Mutual of Omaha Insurance Company and Subsidiaries
Executive Summary and Analysis of Financial Condition
as of December 31, 2016 and 2015
and Results of Operations
for the Years Ended December 31, 2016 and 2015

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Forward Looking Statements

This document contains certain forward-looking statements about Mutual of Omaha Insurance Company and certain of its subsidiaries (collectively, the "Company"). Forward-looking statements include, but are not limited to, statements that represent the Company's beliefs concerning future operations, strategies, sales efforts, financial results or other developments with respect to the Company, and contain words and phrases such as "may," "anticipates," "intend," "expects," "should" or similar expressions in this document.

Forward-looking statements are not guarantees of future performance, involve risks and uncertainties, and actual results may differ materially from those in any forward-looking statement as a result of various factors. These statements are based on current expectations and the current economic environment. The following uncertainties, among others, may have such an effect: continued difficult conditions in the global capital markets and the economy; sustained periods of low interest rates or a sudden spike in interest rates; declining or volatile residential mortgage-backed securities values due to prepayment risks; adverse regulatory developments, including those resulting from the Dodd-Frank Wall Street Reform and Consumer Protection Act, limitations on premium levels, mandated benefits, increases in minimum capital and reserves, and other financial viability requirements; adverse credit market conditions; significant market valuation fluctuations of certain of the Company's investments that are relatively illiquid; difficulties or assumption changes as to valuation of securities in the Company's investment portfolio; exposure to below investment grade bonds; defaults on mortgage loans held by the Company; increased expenses related to pension and postretirement benefit plans, as well as health care and other employee benefits; exposure to certain specific asset classes, including commercial and residential mortgage-backed securities, real estate and alternative investments; declines in the performance or valuation of real estate properties owned by the Company; heightened competition in the insurance or banking business, including, specifically, the intensification of price competition, the entry of new competitors and the development of new products by new and existing competitors; fluctuations in health care utilization trends impacting the Company's policies; downgrades or potential downgrades in the Company's ratings; the sensitivity of the amount of statutory capital the Company must hold to factors outside the Company's control; subjectivity in determining the amount of allowances and impairments taken on certain of the Company's investments; changes in the federal Medicare program and other regulatory developments that could adversely affect the demand for the Company's Medicare supplement insurance policies or the Company's competitive position in the Medicare supplement marketplace; impact on the Company's reported statutory surplus or net income that could result from the adoption of certain accounting standards issued by the National Association of Insurance Commissioners or pursuant to applicable laws and regulations; impact on the Company's reported GAAP equity or net income that could result from the adoption of the requirements of certain accounting pronouncements issued by authoritative bodies; tax law changes impacting the tax treatment of insurance and investment products; repeal of the federal estate tax; uncertainty as to the price and availability of reinsurance on business the Company currently writes or intends to write in the future; ineffectiveness of risk management policies and procedures; adequacy and recoverability of reinsurance that the Company has purchased; the failure of the Company's distribution channels to obtain new customers or retain existing customers; deviations from assumptions regarding persistency, mortality, or morbidity; losses due to the financial impairment of, or defaults by, others, including bank borrowers, issuers of investment securities or reinsurance and derivative instrument counterparties; deviations from assumptions regarding future mortality, morbidity and interest rates used in calculating reserve amounts and pricing our products; requirements to post collateral or make payments related to declines in market value of specified assets, and possible declines in the value of securities available for posting as collateral; unanticipated losses resulting from the Company's stable value wrap program; accelerated amortization of deferred acquisition costs; adverse results relating to the mixed-use real estate development adjacent to the Company's home office property; regulatory restrictions, financial viability and other risks in connection with the Company's ownership of Mutual of Omaha Bank; unanticipated changes in industry trends; liquidity and other risks in connection with the Company's securities lending program; impact of international tension between the United States and other nations, terrorist attacks, catastrophe losses, and ongoing military and other actions, or a large scale pandemic; changes in tax laws and the interpretation thereof; litigation and regulatory investigations; and a computer system failure or security breach.

Consequently, such forward-looking statements should be regarded solely as the Company's current plans, estimates and beliefs. The Company does not intend to undertake, and does not undertake, any obligation to update any forward-looking statements to reflect future events or circumstances after the date of such statements.

All subsequent written and oral forward-looking information attributable to the Company or any person acting on its behalf is expressly qualified in its entirety by the cautionary statements contained or referred to in this section. The information contained in this document is accurate only as of the date of this document regardless of the time of delivery.

