries are involved in legal proceedings arising in the ordinary course of their business. In the opinion of management, such investigations, litigation, and unasserted claims will not have a material impact on the financial condition, results of income, or cash flow of the Company.

*Guarantees*

The Company and, in certain instances, its subsidiary, Union Labor Life, are party to several guaranty agreements pursuant to which the performance of Ullico Casualty under certain reinsurance agreements is guaranteed.

*Guarantees to State National Insurance Company*

- Effective February 1, 2004, the Company guaranteed the performance and obligations of Ullico Casualty under its quota share reinsurance agreement dated February 1, 2004 with State National Insurance Company ("SNIC") for Fiduciary and Union Liability policies. The guaranty obligates the Company to hold SNIC harmless with respect to all liabilities of Ullico Casualty under the reinsurance agreement, including the obligation to make payments to SNIC for any payments that Ullico Casualty is unable to make. Collateral is required under the reinsurance agreement at 150% of outstanding loss reserves. The guaranty remains in force as long as Ullico Casualty has outstanding obligations under the reinsurance agreement. SNIC issued policies from 2004 to 2008 which were reinsured by Ullico Casualty.

- Effective January 1, 2009, the Company and Union Labor Life guaranteed the performance and obligations of Ullico Casualty under its quota share reinsurance agreement dated January 1, 2009 with SNIC for Workers' Compensation policies. The guaranty obligates the Company to hold SNIC harmless with respect to all liabilities of Ullico Casualty under the reinsurance agreement, including the obligation to make payments to SNIC for any payments that Ullico Casualty is unable to make. Collateral is required under the reinsurance agreement at 150% of unearned premium and outstanding loss reserves. The guaranty remains in force as long as Ullico Casualty has outstanding obligations under the reinsurance agreement. SNIC issued policies from 2009 to 2012 which were reinsured by Ullico Casualty.

- Effective January 1, 2012, the Company and Union Labor Life guaranteed the performance and obligations of Ullico Casualty under its quota share reinsurance agreement dated January 1, 2012 with SNIC for Fiduciary and Union Liability policies. The guaranty obligates the Company and Union Labor Life, jointly and severally, to hold SNIC harmless with respect to all liabilities of Ullico Casualty under the reinsurance agreement, including the obligation to make payments to SNIC for any payments that Ullico Casualty is unable to make. Collateral is required under the reinsurance agreement at 200% of unearned premium and outstanding loss reserves. The guaranty remains in force as long as the Ullico Casualty has outstanding obligations under the reinsurance agreement. SNIC issued policies from February 2012 to January 2013 which were reinsured by Ullico Casualty.

- To satisfy certain of the guarantee obligations described above, effective April 5, 2013, the Company and Union Labor Life entered into a security fund agreement with SNIC pursuant to which $13.6 million was deposited into a security fund account for the benefit of SNIC to provide additional required collateral under the reinsurance agreements entered into by SNIC and Ullico Casualty dated February 1, 2004, January 1, 2009 and January 1, 2012, as described above. Union Labor Life deposited $13.6 million into the security fund account on April 9, 2013. SNIC released $12.5 million in 2013 and the remainder of the funds in 2014. At December 31, 2014, Union Labor Life had no funds held by SNIC.

Based on publicly available information, SNIC reported reinsurance recoverable (net of offsets) of $11.5 million at December 31, 2015. Ullico Casualty funds on deposit in a security fund account were $49.7 million at December 31, 2015. As such, management believes that there is no exposure to the Company's guarantee at December 31, 2015.

*Guarantee to Hudson Insurance Company*

- Effective October 1, 2007, the Company guaranteed the performance and obligations of Ullico Casualty under its quota share reinsurance agreement dated October 1, 2007 with Hudson Insurance Company ("Hudson") for Fiduciary and Union Liability policies. The guaranty provides that the Company will guarantee the performance by Ullico Casualty of its liabilities under the reinsurance agreement, including all payment and collateral obligations. Collateral is required under the reinsurance agreement at 100% of unearned premium and outstanding loss reserves as determined by Hudson. The guarantee provides that it will remain in force as long as Ullico Casualty has outstanding obligations under the reinsurance agreement. Hudson issued policies from 2007 to 2012 which were reinsured by Ullico Casualty and administered by Ullico Casualty Group. Based on publicly available information, Hudson reported reinsurance recoverable (net of offsets) of $12.9 million at December 31, 2015. Ullico Casualty funds on deposit in a security fund account were $20.1 million at December 31, 2015. As such management believes that there is no exposure to the Company's guarantee at December 31, 2015.

The maximum potential amount of future payments under the above guarantees is the obligations incurred by Ullico Casualty under the related reinsurance agreements. The current estimate of this amount is the loss reserves as of December 31, 2015. Loss reserves are necessarily based upon assumptions and estimates and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount estimated. The collateral accounts described above are funded with investment grade bonds. The Company believes there is adequate collateral in the collateral accounts to fund the reinsurance agreement obligations.

