AMERUS GROUP CO/IA
Form 10-K
March 07, 2005

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-K

þ Annual Report Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2004

or

o Transition Report Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

For the transition period from __________ to __________

Commission File Number: 001-15166

AmerUs Group Co.

(Exact name of Registrant as specified in its charter)

Iowa	**42-1458424**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
699 Walnut Street, Des Moines, Iowa	**50309-3948**
(Address of principal executive offices)	*(Zip code)*

Registrant s telephone number, including area code (515) 362-3600

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock (no par value)	New York Stock Exchange
Income PRIDES[SM]	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the Registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Aggregate market value of voting stock held by non-affiliates of the Registrant as of June 30, 2004: $1,616,433,854

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act) Yes x No o

Number of shares outstanding of each of the Registrant s classes of common stock on March 3, 2005 was as follows:

Common Stock	39,438,368 shares

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant s definitive proxy statement for the annual meeting of shareholders to be held April 28, 2005 are incorporated by reference into Part III of this Form 10-K.

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SAFE HARBOR STATEMENT

This Annual Report on Form 10-K, including the Management s Discussion and Analysis of Financial Condition and Results of Operations, contains statements which constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements relating to trends in operations and financial results and the business and the products of the Registrant and its subsidiaries, as well as other statements including words such as anticipate , believe , plan , estimate , expect , intend , and other similar expressions. Forward-looking statements are made based upon management s current expectations and beliefs concerning future developments and their potential effects on the Company. Such forward-looking statements are not guarantees of future performance. Factors that may cause our actual results to differ materially from those contemplated by these forward-looking statements include, among others, the following possibilities: (a) general economic conditions and other factors, including prevailing interest rate levels and stock and bond market performance, which may affect our ability to sell our products, the market value of our investments and the lapse rate and profitability of policies; (b) our ability to achieve anticipated levels of operational efficiencies and cost-saving initiatives and to meet cash requirements based upon projected liquidity sources; (c) customer response to new products, distribution channels and marketing initiatives; (d) mortality, morbidity, and other factors which may affect the profitability of our insurance products; (e) our ability to develop and maintain effective risk management policies and procedures and to maintain adequate reserves for future policy benefits and claims; (f) changes in the federal income tax and other federal laws, regulations, and interpretations, including federal regulatory measures that may significantly affect the insurance business including limitations on antitrust immunity, minimum solvency requirements, and changes to the tax advantages offered by life insurance and annuity products or programs with which they are used; (g) increasing competition in the sale of insurance and annuities and the recruitment of sales representatives; (h) regulatory changes, interpretations, initiatives or pronouncements, including those relating to the regulation of insurance companies and the regulation and sale of their products and the programs in which they are used; (i) our ratings and those of our subsidiaries by independent rating organizations which we believe are particularly important to the sale of our products; (j) the performance of our investment portfolios; (k) the impact of changes in standards of accounting; (l) our ability to integrate the business and operations of acquired entities; (m) expected protection products and accumulation products margins; (n) the impact of anticipated investment transactions; and (o) litigation or regulatory investigations or examinations.

There can be no assurance that other factors not currently anticipated by us will not materially and adversely affect our results of operations. You are cautioned not to place undue reliance on any forward-looking statements made by us or on our behalf. Forward-looking statements speak only as of the date the statement was made. We undertake no obligation to update or revise any forward-looking statement.

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PART I

ITEM 1. *Business*

Web Access to Reports

We make our periodic and current reports filed or furnished pursuant to section 13(a) or 15(d) of the Securities Exchange Act of 1934, available, free of charge at our website as soon as reasonably practicable after such reports are filed electronically with or furnished to the U.S. Securities and Exchange Commission. Our internet website address to obtain such filings is www.amerus.com.

Definitions

When used in this document, the terms AmerUs, we, our and us refer to AmerUs Group Co. (including American Mutual Holding Compar and AmerUs Life Holdings, Inc. as predecessor entities of AmerUs Group Co.), an Iowa corporation, and our consolidated subsidiaries, unless otherwise specified or indicated by the context.

General

We are a holding company whose subsidiaries are primarily engaged in the business of marketing, underwriting and distributing a broad range of individual life, annuity and insurance deposit products to individuals and businesses in all 50 states, the District of Columbia and the U.S. Virgin Islands. We have two reportable operating segments: protection products and accumulation products. The primary offerings of the protection products segment are interest-sensitive whole life, term life, universal life and equity indexed life insurance policies. The primary offerings of the accumulation products segment are individual fixed annuities (comprised of traditional fixed annuities and equity indexed annuities) and funding agreements.

We were founded in 1896 as the mutual insurer Central Life Assurance Company. In 1996, we became the first Mutual Insurance Holding Company in the United States, or MIHC, a structure that allows mutuals to access the public equity markets, which AmerUs did in 1997 with its initial public offering. In 2000, AmerUs reorganized its MIHC structure through a full demutualization and became a 100% public stock company.

We have had positive organic growth in our businesses. We have also successfully executed a series of strategic acquisitions that have helped generate sales growth, as well as balance our product and geographic distribution. The following is a summary of these acquisitions and the benefits created:

In 1994, Central Life Assurance Company and American Mutual Life Insurance Co. merged providing us with significant scale in our life insurance operations. The merger resulted in our becoming one of the 25 largest mutual insurers in America at that time.

In October 1997, the acquisition of Delta Life Corporation launched our annuity business. At the time of the acquisition, Delta Life had about $2.0 billion in assets and specialized in single-premium deferred annuity and equity indexed annuity products.

In December 1997, we acquired AmVestors Financial Corporation, predecessor to AmerUs Annuity Group Co., which specialized in the sale of individual fixed annuity products. The acquisition further strengthened our presence in asset accumulation and retirement and savings markets.

In 2001, we acquired Indianapolis Life Insurance Company, an Indiana life insurance company, and its subsidiaries which had approximately $6 billion in consolidated assets at the time of the acquisition. The acquisition allowed us to strengthen our life insurance business and ultimately provided us with a better balance of annuity and life insurance product sales.

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Subsidiaries

We have four main direct subsidiaries: AmerUs Life Insurance Company, or ALIC, an Iowa life insurance company; AmerUs Annuity Group Co., or AAG, a Kansas corporation; AmerUs Capital Management Group, Inc., or ACM, an Iowa corporation; and ILICO Holdings, Inc., an Indiana corporation.

AAG owns, directly or indirectly, two Kansas life insurance companies: American Investors Life Insurance Company, Inc., or American; and Financial Benefit Life Insurance Company, or FBL. On December 31, 2002, Delta Life and Annuity Company was merged into American.

ILICO Holdings, Inc., has one wholly-owned subsidiary, Indianapolis Life Insurance Company, or ILIC, an Indiana life insurance company. ILIC has two wholly-owned subsidiaries: Bankers Life Insurance Company of New York, or Bankers Life, a New York life insurance company; and IL Securities, Inc., an Indiana corporation. When used in this document, the term ILICO refers to ILICO Holdings, Inc. and its consolidated subsidiaries.

Organization as of December 31, 2004

Reorganization

We were formerly known as American Mutual Holding Company, or AMHC and were a mutual insurance holding company, with our principal asset being a 58% interest in AmerUs Life Holdings, Inc., or ALHI. Public stockholders owned the remaining 42% interest in ALHI with their interest referred to as minority interest. ALHI was a holding company which directly or indirectly owned ALIC and American, its principal life insurance subsidiaries. On September 20, 2000, we converted to stock form, changed our name to AmerUs Group Co. and acquired the minority interest of ALHI by issuing our common stock in exchange for the outstanding shares of ALHI held by the public. The value of the stock exchange was approximately $298 million and ALHI was merged into us simultaneously with the stock exchange.

Prior to our conversion to a stock company, which is referred to as a demutualization, we were owned by individuals and entities who held insurance policies or annuity contracts issued by ALIC. Such individuals and entities were considered members. In connection with our demutualization, we distributed cash, policy credits and our newly issued common stock to those members in exchange for their membership interests. The value of the distribution totaled approximately $792 million.

The acquisition of the minority interest of ALHI by us was accounted for as a purchase and 42% of the book value of the assets and liabilities of ALHI was adjusted to market value as of the acquisition date. Approximately 42% of the ALHI earnings for our fiscal periods prior to the acquisition date are deducted from our results of operations on the line titled minority interest in our consolidated statements of income. From the acquisition date forward, our results of operations include 100% of such earnings.

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Closed Block

We have established two closed blocks of policies: (a) the first on June 30, 1996 in connection with the reorganization of ALIC from a mutual company to a stock company, and (b) the second on March 31, 2000 in connection with the reorganization of ILIC from a mutual company to a stock company (collectively, the closed block). Insurance policies which had a dividend scale in effect as of each closed block establishment date were included in the closed block. The closed block was designed to give reasonable assurance to owners of insurance policies that, after the reorganizations of ALIC and ILIC, assets would be available to maintain the dividend scales and interest credits in effect prior to the reorganization, if the experience underlying such scales and crediting continued. The assets, including revenue therefrom, allocated to the closed block will accrue solely to the benefit of the owners of policies included in the closed block until the closed block no longer exists. We will continue to pay guaranteed benefits under all policies, including policies included in the closed block, in accordance with their terms. In the event that the closed block s assets are insufficient to meet the benefits of the closed block s guaranteed benefits, general assets would be utilized to meet the contractual benefits of the closed block s policyowners.

Dispositions

ILIC previously owned The Indianapolis Life Group of Companies, Inc., or IL Group. IL Group owned Bankers Life, IL Securities, Inc., IL Annuity, and Western Security Life Insurance Company, or WSLIC, an Arizona life insurance company. Effective on March 5, 2002, IL Group was dissolved and its four wholly-owned subsidiaries became direct subsidiaries of ILIC. In addition, on March 29, 2002, WSLIC was sold with its insurance business transferred to ILIC prior to the sale. The sale of the corporate organization and insurance licenses resulted in a gain of approximately $1.9 million which is included in realized gains and losses on investments for the year ended December 31, 2002. IL Annuity was merged into ILIC effective June 30, 2003 as part of a restructuring plan. See further discussion in note 16 to the consolidated financial statements.

In November 2003, we entered into an agreement to sell our residential financing operations. The assets, liabilities and results of operations of the residential financing operations have been classified as discontinued operations. The sale was completed in January 2004, resulting in an after-tax gain of $3.9 million. See further discussion in note 20 to the consolidated financial statements.

Financial Information

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP. See note 1 to the consolidated financial statements for additional information about GAAP and our significant accounting policies.

We measure our profit or loss and total assets by operating segments. We have two reportable operating segments: protection products and accumulation products. See a further discussion of our operating segments in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation.

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Protection Products Segment

Products

Our protection products segment consists of individual fixed life insurance premiums from traditional life insurance products, universal life insurance products and equity indexed life insurance products. Sales are presented as annualized premium which is in accordance with industry practice, and represent the amount of new business sold during the period. Sales are a performance metric which we use to measure the productivity of our distribution network and for compensation of sales and marketing employees and agents. The following table summarizes annualized premium by life insurance product:

	Sales Activity by Product For the Years Ended December 31,		
	2004	2003	2002
		($ in thousands)	
Traditional life insurance:			
Interest-sensitive whole life	$ 6,230	$ 19,691	$ 30,622
Term and other life	13,878	14,824	20,626
Universal life	29,326	32,476	32,570
Equity indexed life	74,629	51,644	45,843
Direct	124,063	118,635	129,661
Private label term life premiums		4,206	8,970
Total	$124,063	$122,841	$138,631

Traditional Life Insurance Products. Traditional life insurance products include interest-sensitive whole life and term life insurance products.

Interest-sensitive whole life insurance provides benefits for the life of the insured. However, this product has cash value accumulation that is interest sensitive and responds to current interest and mortality rates. These products are used in several markets, the largest of which is the pension plan market. Lower interest-sensitive whole life sales were experienced in 2004 and 2003, as compared to each prior year, due to the development of an equity indexed product, our shift in sales focus to equity indexed products and uncertainty in government tax policy and regulation. For the year ended December 31, 2004, sales of interest-sensitive whole life products represented 5% of direct sales for individual life insurance products sold.

Term and other life insurance include term life and whole life insurance products. Term life provides life insurance protection for a specific time period (which generally can be renewed at an increased premium). Such policies are mortality-based and offer no cash accumulation feature. Term life insurance is a highly competitive and quickly changing market. The reduction in term and other life sales in 2003 compared to 2002 was primarily a result of our ceasing to take new applications for sales of whole life insurance on December 31, 2002. Term and other life insurance sales have declined to approximately 11% of our total sales in 2004.

In prior years, ILIC had distributed term products primarily through strategic alliances with private label partners. Under private label arrangements, ILIC manufactured products that were distributed through field forces of other life insurance companies, its private label partners. Following a strategic decision to exit the private label business, ILIC reached an agreement with its joint venture partners to cease new business processing during 2003. In keeping with contractual obligations, ILIC continues to service in-force business for existing joint venture partners.