Part 1 – Condensed Consolidated Financial Statements

Mutual of Omaha Insurance Company and Subsidiaries
Consolidated Balance Sheets--Unaudited
(In Thousands)

	December 31, 2016	December 31, 2015
ASSETS		
Investments		
Fixed maturities, available-for-sale, at fair value	$ 20,121,089	$ 18,710,578
Fixed maturities, trading, at fair value	155,644	148,916
Equity securities, available-for-sale, at fair value	13,918	13,352
Equity securities, trading, at fair value	38,994	40,074
Equity securities, at cost	50,566	38,782
Loans, net	8,275,542	7,458,198
Real estate	154,266	174,027
Limited partnerships	374,410	396,812
Other invested assets	51,451	35,768
Policy loans	215,231	213,694
Short-term investments	193,721	225,036
Total investments	29,644,832	27,455,237
Cash and cash equivalents	118,990	272,967
Accrued investment income	191,373	180,878
Premiums and other receivables	129,173	125,281
Deferred policy acquisition costs	3,454,374	2,970,460
Reinsurance recoverable	522,827	476,709
Goodwill and intangible assets	183,438	183,138
Company-owned life insurance	443,813	373,469
Other assets	336,525	333,873
Separate account assets	3,439,532	3,250,868
Total assets	$ 38,464,877	$ 35,622,880
LIABILITIES AND EQUITY		
LIABILITIES		
Future policy benefits	$ 10,036,093	$ 9,011,161
Policyholder account balances	7,430,954	7,214,083
Unpaid claims	1,888,307	1,773,969
Unearned revenues	412,277	429,015
Bank deposits	5,920,840	5,585,752
Current income taxes payable	8,753	3,420
Deferred income taxes payable	938,280	744,821
Borrowings	1,616,135	1,375,353
Other liabilities	1,155,819	1,107,137
Separate account liabilities	3,439,532	3,250,868
Total liabilities	32,846,990	30,495,579
EQUITY		
Retained earnings	5,553,674	5,197,116
Accumulated other comprehensive income (loss)	64,213	(69,815)
Total equity	5,617,887	5,127,301
Total liabilities and equity	$ 38,464,877	$ 35,622,880

See notes to consolidated financial statements.

Mutual of Omaha Insurance Company and Subsidiaries
Consolidated Statements of Operations--Unaudited
For the Years Ended December 31, 2016 and 2015
(In Thousands)

	2016	2015
Revenues		
Health and accident	$ 4,116,255	$ 3,820,587
Life and annuity	2,465,011	2,145,881
Net investment income	1,204,450	1,177,683
Other	104,401	73,870
Net realized investment gains (losses):		
Other-than-temporary impairments on fixed maturities	(12,762)	(21,791)
Other-than-temporary impairments on fixed maturities transferred to other comprehensive income	1,610	2,847
Other net realized investment gains	19,507	36,657
Total net realized investment gains	8,355	17,713
Total revenues	7,898,472	7,235,734
Benefits and expenses		
Health and accident benefits	3,064,795	2,874,930
Life and annuity benefits	2,229,478	1,877,166
Interest credited	212,771	210,845
Policy acquisition costs	816,204	802,156
General insurance expenses	816,479	749,713
Non operating loss on extinguishment of debt	-	3,019
General bank expenses	194,076	174,330
Other	31,204	31,018
Total benefits and expenses	7,365,007	6,723,177
Income before income taxes	533,465	512,557
Income taxes	176,907	179,551
Net income	$ 356,558	$ 333,006
Other comprehensive income, net of tax		
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) arising during the year net of related policyholder amounts (net of taxes of $52,986 and ($204,855), respectively)	98,402	(380,445)
Reclassification adjustments for realized holding gains (losses) (net of taxes of $973 and ($1,478), respectively)	1,807	(2,744)
Change in net unrealized gains	100,209	(383,189)
Unrealized holding gains (losses) arising during the year on other than temporarily impaired securities (net of taxes of ($1,002) and $1,821, respectively)	(1,861)	3,382
Defined benefit pension plans:		
Unrecognized post-retirement benefit net gains arising during the year (net of taxes of $7,873 and $5,066, respectively)	14,621	9,409
Less: Amortization of unrecognized post-retirement benefit gains (net of taxes of $11,339 and $13,372, respectively)	21,059	24,833
Unrecognized post-retirement benefit gains arising during the year	35,680	34,242
Other comprehensive income (loss)	134,028	(345,565)
Comprehensive income (loss)	$ 490,586	$ (12,559)

See notes to consolidated financial statements.