*Former Guarantee to Companion Property and Casualty Insurance Company*

- Effective April 1, 2010, the Company guaranteed the performance and obligations of Ullico Casualty under its quota share reinsurance agreement dated April 1, 2010 with Companion Property and Casualty Insurance Company ("Companion") for Workers' Compensation policies, including the obligation to make any loss and loss adjustment expense payments that Ullico Casualty is unable to make. Collateral was required under a related reinsurance trust agreement at 102% of outstanding loss reserves as determined by Companion. On February 28, 2014, the Company executed a Funding and Release Agreement ("the Agreement") with Companion pursuant to which, the Company deposited $11.0 million into a segregated custodial account maintained by Companion and Companion released the Company from the guaranty obligations. The Company will receive any remaining funds in the account once all outstanding obligations under the reinsurance agreement are satisfied. To satisfy the funding obligation under the Agreement, Union Labor Life requested and obtained approval from the Maryland Insurance Administration ("MIA") for an extraordinary dividend of $11.0 million, which was paid to the Company on February 28, 2014.

In addition to the guarantees described above that relate to reinsurance obligations of Ullico Casualty in receivership, the Company is also party to certain guarantees that relate to the professional liability program of its subsidiary UCG, as described below.

- Effective November 15, 2012, the Company guaranteed the performance and obligations of Labor Captive under a quota share reinsurance agreement with Alterra with respect to certain liability policies issued on Alterra paper. The guaranty agreement and quota share reinsurance agreement have been subsequently amended and, most recently, effective June 1, 2014, the Company guaranteed the performance and obligations of Labor Captive under a second amended and restated quota share reinsurance agreement effective November 15, 2012, with Alterra with respect to Union Liability, Fiduciary Liability, Governmental Liability, and Excess Fiduciary Liability policies issued on Alterra paper. The second amended and restated guaranty provides that the Company will guarantee any payments arising out of or relating to the obligations and liabilities of Labor Captive arising from the second amended and restated quota share reinsurance agreement that Labor Captive is unwilling or unable to make, including collateral obligations. Collateral is required under the reinsurance agreement at 100% of: (a) reserves for unearned premiums, if any; (b) the unearned portions of any claims handling expenses; and (c) reserves for losses incurred but not reported and losses reported but unpaid. The second amended and restated guaranty also provides that: (1) the Company will contribute additional funds to Labor Captive if required for Labor Captive to maintain adequate capital pursuant to the reinsurance agreement; (2) the Company will indemnify and hold Alterra harmless with respect to any and all liabilities or losses relating to the obligations of Labor Captive arising from the reinsurance agreement; (3) the Company guarantees the performance and obligations of UCG, which is the managing general agent for the Alterra program, to indemnify and hold Alterra harmless as provided in a third amended and restated program administration agreement effective November 15, 2012, with Alterra and Labor Captive. The quota share reinsurance agreement and the program administration agreements were amended to include Alterra's affiliate, Markel, in the Alterra program to facilitate offering the program in all states. The Company's guaranty obligations remain in full force and effect as long as Labor Captive has any obligations under the reinsurance agreement or UCG has any obligations to indemnify Alterra under the program administrator agreement. The collateral required by Alterra at December 31, 2015 in connection with the reinsurance agreement was $33.6 million. At December 31, 2015, $33.6 million was on deposit in a trust account for the benefit of Alterra.

- Effective March 1, 2014, the Company guaranteed the performance and obligations of UCG, which is the managing general agent for the Alterra program, to indemnify and hold Markel harmless as provided in the program administration agreement, effective March 1, 2014, with Markel and UCG. The Company's guaranty obligations remain in full force and effect as long as UCG has any obligations to indemnify Markel under the program administrator agreement. The Company's obligations to Markel under the guaranty are identical to its obligations to Alterra under the second amended and restated guaranty referred to above.

## Note 13---Capital

At December 31, 2015, the insurance subsidiaries had statutory capital and surplus of $79.6 million, determined in accordance with statutory accounting practices utilized in filings with insurance regulatory authorities. For the period ending December 31, 2015, the insurance subsidiaries had combined statutory net income of $3.1 million. Access to the capital and surplus within the insurance subsidiaries is restricted by state regulations.

Regulatory risk-based capital rules require a specified level of capital depending on the types and quality of investments held, the types of business written and the types of liabilities maintained. Depending on the ratio of an insurance company's surplus to its risk-based capital, the insurance company could be subject to various regulatory actions ranging from increased scrutiny to conservatorship. The Company's insurance subsidiaries risk-based capital ratios at December 31, 2015 and 2014 are significantly above the regulatory action levels.

As a result of stock transactions among shareholders, the Company received 811,447 shares of Class A stock from sellers and issued 811,447 shares of Class B stock to purchasers.

## Note 14---Related Party Transactions

James E. Tait, a member of the Company's Board of Directors, is also a party to a consulting agreement with the Company. Mr. Tait has been paid $120,000 for services rendered for the year ended December 31, 2015.