Universal Life Insurance Products. We offer universal life insurance products, which provide flexible benefits for the insured. Within product limits and state regulations, policyowners may vary the amount and timing of premiums and the amount of the death benefit of their policies and keep the policies in force, as long as there are sufficient policy funds available to cover all policy charges for the next coverage period. Premiums, net of specified expenses, are credited to the policy, as is interest, generally at a rate determined from time to time by us. Specific charges are made against the policy for the cost of insurance and for expenses. We invest

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the premiums we receive from the sale of universal life insurance products in our investment portfolio. Our gross margin from these products is the yield we earn on our investment portfolio plus the internal product charges less interest credited to policies and less mortality and other expenses.

Sales of universal life decreased in 2004 compared to the prior periods due to the popularity of our equity indexed life products. The weighted average crediting rate for universal life insurance liabilities was 4.62% for the year 2004, 4.96% for the year 2003 and 5.39% for the year 2002. The crediting rate has been lowered as a result of reduced investment yields associated with the declining interest rate environment. For the year ended December 31, 2004, sales of universal life insurance products represented 24% of direct sales for individual life insurance products sold.

Equity Indexed Life Products. We also offer equity indexed life insurance products which are a type of universal life or interest-sensitive whole life product that allows the policyowner to elect an interest earnings strategy for a portion of the account value. Earnings are credited based in part on increases in the appropriate indices, primarily the Standard & Poor s 500 Composite Stock Index®(collectively, S&P 500 Index), excluding dividends. The earnings credit is subject to a participation rate and an annual cap. Our gross margin on our equity indexed life products is similar to that of our universal life and interest-sensitive whole life insurance products. However, due to the equity indexed earnings strategies, we invest a portion of the premiums we receive from the sale of these products in call options. We may affect the cost of the call options by adjusting interest crediting parameters that are provided for in the policy. Our return on the call options is generally expected, in a growing equity market, to correspond to the earnings we are contractually bound to credit on the equity indexed strategies. The remainder of the premium is invested in our investment portfolio to support the contractual minimum guarantees that may come into effect if the equity index declines. The structure of our product, together with the allocation of our equity indexed life product premiums between call options and our investment portfolio, are intended to provide for a positive gross margin in both increasing and decreasing equity markets. At December 31, 2004, the account value of equity indexed life products totaled $364.3 million of which approximately 82% is invested in equity indexed strategies.

Equity indexed life insurance sales increased in 2004 and 2003 following our focus on the marketing of this product beginning in 2000. We are a leading writer of equity indexed life products in the United States. Sales of the equity indexed life product, as a percentage of direct sales, was approximately 60% in 2004.

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Collected premiums are measured in accordance with industry practice, and represent the amount of premiums received during the period. Collected premiums are a performance metric which we use to measure the productivity of our distribution network and for compensation of sales and marketing employees and agents. The following table sets forth our collected life insurance premiums, including collected premiums associated with the closed block, for the periods indicated:

	Collected Premiums by Product For The Years Ended December 31,		
	2004	2003	2002
		($ in thousands)	
Individual life premiums collected:			
Traditional life:			
First year and single	$ 92,354	$ 116,252	$ 149,740
Renewal	333,255	343,067	344,715
Total	425,609	459,319	494,455
Universal life:			
First year and single	93,848	94,158	75,761
Renewal	138,579	132,833	128,869
Total	232,427	226,991	204,630
Equity-indexed life:			
First year and single	118,535	84,478	78,797
Renewal	62,061	35,344	14,526
Total	180,596	119,822	93,323
Total individual life	838,632	806,132	792,408
Reinsurance assumed	45,266	49,706	48,664
Reinsurance ceded	(227,862)	(187,860)	(220,589)
Total individual life, net of reinsurance	$ 656,036	$ 667,978	$ 620,483

Individual life insurance premiums collected before reinsurance increased in 2004 and 2003 as a result of increased equity indexed sales, which were partially offset by lower traditional life collected premiums.

ALIC has reinsurance arrangements that have reduced its retention to 10% of the net amount at risk on any one policy not to exceed company retention limits for the majority of policies issued from July 1, 1996 through December 31, 1999, and for all new business commencing January 1, 2000. ALIC s retention limits on any one life vary by age and rating table and are generally between $150,000 and $500,000. ALIC also has a reinsurance agreement covering approximately 90% of the closed block net amount at risk not previously reinsured. In addition, ALIC entered into an indemnity reinsurance agreement effective December 31, 2001 covering universal life policies of the open block issued prior to July 1, 1996, that was subsequently replaced by another indemnity reinsurance agreement effective October 1, 2002, covering 90% of the net amount at risk not previously reinsured of any one policy. ALIC entered into an 80% statutory modified coinsurance quota share and coinsurance agreement covering certain individual life policies of the closed block effective December 31, 2002. That agreement was terminated January 1, 2004. As a result of these agreements, ceded reinsurance premium for ALIC was $96.9 million in 2004, $77.9 million in 2003 and $127.3 million in 2002.

ILIC entered into a statutory reinsurance agreement to cover 100% quota share of retained net amounts at risk for certain open block and closed block policies in force at December 31, 2002, which was amended by an indemnity reinsurance agreement effective July 1, 2003. Ceded premium from ILICO amounted to $131.0 million in 2004, $109.8 million in 2003 and $93.3 million in 2002. ILICO s reinsurance agreements

effectively reduce ILICO s retention limit to between $150,000 and $500,000.

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The following table sets forth information regarding our life insurance in force for each date presented. Protection products face amounts in force is a performance measure utilized by investors, analysts and the Company to assess the Company s position in the industry.

	Individual Life Insurance in Force As of December 31,		
	2004	2003	2002
		($ in thousands)	
Traditional life			
Number of policies	433,011	446,961	451,933
GAAP life reserves	$ 3,551,648	$ 3,465,853	$ 3,236,223
Face amounts	$67,769,000	$70,904,000	$64,302,000
Universal life			
Number of policies	142,370	145,525	147,469
GAAP life reserves	$ 1,587,787	$ 1,517,227	$ 1,425,746
Face amounts	$19,848,000	$20,780,000	$19,095,000
Equity-indexed life			
Number of policies	46,350	35,133	23,679
GAAP life reserves	$ 364,282	$ 224,874	$ 126,821
Face amounts	$ 9,918,000	$ 6,878,000	$ 4,574,000
Total life insurance			
Number of policies	621,731	627,619	623,081
GAAP life reserves	$ 5,503,717	$ 5,207,954	$ 4,788,790
Face amounts	$97,535,000	$98,562,000	$87,971,000

Distribution Systems

Our subsidiaries sell life insurance in all 50 states, the District of Columbia and the U.S. Virgin Islands. The states with the highest geographic concentration of sales, based on statutory premiums in 2004, are California, Florida, Illinois, Iowa, Minnesota, New York, Texas and Wisconsin. These states account for approximately 54% of our statutory premiums.

Our target customers are individuals in the middle and upper income brackets and small businesses. We market our life insurance products on a national basis primarily through a Career Marketing Organization (CMOs) system, a Personal Producing General Agent (PPGA) distribution system, Independent Marketing Organizations (IMOs) and a New York distribution system. We currently employ 19 regional vice presidents who are responsible for supervising these distribution systems within their assigned geographic regions.

Under the CMO system, a contractual arrangement is entered into with the CMO for the sale of insurance products by the CMO s agents. The CMO agents are primarily compensated by receiving a percentage of the first year commissions and renewal commissions on premiums subsequently collected on that business. In addition, the CMO agents receive certain retirement benefits and incentive trips.

The CMOs are independent contractors and are generally responsible for the expenses of their operations, including office and overhead expenses and the recruiting, selection, contracting, training and development of agents in their agencies. As of December 31, 2004, we had 66 CMO general agents in 28 states, through which approximately 1,150 agents sell our products. While agents in the CMO system are non-exclusive, most use our products for a majority of their new business.

Under the PPGA system, we contract primarily with individuals who are experienced individual agents or who head a small group of experienced individual agents. These individuals are independent contractors and are responsible for all of their own expenses. These individuals often sell products for other insurance companies, and may offer selected products we offer rather than our full line of insurance products. The PPGA system is comprised of approximately 1,100 PPGA general agents, with approximately 4,100 agents.

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PPGAs are compensated by commissions on first year and renewal premiums collected on business written by themselves and the agents in their units.

We have also developed programs to sell life insurance through select IMOs. The customers targeted and the products sold are similar to those of the CMO and PPGA systems.

Under the IMO system, a contractual arrangement is entered into with an IMO to promote our insurance products to their network of agents and brokers. The IMO receives a commission and override commission on the business produced. We currently have approximately 90 IMOs under contract.

The New York distribution system is comprised of a combination of IMOs and PPGAs in the tri-state area, which primarily focus on the state of New York. There were approximately 5,700 agents in the New York distribution system.

During 2004, no single distribution organization (CMO, PPGA, IMO, or New York) accounted for more than 7% of total direct sales.

Accumulation Products Segment

Products

Our accumulation products segment primary offerings consist of individual fixed annuities and funding agreements. Annuities provide for the payment of periodic benefits over a specified time period. Benefits may commence immediately or may be deferred to a future date. Fixed annuities generally are backed by a general investment account and credited with a rate of return that is periodically reset. Funding agreements are arrangements for which we receive deposit funds and for which we agree to repay the deposit and a contractual return for the duration of the contract.

Deposits are presented as collected premiums, which are measured in accordance with industry practice, and represent the amount of new business sold during the period. Deposits are a performance metric which we use to measure the productivity of our distribution network and for compensation of sales and marketing employees and agents. Our annuity deposits consisted of approximately 17% from traditional annuity products and approximately 83% from equity indexed annuity products in 2004. Funding agreement deposits totaled $85 million in 2004 and $875 million in 2002. The following table sets forth deposits for the periods indicated:

	Deposits by Product For The Years Ended December 31,		
	2004	2003	2002
		($ in thousands)	
Annuities			
Deferred fixed annuities:			
Traditional fixed annuities	$ 312,652	$ 443,220	$ 1,099,872
Equity indexed annuities	1,527,587	1,311,409	683,819
Variable annuities	2,805	3,254	6,230
Total annuities	1,843,044	1,757,883	1,789,921
Funding agreements	85,000		875,000
Total	1,928,044	1,757,883	2,664,921
Reinsurance assumed			
Reinsurance ceded	(10,054)	(25,080)	(60,916)
Total deposits, net of reinsurance	$ 1,917,990	$ 1,732,803	$ 2,604,005

Traditional Annuity Products. We offer a variety of interest rate crediting strategies on our traditional annuity products. At December 31, 2004, the account value of traditional annuities totaled $6.5 billion of which approximately 94% have minimum guarantee rates ranging from 3% to 4%. For traditional annuities with an account value of $4.7 billion, the credited rate was equal to the minimum guarantee rate, and as a

result, the credited rate cannot be lowered. We also offer an interest rate crediting strategy that credits the policy with a return generally based upon the interest rates it earns on assets supporting the respective policies less management fees. Traditional annuities with an account value of $1.2 billion had a multi-year guarantee for which the credited rate cannot be decreased until the end of the multi-year period. At the end of the multi-year period, we will have the ability to lower the crediting rate to the minimum guaranteed rate by an average of approximately 275 basis points. The remaining multi-year period is generally either one or two years. Due to these limitations on the ability to lower interest crediting rates and the potential for additional credit defaults and lower reinvestment rates on investments, we could experience spread compression in future periods.

We invest the deposits we receive from traditional annuity product sales in our investment portfolio. We call the difference between the yield we earn on our investment portfolio and the interest we credit on our traditional annuities our product spread. The product spread is a major driver of the profitability of our traditional annuity products.

Traditional annuity deposits decreased $130.6 million and $656.7 million in 2004 and 2003, respectively, as compared to the prior year periods as we slowed traditional annuity sales due to the low interest rate environment and as we have shifted our sales focus to equity indexed products.

Equity Indexed Annuities. We offer equity indexed annuity products that provide various interest crediting strategies, including strategies linked to equity and investment grade bond indices. For deposits allocated to indexed crediting strategies, interest is credited to these products based in part on the increases in the applicable indices, less any applicable fees and subject to any applicable caps. Similar to our traditional annuity products, we invest the deposits we receive from equity indexed annuity product sales in our investment portfolio. At December 31, 2004, the GAAP reserves of equity indexed annuities totaled $5.6 billion which provide guaranteed rates based on a cumulative floor over the term of the product. In addition, for deposits allocated to equity indexed crediting strategies, we use a portion of the deposits to purchase call options. We may affect the cost of the call options by adjusting interest crediting parameters that are provided for in the policy. Our return on the call options is generally expected, in a growing equity market, to correspond to the earnings we are contractually bound to credit on the equity indexed strategies. The remainder of the deposit is invested in our investment portfolio to support the contractual minimum guarantees that may come into effect if the equity index declines. At December 31, 2004, approximately 47% of the equity indexed annuities are invested in equity indexed strategies with the remainder invested in bonds or other fixed type investments. The product spread on deposits allocated to our equity indexed strategy is computed as:

The yield we earn on our investment portfolio,

Less the cost of the call options,

Less any interest credited to policyowners,

Equals product spread.

The product spread is a major driver of profitability of our equity indexed annuity products. The structure of our product, together with the allocation of our equity indexed strategy deposits between call options and our investment portfolio, is intended to provide for a positive product spread in both increasing and decreasing equity markets.