Mutual of Omaha Insurance Company and Subsidiaries

Consolidated Statements of Changes in Equity--Unaudited

For the Years Ended December 31, 2016 and 2015

(In Thousands)

		Accumulated Other Comprehensive Income (Loss)			
	Retained Earnings	Net Unrealized Investment Gains (Losses)	Unrealized Gains (Losses) on Other-Than-Temporarily Impaired Securities	Benefit Plan Adjustments	Total
BALANCE — January 1, 2015	$ 4,864,110	$ 538,585	$ 4,067	$ (266,902)	$ 5,139,860
Net income	333,006	-	-	-	333,006
Other comprehensive income (loss)	-	(383,189)	3,382	34,242	(345,565)
BALANCE — December 31, 2015	5,197,116	155,396	7,449	(232,660)	5,127,301
Net income	356,558	-	-	-	356,558
Other comprehensive income (loss)	-	100,209	(1,861)	35,680	134,028
BALANCE — December 31, 2016	$ 5,553,674	$ 255,605	$ 5,588	$ (196,980)	$ 5,617,887

See notes to consolidated financial statements.

Part 2 –Executive Summary and Analysis--Unaudited

1. Basis of Presentation and Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of Mutual of Omaha Insurance Company, a mutual insurance company domiciled in the State of Nebraska, and its subsidiaries (the "Company"). The primary subsidiary companies are United of Omaha Life Insurance Company; Companion Life Insurance Company; and Omaha Financial Holdings, Inc. (the "Bank"), a savings and loan holding company. The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). Intercompany transactions and balances have been eliminated in consolidation.

In the opinion of the Company's management, the accompanying condensed consolidated financial statements reflect all adjustments necessary for a fair presentation of the financial position and results of operations. These financial statements should be read in conjunction with the Company's consolidated financial statements for the years ended December 31, 2016 and 2015 and independent auditors' report.

The accompanying condensed consolidated financial statements reflect certain reclassifications in the prior period to conform to the current period presentation.

2. Strategic Business Unit and Product Group Structure

The Company offers financial products and services principally through three strategic business units ("SBUs"): Individual Financial Services ("IFS"), Group Benefit Services ("GBS") and the Bank. In addition, the Company reports certain results in Corporate and Other. A summary of the Company's reportable SBUs is as follows:

IFS includes individual health, life and annuity insurance products and utilizes three distribution channels: a career agency force, direct to consumer, and an independent distribution network. The IFS Health product group offers medical products such as Medicare supplement, accidental death and dismemberment ("AD&D") and accident only; and non-medical products such as disability income, long-term care ("LTC") and critical illness. The IFS Life product group offers term life, traditional life ("whole life") and interest-sensitive life ("universal life"). The IFS Annuity product group offers single premium deferred annuities, single premium immediate annuities and flexible premium deferred annuities.

GBS includes group health, life and annuity insurance products distributed through brokers and employee benefit consultants. The GBS Benefit Solutions product group offers employer products including long and short-term disability coverage, term life, AD&D, and dental products, and participant accident coverage ("special risk") primarily for students and sponsoring organizations. The GBS Retirement Plans product group includes guaranteed investment contracts, group annuities including income annuities which provide income streams at retirement, funding agreements, 401(k) products and a stable value wrap product.

Through the Bank, which includes Mutual of Omaha Bank, the Company provides banking products and services to consumer and commercial customers throughout the United States. Principal products and services provided include checking and savings accounts, certificates of deposit, mortgage loans, commercial loans, real estate loans and homeowner association banking.

The Corporate and Other product group consists primarily of certain affiliate results, corporate investment income and corporate expenses not allocated to IFS, GBS or the Bank.

Operating income is the measure the Company uses to evaluate SBU performance. Income before income taxes reconciles to operating income for the years ended December 31, 2016 and 2015, as follows (in thousands):

	2016	2015
Income before income taxes	$ 533,465	$ 512,557
Less: Total net realized investment gains, excluding Bank Other Real Estate Owned ("OREO")	7,205	15,833
Add: Non operating loss on extinguishment of debt	-	3,019
Operating income	$ 526,260	$ 499,743

Management believes that the presentation of "Operating Income", as defined above, enhances the understanding of the Company's results of operations by highlighting operating income attributable to the normal, recurring operations of the business. Net realized investment gains and losses related to Bank OREO are included in operating income as they are considered part of normal banking operations.