In November of 2014, UIA entered into an agreement with Acropolis Investment Management, LLC ("Acropolis"), pursuant to which UIA and Acropolis will offer investment adviser and investment management services to sponsors and fiduciaries of defined contribution retirement plans in the labor union market place. Christopher B. Lissner, a member of the Company's Board of Directors, is President of Acropolis. On October 6, 2015, the Board of Trustees of the Ullico Inc. 401(k) Plan and Trust voted to retain Acropolis, doing business as Ullico Retirement Solutions as the investment advisor for the Plan effective January 1, 2016.

## Note 15---Subsequent Events

On March 10, 2016, the Receiver of Ullico Casualty Company in Liquidation filed a petition against Ullico Inc. requesting the Chancery Court of Delaware to compel Ullico Inc. to provide an accounting of its implementation of a 2000 Consolidated Tax Agreement among the Company's affiliates for tax year 2012 and the pre-receivership 2013 tax period and, in the event any amounts are due to the Receiver for such periods, to compel the Company to turn over such amounts. The Company intends to defend the matter when a response to the petition is due. The Company has determined that it is not appropriate to accrue a loss contingency.

On April 12, 2016, Union Labor Life completed the sale of Ullico Life Insurance Company ("Ullico Life") for total net consideration of $8.3 million. Union Labor Life will recognize approximately $2.6 million in pre-tax gain from the sale of Ullico Life in the second quarter of 2016. In addition, approximately $1.5 million of goodwill related to Ullico Life will be written off as part of the sale.

The following table provides, on a GAAP basis, assets, liabilities, revenues and net loss of Ullico Life as of December 31, 2015 and 2014 (in millions):

| | 2015 | 2014 |
|---|---|---|
| Assets | $ 19.4 | $ 19.7 |
| Liabilities | 6.8 | 6.8 |
| Revenues | 0.2 | 0.1 |
| Net Loss | (0.1) | (0.1) |

# Corporate Information

# Ullico Inc.
# Board of Directors

as of May 1, 2016

**Joseph J. Hunt**
Chairman, Ullico Inc.
President Emeritus
International Association of Bridge, Structural,
Ornamental and Reinforcing Iron Workers

**Stuart M. Bloch**
Chairman of the Board Emeritus
Congressional Bank

**James Boland**
President
International Union of Bricklayers and Allied Craftworkers

**James Callahan**
General President
International Union of Operating Engineers

**Salvatore "Sam" J. Chilia**
International Secretary-Treasurer
International Brotherhood of Electrical Workers

**Jerry F. Costello**
President and CEO
The Jerry Costello Group

**James A. Grogan**
General President
International Association of Heat & Frost Insulators
& Allied Workers

**William P. Hite**
General President
United Association of Journeymen and Apprentices of the
Plumbing and Pipe Fitting Industry

**Daniel J. Kane**
Vice President, International Brotherhood of Teamsters,
Eastern Region

**Christopher B. Lissner**
President & Managing Member,
Acropolis Investment Management, LLC

**Edward J. McElroy**
Former CEO, Ullico Inc.
President Emeritus
American Federation of Teachers

**Sean McGarvey**
Secretary-Treasurer, Ullico Inc.
President
North America's Building Trades Unions

**Terence M. O'Sullivan**
General President
Laborers' International Union of North America

**Kenneth E. Rigmaiden**
General President
International Union of Painters and Allied Trades

**Kinsey M. Robinson**
International President
United Union of Roofers, Waterproofers & Allied Workers

**DeMaurice F.Smith**
Executive Director
NFL Players Association

**Edward M. Smith**
President & CEO
Ullico Inc.

**Edward C. Sullivan**
President Emeritus
North America's Building Trades Unions

**James E. Tait**
Chief Executive Officer
Tait Advisory Services, LLC

**George Tedeschi**
President
Graphic Communications Conference of the
International Brotherhood of Teamsters

**Richard L. Trumka**
President
American Federation of Labor and Congress
of Industrial Organizations

# Corporate Officers of ULLICO Inc. and its major Subsidiaries

as of May 1, 2016

**Edward M. Smith**
President and Chief Executive Officer

**David J. Barra**
Senior Vice President, Chief Financial Officer

**Brian J. Hale**
Senior Vice President, Chief Operating Officer

**Patrick McGlone**
Senior Vice President, General Counsel
and Chief Compliance Officer

**William K. Cavanagh**
President, Ullico Casualty Group, Inc.

**Joseph R. Linehan**
President, Ullico Investment Advisors Inc.

**Daniel L. Wolak**
President, The Union Labor Life Insurance Company

**Herbert A. Kolben**
Senior Vice President, Real Estate Investment Group,
The Union Labor Life Insurance Company

Photos featured in the 2015 Annual Report are courtesy of Crescent Heights®, taken at 10000 Santa Monica in Los Angeles, CA. Ullico's Real Estate Investment Group (REIG) participated in the financing of this project through its Separate Account J (J for Jobs). 