Equity indexed annuity sales increased in 2004 and 2003 as compared to the prior year periods due to its popularity with consumers and agents. In the third quarter of 2002, we entered into a new modified coinsurance reinsurance agreement to cede 25% of certain equity indexed annuity products which amounted to $10.1 million, $25.1 million, and $56.2 million ceded premium in 2004, 2003, and 2002, respectively.

Variable Annuities. Through our acquisition of ILICO, we obtained a variable annuity product line. In the first quarter of 2002, we ceased new sales of these products, except for new policies issued as part of existing employer-sponsored qualified plan contracts. All new sales were discontinued effective September 30, 2002. Amounts in 2004 and 2003 represent deposits collected on existing business. Our agents are encouraged to make new sales of variable annuities through the Ameritas Joint Venture. As these sales are through the joint venture, they do not appear in our direct sales amounts. See the discussion related to this joint venture in

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the Ameritas Joint Venture section. The assets and liabilities related to the direct variable annuities are shown on the consolidated balance sheets as separate account assets and separate account liabilities.

Funding Agreements. We placed primarily fixed rate funding agreements totaling $85 million and $875 million in 2004 and 2002, respectively. Funding agreements are insurance contracts for which we receive deposit funds and for which we agree to repay the deposit and a contractual return for the duration of the contract. In December 2003, a $250 million funding agreement was terminated. Total funding agreements outstanding as of December 31, 2004, amounted to $960 million compared to $875 million outstanding at December 31, 2003.

The following table sets forth information regarding fixed annuities in force for each date presented:

	Annuities in Force As of December 31,		
	2004	**2003**	**2002**
		($ in thousands)	
Deferred fixed annuities			
Number of policies	162,489	176,280	181,581
GAAP annuity reserves	$ 6,780,234	$ 7,257,387	$ 7,579,869
Equity-indexed annuities			
Number of policies	110,488	91,550	76,863
GAAP annuity reserves	$ 5,551,184	$ 4,439,836	$ 3,724,598
Total fixed annuities			
Number of policies	272,977	267,830	258,444
GAAP annuity reserves	$12,331,418	$11,697,223	$11,304,467

Distribution Systems

We sell annuities in all 50 states, the District of Columbia and the U.S. Virgin Islands. The states with the highest geographic concentration of sales, based on statutory premiums in 2004, are California, Florida, Michigan, North Carolina, Ohio, Pennsylvania and Texas. These states account for approximately 50% of our statutory premiums.

We direct our marketing efforts towards the asset accumulation, conservative savings and retirement markets. We market our annuity products on a national basis primarily through networks of independent agents. The independent agents are supervised by regional vice presidents and regional directors or IMOs. At December 31, 2004, we had approximately 15,000 independent agents licensed to sell our annuity products. In addition, the Preferred Producer agency and PPGA systems discussed previously are utilized to market certain annuity products.

Our IMOs consist principally of 10 contracted organizations, including four wholly-owned organizations and one organization which principally sell our proprietary products. The IMOs are responsible for recruiting, servicing and educating agents in an effort to promote our products. The IMOs receive an override commission based on the business produced by their agents. Our wholly-owned and proprietary organizations accounted for approximately 79% of our annuity sales in 2004. We do not have exclusive agency agreements with our agents and we believe most of these agents sell products similar to ours for other insurance companies.

Ameritas Joint Venture

We participate in a joint venture, the Ameritas Joint Venture, with Ameritas Life Insurance Corp. (or Ameritas) through ALIC s 34% ownership interest in AMAL Corporation (or AMAL), a Nebraska corporation. AMAL Corporation s operations are conducted through Ameritas Variable Life Insurance Company, (or AVLIC), Ameritas Investment Corp. (or AIC), and The Advisors Group, Inc. (or TAG), its three wholly-owned subsidiaries. AVLIC is licensed to conduct business in 47 states and the District of

Columbia. AIC and TAG are registered broker-dealers. Our partner in the Ameritas Joint Venture, Ameritas, is a Nebraska mutual life insurance company which has been in existence for more than 100 years.

Our investment in the Ameritas Joint Venture provides access to a line of existing variable life insurance and annuity products while providing a lower-cost entry into an established business, helping to eliminate significant start-up costs and allowing for immediate potential earnings.

The Ameritas Joint Venture offers, through AVLIC, fixed annuity products, flexible premium and single premium variable universal life insurance products, and variable annuities. Variable products provide for allocation of funds to a general account or to one or more separate accounts under which the owner bears the investment risk. Through AVLIC s fund managers, owners of variable annuities and life insurance policies are able to choose from a range of investment funds offered by each manager. Under the current terms of the joint venture agreement, ALIC and Ameritas direct their new variable annuities and variable life insurance through the Ameritas Joint Venture.

The variable life insurance products and the fixed and variable annuities offered by the Ameritas Joint Venture are distributed through our CMOs, PPGA systems and one IMO, as well as through the distribution systems of Ameritas and AVLIC.

ALIC and Ameritas each have guaranteed the policyholder obligations of AVLIC. The guarantee of each party is joint and several, and will remain in effect until certain conditions are met. As of December 31, 2004, AMAL Corporation had total consolidated assets of $184.2 million and total consolidated shareholder s equity of $173.5 million on a GAAP basis. AVLIC had $3,198.3 million of insurance in force and $110.2 million in surplus as of December 31, 2004, on a statutory basis.

Competition

We operate in a highly competitive industry. We compete with numerous life insurance companies and other entities including banks and other financial institutions, many of which have greater financial and other resources. We believe that the principal competitive factors in the sale of insurance products are product features, price, commission structure, perceived stability of the insurer, financial strength ratings, value-added service and name recognition. Many other companies are capable of competing for sales in our target markets (including companies that do not presently compete in such markets). Our ability to compete for sales is dependent upon our ability to successfully address the competitive factors.

We are the national leader in market share of equity indexed life production and are the fourteenth largest fixed life company in the United States. We also rank fifth nationally in equity indexed annuity sales and sixth nationally in fixed annuity sales through independent agents. The rankings are as of December 31, 2004, and are based on industry information from Advantage Compendium (formerly The Advantage Group) and LIMRA International.

In addition to competing for sales, we compete for qualified agents and brokers to distribute products. Strong competition exists among insurance companies for agents and brokers with demonstrated ability. We believe that the bases of competition for the services of such agents and brokers are commission structure, support services, prior relationships and the strength of an insurer s products. Although we believe that we have good relationships with our agents and brokers, our ability to compete will depend on our continued ability to attract and retain qualified persons.

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Ratings

Ratings with respect to financial strength are an increasingly important factor in establishing the competitive position of insurance companies. The following are the ratings as of March 1, 2005 for our major insurance subsidiaries currently writing new business:

Company	Rating Service	Rating Type	Rating
American	Standard & Poor s	insurer financial strength	A+ (strong)
American	A. M. Best	financial condition	A (excellent)
American	Moody s	insurance financial strength	A3 (good)
ALIC	Standard & Poor s	insurer financial strength	A+ (strong)
ALIC	A. M. Best	financial condition	A (excellent)
ALIC	Moody s	insurance financial strength	A3 (good)
Bankers Life	Standard & Poor s	insurer financial strength	A+ (strong)
Bankers Life	A. M. Best	financial condition	A (excellent)
ILICO	Standard & Poor s	insurer financial strength	A+ (strong)
ILICO	A. M. Best	financial condition	A (excellent)
ILICO	Moody s	insurance financial strength	A3 (good)

One of our insurance subsidiaries, FBL, is not currently writing new business. The ratings for FBL were a Standard & Poor s rating of BBB+ (good) and an A.M. Best rating of B+ (very good).

Standard & Poor s ratings for insurance companies range from AAA to R . Standard & Poor s indicates that A+ ratings are assigned to companies that have demonstrated strong financial security. A.M. Best s ratings for insurance companies range from A++ to S . A.M. Best indicates that an A rating is assigned to those companies that in A.M. Best s opinion have achieved superior performance when compared to the norms of the life insurance industry and have demonstrated a strong ability to meet their policyowner and other contractual obligations. Moody s ratings for insurance companies range from Aaa to C . Moody s indicates that A3 ratings are assigned to companies that have factors related to security of principal and interest which are considered adequate; however, elements are present which may suggest a susceptibility to impairment in the future. In evaluating a company s financial and operating performance, these rating agencies review a company s profitability, leverage and liquidity, book of business, adequacy and soundness of reinsurance, quality and estimated market value of assets, adequacy of policy reserves, experience and competency of management and other factors. Such ratings are neither a rating of securities nor a recommendation to buy, hold or sell any security, including our common stock and they may be subject to revision or withdrawal at any time by the relevant rating agency. You should evaluate each rating independently of any other rating.

On June 21, 2004, Moody s Investor Services changed the rating outlook for our insurance subsidiaries that it rates to stable from negative. On October 19, 2004, Standard & Poor s re-affirmed our current A+ rating and our stable outlook. Also, on November 12, 2004, A.M. Best Company changed the rating outlook for all of our insurance subsidiaries to stable from negative. The changes occurred as part of Moody s, Standard & Poor s, and A.M. Best s assessments of their current life insurers ratings given the current operating environment. A negative outlook indicates that if certain trends continue or worsen, the rating agencies believe the insurance subsidiaries ratings may have to be adjusted downward. On February 15, 2005, Moody s Investor Services changed the rating outlook for the Company and its insurance and other subsidiaries that it rates to negative from stable as a result of uncertainties in connection with a lawsuit filed by the California Attorney General. On February 17, 2005, Standard & Poor s announced that our ratings would be unaffected by this lawsuit.

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Insurance Underwriting

We follow detailed, uniform underwriting practices and procedures in our insurance business which are designed to assess risks before issuing coverage to qualified applicants. We have professional underwriters who evaluate policy applications on the basis of information provided by applicants and others.

Reinsurance

In accordance with industry practices, we reinsure portions of our life insurance exposure with unaffiliated insurance companies under traditional indemnity reinsurance arrangements. Such reinsurance arrangements are in accordance with standard reinsurance practices within the industry. We enter into these arrangements to assist in diversifying risks and to limit the maximum loss on risks that exceed policy retention limits. Indemnity reinsurance does not fully discharge our obligation to pay claims on business we reinsure. As the ceding company, we remain responsible for policy claims to the extent the reinsurer fails to pay such claims. We continually monitor the creditworthiness of our primary reinsurers, and have experienced no material reinsurance recoverability problems in recent years.

For accounting purposes, premiums and expenses in the income statement are reported net of reinsurance ceded. Future life and annuity policy benefits, policyowner funds and other related assets and liabilities are not reduced for reinsurance ceded in the balance sheet, rather a reinsurance receivable is established for such balance sheet items.

We reinsure mortality risk on individual life insurance policies. Our retention is generally between $150,000 and $500,000 on any single life depending on the respective age and rating table. We also reinsure certain annuity business primarily on a modified coinsurance basis. Beginning in the fourth quarter of 2004, we entered into new reinsurance agreements that for certain new universal life products, we retain the first $500,000, we reinsure 50% of the coverage between $500,000 and $1,500,000, and then fully reinsure the coverage in excess of $1,500,000. We increased our retention levels as a result of our favorable mortality experience and the overall increase in prices in the reinsurance market.

At December 31, 2004 and 2003, we ceded life insurance with a face amount of $77.4 billion with 31 unaffiliated reinsurers and life insurance with a face amount of $75.3 billion with 39 unaffiliated reinsurers, respectively. Ceded life insurance was approximately 79% and 77% of direct and assumed life insurance in force at December 31, 2004 and 2003, respectively. The following is a summary of our principal life reinsurers as of December 31, 2004:

Reinsurer	Face amount ceded	A.M. Best rating	% of total face amount reinsured
	(in billions)		
Swiss Re Life & Health America, Inc.	$23.7	A+	34%
RGA Reinsurance Company	19.7	A+	25
Transamerica Occidental Life Insurance Company	14.1	A+	18
Allianz Life Insurance Company	4.3	A	6
Employers Reassurance Corporation	4.2	A-	5
Scottish Re Group Limited	4.1	A-	5
Generali USA Life Reinsurance Company	3.3	A	4

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At December 31, 2004 and 2003, we ceded traditional and equity indexed annuities having reserves of $1.0 billion and $1.2 billion, respectively. The following is a summary of our principal annuity reinsurers as of December 31, 2004:

Reinsurer	Reserves ceded	A.M. Best rating	% of total face amount reinsured
	(in billions)		
Transamerica Occidental Life Insurance Company	$0.6	A+	60%
RGA Reinsurance Company	0.3	A+	30

Employees

As of December 31, 2004, we had 1,114 full-time employees. None of these employees are covered by a collective bargaining agreement and we believe that our relations with our employees are satisfactory.

Government Regulation

We are subject to a variety of state and federal laws and regulations as well as oversight by regulatory bodies.