The non operating loss on extinguishment of debt in 2015 relates to the Company's non-recurring repurchase of certain surplus notes. The Company excludes this loss from the calculation of operating income as it is not attributable to ongoing operations.

Operating income should not be construed as a substitute for net income determined in accordance with GAAP.

3. SBU Information

Operating income by SBU for the years ended December 31, 2016 and 2015, was as follows (in thousands):

	2016	2015
IFS	$ 390,361	$ 397,063
GBS	110,372	82,262
Bank	65,098	67,383
Corporate and Other	(39,571)	(46,965)
Operating Income	$ 526,260	$ 499,743

The Company's total operating income increased $26,517,000 for the year ended December 31, 2016 compared to 2015. The following provides an explanation of the changes by SBU.

IFS

IFS operating income decreased $6,702,000 for the year ended December 31, 2016 compared to the same period in 2015 primarily due to lower life results partially offset by higher Medicare supplement and LTC results. Life results decreased $63,968,000 primarily due to unfavorable mortality and reserve increases due to assumption updates. Medicare supplement results increased $41,373,000 due to favorable persistency and LTC results increased $18,304,000 as a result of an improvement in loss ratios.

GBS

GBS operating income increased $28,110,000 for the year ended December 31, 2016 compared to 2015 primarily due to improvements in loss ratios across certain product lines. Life and AD&D results and special risk results increased $9,454,000 and $4,973,000 over prior year, respectively, due to an improvement in loss ratios. Further, interest margins on income annuity business increased $4,269,000 over 2015 as a result of higher asset balances and losses from discontinued operations decreased $5,138,000 in 2016 as compared to 2015.

Bank

Bank operating income decreased $2,285,000 for the year ended December 31, 2016 compared to 2015. The decrease was attributable to increased strategic spending on technology infrastructure and higher personnel, expenses partially offset by higher interest income from loan growth.

Corporate and Other

Corporate and Other losses for the year ended December 31, 2016 were $7,394,000 better than the same period in 2015 primarily due to higher gains on the cash surrender value of corporate owned life insurance, partially offset by a reduction in bond call income.

4. Balance Sheet

Total assets increased $2,841,997,000 for the year ended December 31, 2016, primarily due to increases in available-for-sale fixed maturity investments and loans as a result of business growth. Total liabilities increased $2,351,411,000 for the year ended December 31, 2016, primarily due to increases in future policy benefits, bank deposits and borrowings. Future policy benefits increased $1,024,932,000 due to business growth. Bank deposits increased $335,088,000 due to growth in homeowner association banking deposits. Borrowings increased $240,782,000 as a result of an increase in short term advances used for funding loan growth at the Bank.

5. Investment Performance

The Company's investment strategy seeks to balance risk, return and expense in order to provide attractive, cost-effective risk-adjusted investment returns to the Company's product lines. The portfolio is managed to fund policyholder liabilities and contribute to surplus stability and growth. The Company's investment strategy also strives to generate growth capital through the investment of surplus funds in a diversified portfolio that includes private equity limited partnerships, with total return maximization being the primary objective.

<u>Net Investment Income</u>

Net investment income increased $26,767,000 for the year ended December 31, 2016 compared to 2015. The increase was primarily due to an increase in income from fixed maturity investments as a result of larger asset balances.

The sources of net investment income for the year ended December 31, 2016 and 2015, were as follows (in thousands):

	2016	2015
Fixed maturities	$ 851,479	$ 821,870
Loans	332,611	325,115
Real estate	(11,649)	(14,112)
Private equity	37,968	44,685
Policy loans and other	24,776	23,223
	1,235,185	1,200,781
Less: investment expenses	(30,735)	(23,098)
Net investment income	$ 1,204,450	$ 1,177,683

Net Realized Investment Gains (Losses)

Net realized investment gains for the year ended December 31, 2016 were $9,358,000 lower when compared to the year ended December 31, 2015 as a result of lower private equity valuation gains, partially offset by lower fixed maturity impairments.

Net realized investment gains (losses) for the year ended December 31, 2016 and 2015, were as follows (in thousands):

	2016	2015
Fixed maturities	$ (6,540)	$ (25,841)
Equity securities	3,570	2,226
Loans	35	1,001
Private equity	8,813	39,638
Other	2,477	689
Net realized investment gains	$ 8,355	$ 17,713