We are regulated by the states in which our insurance subsidiaries are domiciled and/or transact business. State insurance and other laws generally establish supervisory agencies with broad administrative and supervisory powers related to granting and revoking licenses, transacting business, regulating the payment of dividends to stockholders, establishing guaranty fund associations, licensing agents, approving policy forms, regulating sales practices, establishing reserve requirements, prescribing the form and content of required financial statements and reports, determining the reasonableness and adequacy of statutory capital and surplus, and regulating the type and amount of investments permitted. Every state in which our insurance companies are licensed administers a guaranty fund, which provides for assessments of licensed insurers for the protection of policyowners of insolvent insurance companies. Assessments can be partially recovered through a reduction in future premium taxes in some states. Risk-based capital, or RBC, standards for life insurance companies were adopted by the National Association of Insurance Commissioners, known as the NAIC, and require insurance companies to calculate and report for statutory basis financial statements information under a risk-based capital formula. The RBC requirements are intended to allow insurance regulators to identify at an early stage inadequately capitalized insurance companies based upon the types and mixtures of risks inherent in such companies operations. The formula includes components for asset risk, liability risk, interest rate exposure and other factors. As of December 31, 2004, each of our life insurance companies RBC levels was in excess of authorized control level RBC thresholds established by insurance regulators.

Although the federal government generally does not directly regulate the insurance business, federal initiatives and changes in federal law can often have a material impact on our business in a variety of ways. Our products and sales practices are impacted by federal laws and regulations, such as those related to taxation and securities. Current and proposed federal measures that may significantly affect the insurance business include limitations on antitrust immunity, minimum solvency requirements, changes to the tax advantages of life insurance and annuity products or the programs with which they are used, new savings and dividend proposals and the removal of barriers restricting banks from engaging in the insurance and mutual fund business.

Regulatory bodies may periodically make inquiries and conduct examinations concerning our compliance with insurance and other laws, such as those regulating the marketing and sale of our products. We cooperate with these regulators in conducting such inquiries and examinations in the ordinary course of our business.

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Executive Officers of the Company

The following provides information about AmerUs Group Co. s executive officers:

Name of Individual	Age	Title
Roger K. Brooks	67	Chairman of the Board of Directors and Chief Executive Officer of AmerUs Group Co.
Thomas C. Godlasky	49	Director and President and Chief Operating Officer of AmerUs Group Co.
Gregory D. Boal	46	Executive Vice President and Chief Investment Officer of AmerUs Group Co.
Brian J. Clark	39	Executive Vice President and Chief Product Officer of AmerUs Group Co.
Mark V. Heitz	52	President and Chief Executive Officer of AmerUs Annuity Group, American Investors Life Insurance Company, Inc., and Financial Benefit Life Insurance Company
Gary R. McPhail	56	President and Chief Executive Officer of AmerUs Life Insurance Company and Indianapolis Life Insurance Company
Melinda S. Urion	51	Executive Vice President, Chief Financial Officer and Treasurer of AmerUs Group Co.

ROGER K. BROOKS Des Moines, Iowa.

Chairman and chief executive officer of AmerUs Group Co. since May 1997, president from May 1997 to November 2003, and president and chief executive officer from its formation in July 1996 to May 1997. Previously, Mr. Brooks was the chief executive officer of predecessor or affiliated companies since 1974. He is a director of AMAL. Mr. Brooks has been a director of AmerUs Group Co. since its formation in July 1996, and previously served as a director of predecessor or affiliated companies since 1971. His current term expires in May 2007.

THOMAS C. GODLASKY Des Moines, Iowa.

President and chief operating officer of AmerUs Group Co. since November 2003 and executive vice president and chief investment officer of AmerUs Group Co. and predecessor or affiliated companies from January 1995 to November 2003. Mr. Godlasky had also been president of AmerUs Capital Management from January 1998 to November 2003. From February 1988 to January 1995, he was manager of the Fixed Income and Derivatives Department of Providian Corporation, Louisville, Kentucky. He is a director of AMAL, AVLIC and AIC, wholly-owned subsidiaries of AMAL. Mr. Godlasky has been a director of AmerUs Group Co. since November 2003. His current term expires in May 2007.

GREGORY D. BOAL Des Moines, Iowa.

Executive vice president of AmerUs Group Co. and president and chief investment officer of AmerUs Capital Management since November 2003 and executive vice president of AmerUs Group Co. since June 2003. Prior to joining AmerUs Group Co. in June 2003, he was managing director at Deutsche Bank Asset Management in New York, New York beginning in June 2002. From January 2000 to June 2002 Mr. Boal was managing director at Zurich Scudder Investments in Chicago, Illinois (following Zurich Scudder Investments acquisition of ABN AMRO Asset Management (USA)). From January 1997 to January 2000 Mr. Boal was director of fixed investments at ABN AMRO Asset Management (USA).

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BRIAN J. CLARK Des Moines, Iowa.

Executive vice president and chief product officer of AmerUs Group Co. since November 2003 and senior vice president and chief product officer from August 2001 to November 2003. Mr. Clark has been with AmerUs Group Co. since 1988 and has previously served ALIC as chief financial officer and as senior vice president in various departments and functions, including product development, product management and asset and liability management.

MARK V. HEITZ Topeka, Kansas.

President and chief executive officer of AAG, American and FBL, Topeka, Kansas since December 1997. Previously, Mr. Heitz served as the president, general counsel and director of AAG from December 1986 until December 1997. Mr. Heitz also served as president, general counsel and director of American from October 1986 until December 1997.

GARY R. McPHAIL Des Moines, Iowa.

President and chief executive officer of ALIC since May 1997 and president and chief executive officer of ILICO since October 2001. Mr. McPhail was executive vice president marketing and individual operations of New York Life Insurance Company, New York, New York, from July 1995 to November 1996. From June 1990 to July 1995, he was president of Lincoln National Sales Corporation, Fort Wayne, Indiana. Mr. McPhail is a director of AMAL, AIC and AVLIC.

MELINDA S. URION Des Moines, Iowa.

Executive vice president, chief financial officer and treasurer of AmerUs Group Co. since March 2002. Prior to joining AmerUs Group Co., she was senior vice president and chief financial officer at Fortis Financial Group, Woodbury, Minnesota, from December 1997 to April 2001. From July 1988 to November 1997, Ms. Urion served in various accounting and executive positions with American Express Financial Corp, Minneapolis, Minnesota, including senior vice president of finance and chief financial officer from November 1995 to November 1997. Ms. Urion is a director of AVLIC.

Code of Ethics

We have adopted a Code of Ethics for Senior Financial Officers (Ethics Code) which summarizes long-standing principles of conduct applicable to our principal executive officer, principal financial officer, and principal accounting officer (collectively, Financial Officers), to ensure our business is conducted with integrity and in compliance with the law. A copy of our Ethics Code can be found on our website located at *www.amerus.com.* Any change to, or waiver of, this Ethics Code for Financial Officers must be disclosed promptly to our shareholders by a Form 8-K filing or by publishing a statement on our website.

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ITEM 2. PROPERTIES

The following table summarizes the properties we lease and own at December 31, 2004:

	Square Feet Occupied by:					
Property Address	Protection Products	Accumulation Products	Other(1)	Leased to Third Parties	Total Square Feet	Use of Other Square Feet
Properties leased from unaffiliated parties:						
699 Walnut Street Des Moines, Iowa			69,000		69,000	Executive offices and corporate operations
611 Fifth Avenue Des Moines, Iowa	62,000	2,000	56,000		120,000	Technology, corporate operations and cafeteria facilities
65 Froehlich Farms Boulevard Woodbury, New York	15,000	3,000	8,000		26,000	Technology and cafeteria facilities
9200 Keystone, Suite 800 Indianapolis, Indiana	15,000				15,000	
Various			39,000		39,000	Corporate operations, records and supply storage
Properties owned:						
555 South Kansas Avenue Topeka, Kansas		60,000		45,000	105,000	

(1) Other includes shared services that are utilized by both protection products and accumulation products segments.

ITEM 3. LEGAL PROCEEDINGS

In recent years, the life insurance industry, including the Company and its subsidiaries, have been subject to an increase in litigation pursued on behalf of purported classes of insurance purchasers, questioning the conduct of insurers in the marketing of their products. The Company is routinely involved in litigation and other proceedings, including class actions, reinsurance claims and regulatory proceedings arising in the ordinary course of its business. Some of these claims and legal actions are in jurisdictions where juries are given substantial latitude in assessing damages, including punitive and exemplary damages. In addition, regulatory bodies, such as state insurance departments and attorneys general, periodically make inquiries and conduct examinations concerning the Company s compliance with insurance and other laws. The Company responds to such inquiries and cooperates with regulatory examinations in the ordinary course of business.

Currently, the Company and/or certain of its subsidiaries are defendants in class action lawsuits brought in California state courts on behalf of purchasers of insurance products and related services. These class action lawsuits relate to the use of purportedly inappropriate sales techniques and products for the senior citizen market. The plaintiffs in these lawsuits are seeking a variety of damages including restitution of all surrender charge penalties, injunctive relief, punitive and other indirect damages and attorneys fees. Additionally, on February 10, 2005, the California Attorney General and the California Commissioner of Insurance filed a complaint in California Superior Court for the County of Los Angeles against certain of the Company s subsidiaries, including Family First Advanced Estate Planning and Family First Insurance Services, and certain third parties alleging conduct similar to that alleged in the class actions. The complaint alleges, among other things, that the defendants engaged in the unauthorized practice of law, claims related to the suitability of the products for, and the manner in which they were sold to, the senior citizen market and other violations of California s insurance laws. The plaintiffs seek civil penalties, restitution, injunctive relief and other relief

and damages. The Company believes it has appropriate defenses against these lawsuits and intends to vigorously defend its position.

The Company s pending litigation (including without limitation the proceedings described in the immediately preceding paragraph) is subject to many uncertainties, and given its complexity and scope, the outcomes cannot be predicted. Given these uncertainties, the Company is unable to estimate the possible loss or range of loss that may result from the Company s pending litigation. It is possible that the Company s results of operations or cash flow in a particular quarterly or annual period could be materially affected by an ultimate unfavorable resolution of pending litigation and regulatory matters depending, in part, upon the results of operations or cash flow for such period. Although no assurances can be given and no determinations can be made at this time, the Company believes that the ultimate liability, if any, with respect to the Company s pending claims and legal actions, would have no material effect on its operations and financial position.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed and traded on the New York Stock Exchange (NYSE) under the symbol AMH. The following table sets forth, for the periods indicated, the high and low sales prices per share of AmerUs Group Co. common stock as quoted on the NYSE and the dividends per share declared during such quarter.

	AmerUs Common Stock		
	High	Low	Dividends
2003			
First Quarter	$30.70	$22.94	$0.00
Second Quarter	$28.41	$24.44	$0.00
Third Quarter	$35.89	$27.70	$0.00
Fourth Quarter	$38.00	$34.48	$0.40
2004			
First Quarter	$41.00	$34.73	$0.00
Second Quarter	$41.70	$36.73	$0.00
Third Quarter	$41.51	$37.31	$0.00
Fourth Quarter	$45.68	$38.60	$0.40

Holders

As of March 3, 2005, the number of holders of record of each class of common equity was as follows:

	Number of Holders
Common stock	106,256

Recent Sales of Unregistered Securities

On March 6, 2002, we issued and sold in a private placement $185 million aggregate original principal amount of optionally convertible equity-linked accreting notes (OCEANs). The OCEANs are senior subordinated debt and were issued and sold in an original principal amount of

$1,000 per OCEAN, with a

principal amount at maturity of $1,270 per OCEAN. On December 15, 2004, the Company exchanged the existing OCEANs, which were previously all convertible into shares of the Company s common stock, into new OCEANs which are convertible into a combination of cash and shares of common stock. The exchanged OCEANs are convertible if the sale price of the common stock exceeds $47.85 per share for at least 20 trading days in a 30 day period or in certain other limited circumstances. Upon conversion, cash is to be paid equal to the accreted principal amount and shares are to be issued for the difference between the total conversion value and the accreted principal amount. The total conversion value generally is equal to the lesser of the accreted principal amount or $1,100 divided by an initial conversion (subject to adjustment) of $37.60 per share multiplied by the volume weighted average price of the Company s common stock for the ten day trading period before conversion. The maturity date of the OCEANs is March 6, 2032. The OCEANs will have an aggregate principal amount at maturity of $235 million. Each $1,000 original principal amount OCEAN was exchanged for an equal original principal amount OCEAN and an exchange fee of $2.50. All of the $185 million existing OCEANs were exchanged for the new OCEANs.

The offer to exchange the OCEANs was exempt from the registration requirements of the Securities Act of 1933, as amended (the Securities Act). We relied on section 3(a)(9) of the Securities Act which provides an exemption from registration for exchanges of securities by an issuer with its existing security holders exclusively where no commission or other remuneration is paid or given directly or indirectly for soliciting such an exchange.

Issuer Purchases of Equity Securities

The following table sets forth information regarding purchases of equity securities for 2004:

Period	(a) Total number of shares (or units) purchased(1)	(b) Average price paid per share (or units)	(c) Total number of shares (or units) purchased as part of publicly announced plans or programs	(d) Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs(2)
01/01/2004-01/31/2004		$		2,271,900
02/01/2004-02/29/2004				2,271,900
03/01/2004-03/31/2004				2,271,900
04/01/2004-04/30/2004				2,271,900
05/01/2004-05/31/2004	244,400(2)	37.45	244,400	2,027,500
06/01/2004-06/30/2004				2,027,500
07/01/2004-07/31/2004				2,027,500
08/01/2004-08/31/2004				2,027,500
09/01/2004-09/30/2004				2,027,500
10/01/2004-10/31/2004				2,027,500
11/01/2004-11/30/2004				2,027,500
12/01/2004-12/31/2004				2,027,500
Total	244,400	$37.45	244,400	

(1) Does not include shares withheld from employee stock awards to satisfy applicable tax withholding obligations.

(2) In August 2002, our board of directors authorized a repurchase program of up to 3 million shares of our outstanding common stock. There is no expiration date for this program.

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Equity Compensation Plan Information

The following table sets forth information regarding our equity compensation plans as of December 31, 2004:

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	4,217,685	$24.38	1,076,030
Equity compensation plans not approved by security holders(1)	78,400	31.16	21,600
Total	4,296,085	$24.51	1,097,630

(1) Includes stock appreciation rights under the Non-Employee Plan which may be paid in cash or Company common stock. The Company s practice has been to pay such awards in cash on exercise thereof.

Equity Compensation Plans not Approved by Security Holders

On February 12, 1999, the Company adopted the AmerUs Group Co. Non-Employee Stock Option Plan (Non-Employee Plan) to give agents of the Company and/or its subsidiaries who make significant contributions to the success of the Company and/or its subsidiaries an interest in the Company s performance. Under the Non-Employee Plan, participants may receive stock options and/or stock appreciation rights. On exercise of stock appreciation rights, a participant may be paid in cash or stock, at the discretion of the Company.

Dividends

We have declared and paid an annual dividend of $0.40 per share of common stock in 2002 through 2004. The declaration and payment of dividends in the future is subject to the discretion of the Board of Directors and will be dependent upon the financial condition, results of operations, cash requirements, future prospects, regulatory restrictions on the payment of dividends by the life insurance subsidiaries and other factors deemed relevant by the Board of Directors.

Under our revolving credit agreement, we are prohibited from paying dividends on common stock in excess of an amount equal to 3% of the consolidated net worth as of the last day of the preceding fiscal year.

In connection with the 8.85% Capital Securities, Series A (the Capital Securities), issued in 1997 by AmerUs Capital I, a subsidiary trust, we have agreed not to declare or pay any dividends on the Company s capital stock (including the common stock) during any period for which we elect to extend interest payments on our junior subordinated debentures, except for stock dividends where the dividend stock is the same stock as that on which the dividend is being paid. Dividends on our capital stock cannot be paid until all accrued interest on the Capital Securities has been paid. The Capital Securities have an outstanding principal balance of $50.8 million at December 31, 2004.

In connection with the OCEANs, we have agreed, with certain limited exceptions, not to declare or pay dividends on or make distributions with respect to our capital stock during any period in which we have deferred stated interest on the OCEANs.

On May 28, 2003, we issued $125 million of PRIDES[SM.] In connection with the PRIDES, we have agreed, with certain limited exceptions, not to declare or pay dividends on or make distributions with respect to our capital stock during any period in which we have deferred contract adjustment payments to holders of the PRIDES.

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As a holding company, our principal assets consist of all of the outstanding shares of the common stock of our life insurance subsidiaries. Our ongoing ability to pay dividends to shareholders and meet other obligations, including operating expenses and any debt service, primarily depends upon the receipt of sufficient funds from our life insurance subsidiaries in the form of dividends or interest payments.

Based on statutory insurance regulations and 2003 results, our insurance subsidiaries could have paid approximately $77 million in dividends in 2004 without obtaining regulatory approval. Our subsidiaries paid to us approximately $15 million in dividends in 2004. Based on 2004 results, our subsidiaries can pay an estimated $186 million in dividends in 2005 without obtaining regulatory approval.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth certain financial and operating data of the Company.

	As of or for the Year Ended December 31,				
	2004	2003	2002	2001(A)	2000
	($ in millions, except share data)				
Consolidated Income Statement Data:					
Revenues:					
Insurance premiums	$ 267.7	$ 297.2	$ 351.3	$ 305.9	$ 266.2
Product charges	220.5	181.4	144.5	146.1	99.9
Net investment income	1,037.4	1,001.9	1,001.3	873.2	699.5
Realized/unrealized capital gains (losses)	18.1	131.3	(149.9)	(90.6)	(29.0)
Other income	71.4	68.3	68.5	45.7	35.0
Total revenues	1,615.1	1,680.1	1,415.7	1,280.3	1,071.6
Benefits and expenses:					
Policyowner benefits	888.7	953.9	879.8	757.5	627.4
Total insurance and other expenses	385.0	358.4	316.4	278.6	224.5
Dividends to policyowners	81.1	98.4	104.9	98.9	74.3
Total benefits and expenses	1,354.8	1,410.7	1,301.1	1,135.0	926.2
Income from continuing operations	260.3	269.4	114.6	145.3	145.4
Interest expense	32.1	30.2	25.5	26.0	29.7
Income before tax expense and minority interest	228.2	239.2	89.1	119.3	115.7
Income tax expense	39.0	78.6	28.3	39.5	42.5
Minority interest					21.7
Net income from continuing operations	189.2	160.6	60.8	79.8	51.5
Discontinued operations (net of tax):					
Income (loss) from discontinued operations		1.8	2.1	1.3	0.3
Gain on sale of discontinued operations	3.9				
Net income before cumulative effect of change in accounting	193.1	162.4	62.9	81.1	51.8
Cumulative effect of change in accounting, net of tax	(0.5)	(1.3)		(8.2)	

Net income	$ 192.6	$ 161.1	$ 62.9	$ 72.9	$ 51.8

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	As of or for the Year Ended December 31,				
	2004	2003	2002	2001(A)	2000
	($ in millions, except share data)				
Net income from continuing operations per share(B):					
Basic	$ 4.81	$ 4.10	$ 1.52	$ 2.16	$ 2.46
Diluted	$ 4.60	$ 4.05	$ 1.50	$ 2.13	$ 2.44
Weighted average number of shares outstanding (in millions)(B):					
Basic	39.3	39.2	40.0	36.9	20.9
Diluted	41.1	39.6	40.4	37.5	21.0
Dividends declared per common share	$ 0.40	$ 0.40	$ 0.40	$ 0.40	$ 0.40
Consolidated Balance Sheet Data:					
Total invested assets	$19,186.3	$17,984.3	$16,932.5	$15,052.4	$ 9,606.8
Total assets	$23,170.9	$21,583.7	$20,293.7	$18,299.2	$11,471.5
Notes payable	$ 571.2	$ 621.9	$ 511.4	$ 384.6	$ 413.3
Total liabilities	$21,547.4	$20,173.9	$19,030.7	$17,060.6	$10,643.5
Total stockholders equity	$ 1,623.5	$ 1,409.8	$ 1,262.9	$ 1,238.5	$ 828.0
Other Operating Data:					
Ratio of earnings to fixed charges(C)	1.40	1.40	1.19	1.33	1.28

(A) Financial data for 2001 includes the results for ILICO, subsequent to the acquisition date of May 18, 2001.

(B) Our predecessor, AMHC, was originally formed in 1996 as a mutual holding company and therefore, had no shares of common stock outstanding until its demutualization on September 20, 2000. On September 20, 2000, we distributed 17.4 million shares of common stock to our former members and exchanged our common stock for the 12.6 million shares of common stock held by the public in ALHI, our former subsidiary and another of our predecessor entities, on a one-for-one basis. Our operating income for 2000 presented above primarily reflects the operating income of ALHI. Therefore, net income from continuing operations per share was calculated based on the number of shares of stock we owned of ALHI through September 20, 2000. Since then, net income from continuing operations per share has been calculated based on the shares of our common stock actually outstanding.

(C) For purposes of computing the ratio of earnings to fixed charges, earnings consist of income from operations before income taxes and fixed charges. Fixed charges consist of interest credited on annuity and universal life contracts and interest expense on debt and amortization of debt expense.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following analysis of the consolidated financial condition and results of operation of AmerUs Group Co. should be read in conjunction with the Selected Financial Data and Consolidated Financial Statements and related notes. We are incorporating by reference Item 1. Business information into Management s Discussion and Analysis of Financial Condition and Results of Operations section.

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Nature of Operations

See Item 1 Business for information regarding the nature of our operations.

Financial Highlights

Our financial highlights are as follows:

	For The Years Ended December 31,		
	2004	2003	2002
	($ in thousands, except share data)		
Segment pre-tax operating income:			
Protection Products	$ 140,212	$ 128,290	$ 129,739
Accumulation Products	163,883	130,890	120,655
Other operations	(19,309)	(7,725)	(6,622)
Total segment pre-tax operating income	284,786	251,455	243,772
Non-segment expense, net(A)	92,144	90,308	180,906
Net income	$ 192,642	$ 161,147	$ 62,866
Diluted net income per share	$ 4.68	$ 4.07	$ 1.56
Total assets	$23,170,869	$21,583,688	$20,293,665
Stockholders equity	$ 1,623,469	$ 1,409,811	$ 1,262,948

(A) Non-segment expense, net consists primarily of open block realized/unrealized gains and losses, derivative related market value adjustments, reinsurance adjustments, non-insurance operations, restructuring costs, interest expense, income taxes, discontinued operations and cumulative effect of change in accounting.

Operating segment income increased for the protection products segment in 2004 compared to 2003 primarily as a result of increased open block margins and lower operating expenses. Operating segment income decreased for the protection products segment in 2003 compared to 2002 primarily as a result of lower net investment income and the continued decrease in closed block operating income. The continued shift in our business from traditional fixed annuities to higher margin equity indexed annuities and more assets under management increased accumulation products segment earnings in 2004 and 2003 compared to the respective years. The increased operating segment income in 2004 for the protection products and accumulation products segments was partially reduced by higher other operations losses resulting primarily from additional holding company expenses.

Net income increased in 2004 compared to 2003 primarily as a result of higher operating segment income, reductions in income tax accruals and deferred income tax asset valuation allowances, and the gain on the sale of our residential financing subsidiary. The increase was partially offset by realized and unrealized losses on assets. Net income increased in 2003 compared to 2002 primarily due to increased realized gains on open block investments and increased net unrealized gains from market value adjustments on trading securities, derivatives and equity indexed contracts.

Total assets increased $1.6 billion in 2004 primarily as a result of net cash received from collected premiums and deposits, positive cash flows from operating activities and the utilization of securities lending and borrowing arrangements. Liabilities increased primarily due to policy reserves and policyowner funds which increased due to the higher volume of insurance in force and additional securities lending and borrowing arrangements. Stockholders equity increased $213.7 million during 2004 primarily as a result of 2004 net income of $192.6 million, stock issued under incentive plans amounting to $15.8 million and additional unrealized gains on available-for-sale investments of $34.0 million. The

unrealized gains included in accumulated other comprehensive income are presented after related adjustments to DAC, VOBA,

capitalized bonus interest, closed block policyowner dividend obligation, unearned revenue reserves and deferred income taxes. The additions to equity were reduced by treasury stock purchases which decreased equity $9.2 million and dividends declared in the fourth quarter of 2004 which decreased equity $15.7 million.

Segment Income

We have two operating segments: Protection Products and Accumulation Products. We use the same accounting policies and procedures to measure operating segment income as we use to measure consolidated income from operations with the exception of the elimination of certain items which management believes are not necessarily indicative of overall operating trends. These items are as follows:

1) Realized/unrealized gains and losses on open block assets.

2) Market value changes and amortization of assets and liabilities associated with the accounting for derivatives, such as:

Unrealized gains and losses on open block options and securities held for trading.

Change in option value of equity indexed products and market value adjustments on total return strategy annuities.

Cash flow hedge amortization.

3) Amortization of deferred policy acquisition costs (DAC) and value of business acquired (VOBA) related to the unrealized and realized gains and losses on the open block investments and the derivative adjustments.

4) Demutualization costs.

5) Restructuring costs.

6) Certain reinsurance adjustments.

7) Other income from non-insurance operations.

8) Interest expense.

9) Income tax expense.

10) Income from discontinued operations.

11) Cumulative effect of changes in accounting.

These items will fluctuate from period to period depending on the prevailing interest rate and economic environment or are not part of the core insurance operations. As a result, management believes they do not reflect the ongoing earnings capacity of our operating segments.

Protection Products

Our protection products segment primarily consists of interest-sensitive whole life, term life, universal life and equity indexed life insurance policies. These products are marketed on a national basis primarily through CMOs, PPGA system and IMOs. Included in the protection products segment is the closed block of ALIC and the closed block of ILIC, established when the companies reorganized from mutual companies to stock companies. When protection products are sold, we invest the premiums we receive in our investment portfolio and establish a liability representing our commitment to the policyholder. We manage investment spread by seeking to maximize the return on these invested assets, consistent with our asset/liability and credit quality policies. We enter into reinsurance arrangements in order to reduce the effects of mortality risk and the statutory capital strain from writing new business. All income statement line items are presented net of reinsurance amounts. Protection products in force totaled $97.5 billion at December 31, 2004, $98.6 billion at December 31, 2003 and $88.0 billion at December 31, 2002. Protection products in force is a performance

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measure utilized by investors, analysts and the Company to assess the Company s position in the industry. A summary of our protection products segment operations follows:

	For The Years Ended December 31,		
	2004	2003	2002
	($ in thousands)		
Revenues:			
Insurance premiums	$263,050	$290,707	$341,602
Product charges	167,585	138,215	103,145
Net investment income	333,477	321,532	335,111
Realized gains (losses) on closed block investments	(1,693)	9,326	(2,400)
Other income	3,573	4,224	4,026
Total revenues	765,992	764,004	781,484
Benefits and expenses:			
Policyowner benefits	379,749	387,068	403,293
Underwriting, acquisition and other expenses	73,750	76,042	80,319
Amortization of DAC and VOBA, net of open block gain/loss adjustment	91,193	74,211	63,267
Dividends to policyowners	81,088	98,393	104,866
Total benefits and expenses	625,780	635,714	651,745
Pre-tax operating income Protection Products segment	$140,212	$128,290	$129,739

Pre-tax operating income from our protection products increased 9% in 2004 and decreased 1% in 2003 compared to the respective prior years. The increase in 2004 was primarily due to higher open block product margins and lower operating expenses. Higher product margins increased open block operating income in 2003 compared to 2002; however, the declining closed block glide path (see Dividends to Policyowners for additional information) offset the open block operating income. The key drivers of our protection products business include sales, persistency, net investment income, mortality and expenses.

Sales, Premiums and Product Charges. Sales are a key driver of our business as they are a leading indicator of future revenue trends to emerge in segment operating income. As shown in the Sales Activity by Product table presented in Item 1 Business Protection Products Segment, direct first year annualized premiums increased 5% in 2004 compared to 2003 and decreased 9% in 2003 compared to 2002. The increase in 2004 resulted from higher equity indexed life product sales as we continue to focus our marketing efforts on this product. The equity indexed life product allows the policyowner to elect an earnings strategy for a portion of the account value whereby earnings are credited based primarily on increases in the S&P 500 Index, excluding dividends. The earnings credit is subject to a participation rate and an annual cap. Sales of equity indexed life products were $74.6 million in 2004 as compared to $51.6 million in 2003 and $45.8 million in 2002. We are the leading writer of equity indexed life products in the United States. The increase in 2004 was partially offset by decreased traditional and universal life insurance product sales due to our continued shift in sales focus to equity indexed products and uncertainty in government tax policy and regulation. The decrease in 2003 resulted from lower traditional and universal life insurance product sales as we re-priced our products and discontinued our par whole life product. The lower traditional and universal sales were partially offset by increased equity indexed life sales.

We recognize premiums on traditional life insurance policies as revenues when the premiums are due. Amounts received as payments for universal life and equity indexed life insurance policies are not recorded as premium revenue, but are instead recorded as a policyholder liability. Revenues from the universal life and equity indexed life policies consist of charges for the cost of insurance, policy administration and policy surrender and are shown as product charges. All revenue is reported net of reinsurance ceded.

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Insurance premium revenue in 2004 and 2003 was lower than the respective prior years primarily due to lower sales of traditional products, additional premiums ceded and a decline in closed block in force business.

Persistency. Persistency, which we measure in terms of a lapse rate, is a key driver of our business as it refers to the policies which remain in our block of business. A low lapse rate means higher persistency indicating more business is remaining in force to generate future revenues. Annualized lapse rates were 6.7% in 2004 compared to 6.5% in 2003 and 7.3% in 2002. Our persistency experience remained within our pricing assumptions.

Net Investment Income. Net investment income is a key driver of our business as it reflects earnings on our invested assets. Net investment income increased in 2004 and decreased in 2003 compared to the respective prior years. The increase in 2004 was primarily due to growth in average protection products assets which were approximately $318 million higher than 2003. The decrease in net investment income in 2003 was due to low interest rates and increased prepayments of mortgage-backed securities. The earned rate of the investment portfolio was 6.44% in 2004 compared to 6.63% in 2003 and 7.22% in 2002. The decrease in rates in 2004 and 2003 was primarily a result of the continued low interest rate environment.

Mortality and Benefit Expense. Mortality is a key driver of our business as it impacts the amount of our benefit expense. We utilize reinsurance to reduce the effects of mortality risk. Although we experienced unfavorable mortality in 2004 as compared to 2003, our experience remained within our pricing assumptions. In addition, we had increased reinsurance recoveries in 2004 and 2003, which reduce benefit expense, as a result of additional reinsurance arrangements.

Underwriting, Acquisition and Other Expenses. Underwriting, acquisition and other expenses are a key driver of our business as they are costs of our operations. Expenses decreased in 2004 and 2003 compared to the respective prior years primarily due to lower operating expenses resulting from the restructuring activities that took place in 2003 and prior years to integrate the ILICO life operations and also due to increased reimbursement from reinsurers of non-deferrable commission and expense allowances, as more policies are subject to reinsurance.

Amortization of DAC and VOBA. The amortization of DAC and VOBA are expense items which increased in 2004 and 2003 as compared to the respective prior years. DAC and VOBA are generally amortized in proportion to policy gross margins which increased in both years, resulting in higher amortization expense.

Dividends to Policyowners. In addition to basic policyowner dividends, dividend expense includes increases or decreases to the closed block policyowner dividend obligation liability carried on the consolidated balance sheet. The actual results of the closed block are adjusted to equal the expected earnings based on the actuarial calculation at the time of formation of the closed block (which we refer to as the closed block glide path). The adjustment to have the closed block operating results equal the closed block glide path is made to dividend expense. If the actual results for the period exceed the closed block glide path, increased dividend expense is recorded as a policyowner dividend obligation to reduce the actual closed block results. For actual results less than the closed block glide path, dividend expense is reduced to increase the actual closed block results. As a result of this accounting treatment, operating earnings from the closed block only include the predetermined closed block glide path.

Dividend expense decreased for 2004 and 2003 compared to the respective prior years. The decreases were primarily due to reduced closed block earnings, resulting from lower closed block revenues and net investment income as the closed block in force business continues to decline, and from closed block dividend reductions.

Outlook. We expect to continue to shift our sales to higher return products, in particular the equity indexed life products. We also expect to continue to realize operating efficiencies as we continue to centralize our administrative functions.

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Accumulation Products

Our accumulation products segment primary offerings consist of individual fixed annuities and funding agreements. The fixed annuities are marketed on a national basis primarily through IMOs and independent brokers. Similar to our protection products segment, we invest the premiums we receive from accumulation product deposits in our investment portfolio and establish a liability representing our commitment to the policyowner. We manage product spread by seeking to maximize the return on our invested assets consistent with our asset/liability management and credit quality policies. When appropriate, we periodically reset the interest rates credited to our policyowner liability. Accumulation products reserves totaled $12.3 billion at December 31, 2004, $11.7 billion at December 31, 2003 and $11.3 billion at December 31, 2002. A summary of our accumulation products segment operations follows:

	For the Years Ended December 31,		
	2004	2003	2002
		($ in thousands)	
Revenues:			
Immediate annuity and supplementary contract premiums	$ 2,602	$ 4,114	$ 8,702
Product charges	52,969	43,139	41,349
Net investment income	697,363	672,141	660,470
Other income	10,730	11,635	11,778
Total revenues	763,664	731,029	722,299
Benefits and expenses:			
Policyowner benefits	472,208	491,932	498,294
Underwriting, acquisition and other expenses	27,225	29,423	34,040
Amortization of DAC and VOBA	104,602	89,196	83,407
Dividends to policyowners	4		
Total benefits and expenses	604,039	610,551	615,741
IMO Operations:			
Other income	53,482	50,214	48,642
Other expenses	49,224	39,802	34,545
Net IMO operating income (loss)	4,258	10,412	14,097
Pre-tax operating income Accumulation Products segment	$163,883	$130,890	$120,655

Pre-tax operating income from our accumulation products operations increased 25% in 2004 and 8% in 2003 compared to the respective prior years. The 2004 increase was primarily due to higher assets under management and improved product spreads. The 2003 increase was primarily due to higher assets under management which were reduced by decreased product spreads. The increases for both years were partially offset by lower contributions from IMO operations. The drivers of profitability in our accumulation products business are deposits, persistency, product spread, expenses and IMO operations.

Deposits. Deposits are a key driver of our business as this is a measure which represents collected premiums to be deposited to policyowner accounts for which we will earn a future product spread. Deposits are presented as collected premiums, which are measured in accordance with industry practice, and represent the amount of new business sold during the period. Deposits are a performance metric which we use to measure the productivity of our distribution network and for compensation of sales and marketing employees and agents. As shown in the Deposits by Product table presented in Item 1 Business Accumulation Products Segment, total annuity deposits increased 5% in 2004 compared to 2003 and decreased 2% in 2003 as compared to 2002. The increase in 2004 was driven by our promotion of equity indexed products. The decrease in 2003 was primarily a result of the slowing of our traditional annuity sales due to the low interest rate

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environment as we focused sales on our higher returning equity indexed products. The reduced traditional annuity sales offset the increase in equity indexed products.

We placed fixed rate funding agreements totaling $85 million in 2004 and $875 million in 2002. Funding agreements are insurance contracts for which we receive deposit funds and for which we agree to repay the deposit and a contractual return for the duration of the contract. In December 2003, a $250 million funding agreement originally placed in 1999 was terminated. Total funding agreements outstanding as of December 31, 2004 amounted to $960 million compared to $875 million outstanding at December 31, 2003.

The deposits we receive on accumulation products are not recorded as revenue but instead as a policyowner liability. Surrender charges collected on accumulation products are recorded as revenue and shown as a product charge. Product charges increased in 2004 and 2003 as compared to the respective prior years due to the growth in the business.

Persistency. Persistency, which we measure in terms of a withdrawal rate, is a key driver of our business as it refers to the policies which remain in our block of business. A low withdrawal rate reflects higher persistency indicating more business is remaining in force to generate future revenues. Withdrawals represent funds taken out of accumulation products by policyowners not including those due to the death of policyowners. Annuity withdrawal rates without internal replacements continued to improve in 2004 as compared to 2003 and 2002 and amounted to 8.5%, 9.5% and 10.6%, respectively. Annuity withdrawals without internal replacements totaled $1,118.1 million in 2004, $1,196.9 million in 2003 and $1,288.2 million in 2002. Our withdrawal experience remained within our pricing assumptions.

Product Spread. Product spread is a key driver of our business as it measures the difference between the income earned on our invested assets and the rate which we credit to policyowners, with the difference reflected as segment operating income. Asset earned rates and liability crediting rates were as follows for our annuity products:

	For The Years Ended December 31,		
	2004	**2003**	**2002**
Asset earned rate	5.78%	5.91%	6.58%
Liability credited rate	3.55%	3.93%	4.48%
Product spread	2.23%	1.98%	2.10%

The product spread increased 25 basis points to 223 basis points in 2004 compared to 2003 and decreased 12 basis points to 198 basis points in 2003 compared to 2002. Liability crediting rates on traditional annuities were lowered throughout 2003 and 2004 to correspond with the decline in investment yields caused by lower rates on new and reinvested funds. As described in the Traditional Annuity Products and Equity Indexed Annuities sections presented in Item 1 Business Accumulation Products Segment, the annuity products have various differentials between the credited rate and minimum guarantee rate, including some which have no differential, and as such cannot be lowered. Additionally, some traditional annuities have multi-year interest rate guarantees for which the credited rate cannot be decreased until the end of the multi-year period. Due to these limitations on the ability to lower interest crediting rates and the potential for credit defaults and lower reinvestment rates on investments, we could experience spread compression in future periods.

We also earn a spread on our funding agreements. Funding agreement income less associated interest expense totaled $6.8 million in 2004, $11.1 million in 2003, and $6.1 million in 2002. The 2004 decrease was due to the termination of a $250 million funding agreement during the fourth quarter of 2003. The 2003 increase was due to the $875 million of funding agreements placed throughout 2002.

Underwriting, Acquisition and Other Expenses. Underwriting, acquisition and other expenses are a key driver of our business as they represent costs of our operations. Expenses in 2004 and 2003 decreased compared to the respective prior years due primarily to continued process improvements to enhance operating efficiencies and lower fees associated with a declining block of annuity business processed by a third party administrator.

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IMO Operations. IMO operations are a key driver of our business as the earnings from the IMOs can be a significant component of the accumulation products segment operating income. IMOs have contractual arrangements to promote our insurance products in their networks of agents and brokers. Additionally, they also contract with third party insurance companies. We own five such IMOs. The income from IMO operations primarily represents annuity commissions received by our IMOs from those third party insurance companies. Net IMO operating income decreased $6.2 million in 2004 and $3.7 million in 2003 compared to the respective prior years due to changes in distribution strategies and higher operating expenses, including litigation costs in 2004.

Outlook. We anticipate increased product sales from our IMOs but decreased product sales from other distribution channels as we manage our sales in this current low interest rate environment. We also expect to continue the shift of our product mix to higher return products, in particular the equity indexed annuity products. We will continue to manage our spreads as we strive for our desired profitability in this economic environment.

Other

The other operations consist of our non-core lines of business outside of protection and accumulation products. These lines of business include holding company revenues and expenses, operations of our real estate management subsidiary, and accident and health insurance. The pre-tax operating loss of our other operations increased in 2004 compared to 2003 primarily due to increased holding company expenses, such as Sarbanes-Oxley internal control regulations, the OCEANs exchange and succession activities in 2004, and lower investment income of our real estate management subsidiary.

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Income Statement Reconciliation

A reconciliation of our segment pre-tax operating income to net income as shown in our consolidated statements of income follows:

	For the Years Ended December 31,		
	2004	2003	2002
		($ in thousands)	
Segment pre-tax operating income:			
Protection Products	$ 140,212	$ 128,290	$ 129,739
Accumulation Products	163,883	130,890	120,655
Other operations	(19,309)	(7,725)	(6,622)
Total segment pre-tax operating income	284,786	251,455	243,772
Non-segment items increases (decreases) to income:			
Realized and unrealized gains (losses) on assets and liabilities:			
Realized/unrealized gains (losses) on open block assets	(36,786)	32,196	(102,310)
Unrealized gains (losses) on open block options and trading investments	56,547	89,769	(45,209)
Change in option value of equity indexed products and market value adjustments on total return strategy annuities	(35,652)	(65,741)	28,759
Cash flow hedge amortization	(908)	(3,827)	(4,351)
Amortization of DAC and VOBA due to open block realized/unrealized gains and losses	(9,068)	(16,257)	15,002
Reinsurance adjustments		3,854	
Demutualization costs			(1,186)
Restructuring costs		(23,294)	(21,225)
Other income from non-insurance operations	1,495	1,237	1,392
Income from continuing operations	260,414	269,392	114,644
Interest expense	(32,120)	(30,154)	(25,487)
Income tax expense	(39,041)	(78,610)	(28,375)
Net income from continuing operations	189,253	160,628	60,782
Income from discontinued operations, net of tax	3,899	1,815	2,084
Cumulative effect of change in accounting, net of tax	(510)	(1,296)	
Net income	$ 192,642	$ 161,147	$ 62,866

Realized and Unrealized Gains (Losses) on Assets and Liabilities. Realized gains (losses) on open block investments will fluctuate from period to period depending on the prevailing interest rates, the economic environment and the timing of investment sales and credit events. As part of managing our invested assets, we routinely sell securities and realize gains and losses. During 2004, we sold our Indianapolis, Indiana office building. We had previously listed this building with a real estate broker in 2003 as part of our restructuring plan and recorded a pre-tax impairment loss of $7.7 million at that time (see further discussion in Restructuring Costs). The sale of the building in 2004 resulted in a pre-tax loss of $11.8 million. Realized gains on open block investments in 2003 included $12.1 million of gains on sales of investments previously impaired and written-down in 2002 or 2003, primarily American Airlines, Dynegy Holdings, Intermedia Communications and NRG Northeast Generating. Realized gains (losses) on open block investments in 2002 consisted primarily of realized losses and writedowns on investments related to Dynegy Holdings, Green Tree Financial, National Century, NRG Northeast Generating, Trenwick Group, United Airlines, US Air and WorldCom Inc.

Unrealized gains (losses) on open block options and trading investments also will fluctuate from period to period depending on prevailing interest rates, the economic environment, the timing of investment sales and credit events. We use options to hedge our equity indexed products. In accounting for derivatives, we adjust our options to market value, which, due to the economic environment and stock market conditions, resulted in an unrealized gain of $48.0 million in 2004, an unrealized gain of $62.9 million in 2003 and an unrealized loss of $40.0 million in 2002. In addition, we also have trading securities that back our total return strategy traditional annuity products. The market value adjustment on the trading securities resulted in an unrealized gain of $8.5 million in 2004, a gain of $26.8 million in 2003 and a loss of $5.2 million in 2002. Most of the unrealized gains and losses on the options and trading securities are offset by similar adjustments to the option portion of the equity indexed product reserves and to the total return strategy annuity reserves. The reserve adjustments are reflected in policyowner benefits expense in the consolidated statements of income and are included in the fair value change as additional expense of $35.7 million in 2004 and $65.7 million in 2003, and reduced expense of $28.8 million in 2002.

The fair value change in options embedded within our equity indexed products and the fair value changes on our total return strategy traditional annuity contracts are being recorded at fair value. As previously discussed, these fair value changes are offset by similar adjustments to unrealized gains (losses) on investments related to the fair value changes on the options that hedge the equity indexed products and on the trading securities that back the total return strategy products.

Reinsurance Adjustments. Reinsurance related adjustments in 2003 consist of the release of an $8.2 million liability in conjunction with the settlement and amendment of a reinsurance arrangement and a $4.3 million true-up of pre-2003 reinsurance settlements under a reinsurance arrangement between ILIC s open block and closed block.

Demutualization Costs. The 2002 demutualization costs are primarily for commissions, postage and printing under a commission-free program required by ILIC s demutualization which allowed shareholders with less than one hundred shares to redeem their shares for cash or to purchase additional shares, commission-free, to reach a holding of at least one hundred shares. Since these costs are not ongoing, they have been excluded from our segment results.

Restructuring Costs. Restructuring costs relate to our consolidation of various functions in connection with a restructuring of our protection products and accumulation products operations and investment activities which began in the third quarter of 2001. The objective of the restructuring plan was to eliminate duplicative functions for all business units and to reduce on-going operating costs. Corporate administrative functions were transitioned so they are performed primarily in Des Moines, Iowa. Protection products administration processes were transitioned so they are performed in Des Moines; Woodbury, New York; or outsourced. Accumulation products functions were transitioned to Topeka, Kansas. Investment activities were restructured to eliminate certain real estate management services which have been outsourced.

The restructuring charges expensed in 2003 included pre-tax severance and termination benefits of $3.0 million related to the termination of approximately ten positions and for severance accrual adjustments and other pre-tax costs of $20.3 million primarily related to the impairment loss on the Indianapolis office building, expenses associated with the merger of IL Annuity into ILIC, and systems conversion costs. The restructuring charges expensed in 2002 included pre-tax severance and termination benefits of $9.5 million related to the elimination of approximately 240 positions and other pre-tax costs of $11.7 million primarily related to systems conversion and relocation of employees. Charges for all restructuring activities were completed in 2003.

Interest Expense. Interest expense increased in 2004 and 2003 as compared to the respective prior years. The increases were primarily due to interest associated with the PRIDES securities of $143.8 million issued in the second quarter of 2003.

Income Tax Expense. The effective income tax rate for 2004 varied from the prevailing corporate rate primarily as a result of reductions in the income tax accrual and deferred tax asset valuation allowances. The accrual reduction amounting to $3.7 million in 2004 represents an overpayment of tax in prior years for which

a refund is expected. There were also accrual reductions of $16.7 million in 2004, for the release of provisions originally established for potential tax adjustments which have been settled or eliminated. In addition, the deferred tax asset valuation allowance was reduced $16.4 million in 2004 as a result of the realization of capital loss carry forwards. The effective income tax rate for 2003 and 2002 varied from the prevailing corporate rate primarily due to tax exempt income.

Discontinued Operations. In November 2003, we entered into an agreement to sell our residential financing operations. The results of the residential financing operations have been classified as discontinued operations. The sale was completed in January 2004, resulting in an after-tax gain of $3.9 million.

Change in Accounting. Effective January 1, 2004, we adopted Statement of Position 03-1 (SOP 03-1), Accounting and Reporting by Insurance Enterprises for Certain Non-Traditional Long Duration Insurance Contracts and for Separate Accounts, resulting in the establishment of additional policy reserve liabilities for fees charged for insurance benefit features which are assessed in a manner that is expected to result in profits in earlier years and losses in subsequent years. The total effect of adopting SOP 03-1 (including reinsurance recoverables) as of January 1, 2004, amounted to a decrease of $0.8 million ($0.5 million after-tax) in net income which has been reflected as a cumulative effect of a change in accounting.

The Financial Accounting Standards Board s Derivatives Implementation Group issued SFAS 133 Implementation Issue No. B36, Embedded Derivatives: Bifurcation of a Debt Instrument that Incorporates both Interest Rate Risk and Credit Risk Exposures that are Unrelated or Only Partially Related to the Creditworthiness of the Issuer of that Instrument, or DIG Issue B36. DIG Issue B36 applies to modified coinsurance and coinsurance with funds withheld arrangements where interest is determined by reference to a pool of fixed maturity assets or a total return debt index. DIG Issue B36 considers the reinsurer s receivable from the ceding company to contain an embedded derivative that must be bifurcated and accounted for separately under SFAS 133. We adopted DIG Issue B36 on October 1, 2003, which included the reclassification of certain securities supporting the products being reinsured from available-for-sale to held for trading. The net cumulative effect of the change in accounting for DIG Issue B36 after income taxes was an expense of $1.3 million in 2003.

Liquidity and Capital Resources

AmerUs Group Co.

As a holding company, AmerUs Group Co. s cash flows from operations consist of dividends from subsidiaries, if declared and paid, interest from income on loans and advances to subsidiaries (including a surplus note issued to us by ALIC), investment income on our assets and fees which we charge our subsidiaries, offset by the expenses incurred for debt service, salaries and other expenses.

The payment of dividends by our insurance subsidiaries is regulated under various state laws. Generally, under the various state statutes, our insurance subsidiaries dividends may be paid only from the earned surplus arising from their respective businesses and must receive the prior approval of the respective state regulator to pay any dividend that would exceed certain statutory limitations. The current statutes generally limit any dividend, together with dividends paid out within the preceding 12 months, to the greater of (i) 10% of the respective company s policyowners statutory surplus as of the preceding year end or (ii) the statutory net gain from operations for the previous calendar year. Generally, the various state laws give the state regulators discretion to approve or disapprove requests for dividends in excess of these limits. Based on these limitations and 2003 results, our life insurance subsidiaries could have paid us an estimated $77 million in dividends in 2004 without obtaining regulatory approval. Our subsidiaries paid us approximately $15 million in 2004. Based on 2004 results, our subsidiaries can pay an estimated $186 million in dividends without obtaining regulatory approval during 2005. We also consider risk-based capital levels, capital and liquidity operating needs, and other factors prior to paying dividends from the insurance subsidiaries.

We generated cash flows from operating activities of $930.4 million, $394.9 million and $920.1 million for the years ended December 31, 2004, 2003, and 2002, respectively. Operating cash flows were primarily used to increase our investment portfolio.

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We have a $200 million revolving credit facility (which we refer to as the Revolving Credit Agreement) with a syndicate of lenders. As of December 31, 2004, there was no outstanding loan balance under the facility. The Revolving Credit Agreement provides for typical events of default and covenants with respect to the conduct of business and requires the maintenance of various financial levels and ratios. Among other covenants, we (a) cannot have a leverage ratio greater than 0.35:1.0, (b) cannot have an interest coverage ratio less than 2.50:1.0, (c) are prohibited from paying cash dividends on common stock in excess of an amount equal to 3% of consolidated net worth as of the last day of the preceding fiscal year, (d) must cause our insurance subsidiaries to maintain certain levels of risk-based capital, and (e) are prohibited from incurring additional indebtedness for borrowed money in excess of certain limits typical for such lines of credit. We closely monitor all of these covenants to ensure continued compliance.

On May 28, 2003, we issued $125 million of PRIDES securities and on December 15, 2004 we exchanged $185 million of aggregate original principal amount of OCEANs as previously discussed in Item 5- Market for Registrant s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities, which portions are incorporated herein by reference.

The Company has several options for deploying excess capital, including supporting higher sales growth, reducing debt levels, pursuing acquisitions and buying back common stock. Our Board of Directors approved a stock purchase program effective August 9, 2002, under which we may purchase up to three million shares of our common stock at such times and under such conditions, as we deem advisable. The purchases may be made in the open market or by such other means as we determine to be appropriate, including privately negotiated purchases. The purchase program supercedes all prior purchase programs. We plan to fund the purchase program from a combination of our internal sources, dividends from insurance subsidiaries and the Revolving Credit Agreement. Approximately 2.0 million shares remain available for repurchase under this program. There were 244,400 shares purchased in 2004 for $9.2 million. Holding company cash was utilized to purchase the shares.

We manage liquidity on a continuing basis. One way is to minimize our need for capital. We accomplish this by attempting to use our capital as efficiently as possible and by developing capital-efficient products in our insurance subsidiaries. We also manage our mix of sales by focusing on the more capital-efficient products. In addition, we use reinsurance agreements, where cost-effective, to reduce capital strain in the insurance subsidiaries. We also focus on optimizing the consolidated capital structure to properly balance the levels and sources of borrowing and the issuance of equity securities.

Insurance Subsidiaries

The sources of cash of our insurance subsidiaries consist primarily of premium receipts; deposits to policyowner account balances; and income from investments, sales, maturities and calls of investments and repayments of investment principal. The uses of cash are primarily related to withdrawals of policyowner account balances, investment purchases, payment of policy acquisition costs, payment of policyowner benefits, payment of debt, income taxes and current operating expenses. Insurance companies generally produce a positive cash flow from operations, as measured by the amount by which cash flows are adequate to meet benefit obligations to policyowners and normal operating expenses as they are incurred. The remaining cash flow is generally used to increase the asset base to provide funds to meet the need for future policy benefit payments and for writing new business.

Management believes that the current level of cash and available-for-sale, held for trading and short-term securities, combined with expected net cash inflows from operations, maturities of fixed maturity investments, principal payments on mortgage-backed securities and sales of its insurance products, will be adequate to meet the anticipated short-term cash obligations of the insurance subsidiaries.

Matching the investment portfolio maturities to the cash flow demands of the type of insurance being provided is an important consideration for each type of protection product and accumulation product. We continuously monitor benefits and surrenders to provide projections of future cash requirements. As part of this monitoring process, we perform cash flow testing of assets and liabilities under various scenarios to evaluate the adequacy of reserves. In developing our investment strategy, we establish a level of cash and

securities which, combined with expected net cash inflows from operations and maturities and principal payments on fixed maturity investment securities, are believed adequate to meet anticipated short-term and long-term benefit and expense payment obligations. There can be no assurance that future experience regarding benefits and surrenders will be similar to historic experience since withdrawal and surrender levels are influenced by such factors as the interest rate environment and general economic conditions and the claims-paying and financial strength ratings of the insurance subsidiaries.

We take into account asset/liability management considerations in the product development and design process. Contract terms for the interest-sensitive products include surrender and withdrawal provisions which mitigate the risk of losses due to early withdrawals. These provisions generally do one or more of the following: limit the amount of penalty-free withdrawals, limit the circumstances under which withdrawals are permitted, or assess a surrender charge or market value adjustment relating to the underlying assets.

In addition to the interest-sensitive products, our insurance subsidiaries have issued funding agreements totaling $960 million outstanding as of December 31, 2004, consisting primarily of six to ten year fixed rate insurance contracts. The assets backing the funding agreements are legally segregated and are not subject to claims that arise out of any other business of the insurance subsidiaries. The funding agreements are further backed by the general account assets of the insurance subsidiaries. The segregated assets and liabilities are included with general account assets in the financial statements. The funding agreements may not be cancelled by the holders unless there is a default under the agreement, but the insurance subsidiaries may terminate the agreement at any time. During 2003, a $250 million funding agreement which was placed in 1999 was terminated by us.

We also have variable separate account assets and liabilities representing funds that are separately administered, principally for variable annuity contracts, and for which the contractholder bears the investment risk. Separate account assets and liabilities are reported at fair value and amounted to $249 million at December 31, 2004. Separate account contractholders have no claim against the assets of the general account. The operations of the separate accounts are not included in the accompanying consolidated financial statements.

Through their respective memberships in the Federal Home Loan Banks (FHLB) of Des Moines and Topeka, ALIC and American are eligible to borrow under variable-rate short term fed funds arrangements to provide additional liquidity. These borrowings are secured and interest is payable at the current rate at the time of each advance. There were no borrowings outstanding under these arrangements at December 31, 2004. In addition, ALIC has long-term fixed rate advances from the FHLB outstanding of $12.6 million at December 31, 2004.

The insurance subsidiaries may also obtain liquidity through sales of investments. The investment portfolio as of December 31, 2004, had a carrying value of $19.2 billion, including closed block investments.

The level of capital in the insurance companies is regulated by risk-based capital formulas and is monitored by rating agencies. In order to maintain appropriate capital levels, it may be necessary from time to time for AmerUs Group Co. to provide additional capital to the insurance companies.

We participate in a securities lending program whereby certain fixed maturity securities from the investment portfolio are loaned to other institutions for a short period of time. We receive a fee in exchange for the loan of securities and require initial collateral equal to 102 percent, with an on-going level of 100 percent, of the market value of the loaned securities to be separately maintained. Securities with a market value of approximately $342.6 million and $154.6 million were on loan under the program and we were liable for cash collateral under our control of approximately $351.7 million and $158.8 million at December 31, 2004 and 2003, respectively. The collateral held under the securities lending program has been included in cash and cash equivalents in the consolidated balance sheet and the obligation to return the collateral upon the return of the loaned securities has been included in accrued expenses and other liabilities.

We may also enter into securities borrowing arrangements from time to time whereby we borrow securities from other institutions and pay a fee. Securities borrowed amounted to $138.2 million and none at

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December 31, 2004, and 2003, respectively, and are also included in accrued expenses and other liabilities in the consolidated balance sheet.

At December 31, 2004, the statutory capital and surplus of the insurance subsidiaries was approximately $1,046 million. Management believes that each insurance company has statutory capital which provides adequate risk based capital that exceeds required levels.

In the future, in addition to cash flows from operations and borrowing capacity, the insurance subsidiaries may obtain their required capital from AmerUs Group Co.

Off-Balance Sheet Arrangements

Guarantee Obligations

Certain partnership investments provide for commitments of future capital, loans or guarantees. We have obligations to make future capital contributions to various partnerships of up to $0.5 million at December 31, 2004. We also have commitments to extend credit for mortgages totaling $36.6 million at December 31, 2004. In addition, at December 31, 2004, we had loan guarantees which totaled $1.5 million. ALIC and its joint venture partner are contingently liable in the event AVLIC cannot meet its obligations. At December 31, 2004, AVLIC had statutory assets of $2,441.6 million, liabilities of $2,331.4 million and surplus of $110.2 million.

We are contingently liable for the portion of the policies reinsured under existing reinsurance agreements in the event the reinsurance companies are unable to pay their portion of any reinsured claim. Management believes that any liability from this contingency is unlikely. However, to limit the possibility of such losses, we evaluate the financial condition of reinsurers and monitor concentration of credit risk.

Summary of Contractual Obligations and Commitments

Our contractual obligations primarily consist of amounts owed for annuity and other non-life insurance payments, notes payable, operating lease commitments, interest payable and securities lending and borrowing obligations. A summary of obligations are as follows for each of the five years ending December 31, 2004:

	Payments due by period						
Obligation	**Total**	**2005**	**2006**	**2007**	**2008**	**2009**	**Thereafter**
				($ in thousands)			
Notes payable	$ 571,155	$ 126,051	$ 991	$ 1,063	$ 144,891	$ 987	$ 297,172
Operating leases	18,705	6,876	5,255	5,132	872	570	
Interest payable(1)	6,800	6,800					
Securities lending and borrowing obligations(1)	490,756	490,756					
Annuity and other non-life insurance payments(2)	13,820,338	1,152,357	1,854,753	1,733,327	1,447,563	1,289,027	6,343,311
Purchase obligations							
Other liabilites							
Total	$14,907,754	$1,782,840	$1,860,999	$1,739,522	$1,593,326	$1,290,584	$6,640,483

(1) The obligation is included in accrued expenses and other liabilities on the consolidated balance sheet.

(2) Represents future payments for annuities and other non-life insurance obligations. Such obligations are included in the determination of reserves and are included in policy reserves and policyowner funds on the consolidated balance sheet.

Critical Accounting Policies

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of

contingent assets and liabilities. The valuation of financial instruments, accounting for derivatives and amortization of DAC and VOBA are considered our critical accounting policies due to their subjective nature and significance to the financial statements.

Valuation of Financial Instruments

A significant portion of our assets are carried at fair value, primarily securities available-for-sale, securities held for trading purposes and derivative financial instruments. Market values are based on quoted market prices where available.

Securities in our portfolio with a carrying value of approximately $1,820 million and $1,605 million at December 31, 2004 and 2003, respectively, do not have readily determinable market prices. Valuation techniques vary by security type and availability of market data. Fair values for securities which do not have a readily available market price are determined by: 1) a matrix process that uses a current market spread added to an applicable treasury rate to discount expected future cash flows applicable to the coupon rate, credit quality, industry sector and term of the investment; 2) independent third party sources or recent transactions in similar securities, or 3) internally prepared valuations incorporating standard valuation techniques. Certain market conditions that could impact the valuation of securities include credit ratings, business climate, economic environment, industry trends, and regulatory and legal risks/events, among others. All such investments are classified as available-for-sale. Our ability to liquidate our positions in these securities will be impacted to a significant degree by the lack of an actively traded market, and we may not be able to dispose of these investments in a timely manner. Although we believe our estimates reasonably reflect the fair value of those securities, our key assumptions about the risk-free interest rates, risk premiums, performance of underlying collateral (if any), and other factors may not be realized in the event of an actual sale.

Securities are also reviewed to identify potential impairments. In determining if and when a decline in market value below amortized cost is other-than-temporary (referred to as OTTI), we evaluate the market conditions, offering prices, trends of earnings, price multiples and other key measures for our investments in marketable equity securities and debt instruments. For fixed maturity securities, our intent and ability to hold securities is also considered. When such a decline in value is deemed to be other-than-temporary, we recognize an impairment loss in the current period net income to the extent of the decline. For additional information regarding our evaluation of OTTI, see the section titled Investments Impairment.

Investments in mortgage loans, real estate, policy loans and other investments are monitored for possible impairment. If it is determined that collection of all amounts due under the contractual terms is doubtful or carrying values exceed the fair value of underlying collateral, such investments are considered impaired and the asset carrying value is adjusted or a valuation allowance is established.

Accounting for Derivatives

We hold derivative financial instruments to hedge growth in policyowner liabilities for certain protection and accumulation products and to hedge market risk for fixed income investments. These derivatives qualify for hedge accounting or are considered economic hedges as discussed in detail in note 4 to our consolidated financial statements.

Hedge accounting results when we designate and document the hedging relationships involving derivative instruments. Economic hedging instruments are those instruments whose change in fair value acts as a natural hedge against the change in fair value of hedged assets or liabilities with both changes wholly or partially being offset in earnings.

To hedge equity market risk, we primarily use S&P 500 Index call options to hedge the growth in interest credited to the customer as provided by our equity indexed products. We may also use interest rate swaps or options to manage our fixed products risk profile. Generally, credit default swaps are coupled with a bond to synthetically create an instrument cheaper than an equivalent investment traded in the cash market.

We have not changed our methods of calculating the fair values of derivatives or the underlying assumptions. The fair values of these derivatives will change over time as cash receipts and payments are made and as market conditions change.

Our derivative instruments are not subject to a multiple or use of leverage on the underlying price index. We do not believe we are exposed to more than a nominal amount of credit risk in our interest rate or equity hedges as the counterparties are established, well-capitalized financial institutions. Information about the fair values, notional amounts, and contractual terms of these instruments can be found in note 4 to our consolidated financial statements and the section titled Quantitative and Qualitative Disclosures About Market Risk.

Amortization of DAC and VOBA

We generally amortize DAC based on a percentage of our expected gross margins (EGMs) over the life of the policies. Our estimated EGMs are computed based on assumptions related to the underlying policies written, including the lives of the underlying policies, growth rate of the assets supporting the liabilities, and level of expenses necessary to maintain the policies over their entire life. We amortize DAC by estimating the present value of the EGMs over the lives of the insurance policies and then calculate a percentage of the policy acquisition cost deferred as compared to the present value of the EGMs. That percentage is used to amortize the DAC such that the amount amortized over the life of the policies results in a constant percentage of amortization when related to the actual and future gross margins.

Because the EGMs are only an estimate of the profits we expect to recognize from these policies, the EGMs are adjusted annually to take into consideration the actual gross profits to date and any changes in the remaining expected future gross margins. When EGMs are adjusted, we also adjust the amortization of the deferred policy acquisition costs amount to maintain a constant percentage over the entire life of the policies.

We amortize the VOBA based on the incidence of the EGMs from insurance contracts using the interest rate credited to the underlying policies. The EGMs are based on actuarially determined projections of future premium receipts, mortality, surrenders, operating expenses, changes in insurance liabilities, investment yields on the assets retained to support the policy liabilities and other factors. These projections take into account all factors known or expected by management. The actual gross margins may vary from expected levels due to differences in renewal premium, investment spread, investment gains or losses, mortality and morbidity costs and other factors.

Investment Portfolio

General

We maintain a diversified portfolio of investments which is supervised by an experienced in-house staff of investment professionals. Sophisticated asset/liability management techniques are employed in order to achieve competitive yields, while maintaining risk at acceptable levels. The asset portfolio is segmented by liability type, with tailored investment strategies for specific product lines. Investment policies and significant individual investments are subject to approval by the Board of Directors and are overseen by the Investment and Risk Management Committee of our Board of Directors. Management regularly monitors individual assets and asset groups, in addition to monitoring the overall asset mix. In addition, the Investment and Risk Management Committee review investment guidelines and monitor internal controls.

Investment Strategy

Our investment philosophy is to employ an integrated asset/liability management approach with separate investment portfolios for specific product lines, such as traditional life, universal life, equity indexed life, traditional annuities, equity indexed annuities, variable annuities and funding agreements to generate attractive risk-adjusted returns on capital. Essential to this philosophy is coordinating investments in the investment portfolio with product strategies, focusing on risk-adjusted returns and identifying and evaluating associated business risks.

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Investment strategies have been established based on the specific characteristics of each product line. The portfolio investment strategies establish asset duration, quality and other guidelines. Analytical systems are utilized to establish an optimal asset mix for each line of business. We seek to manage the asset/liability mismatch and the associated interest rate risk through active management of the investment portfolio. Financial, actuarial, investment, product development and product marketing professionals work together throughout the product development, introduction and management phases to jointly develop and implement product features, initial and renewal crediting strategies, and investment strategies based on extensive modeling of a variety of factors under a number of interest rate scenarios.

Invested Assets

Our diversified portfolio of investments includes public and private fixed maturity securities and commercial mortgage loans. Our objective is to maintain a high-quality, diversified fixed maturity securities portfolio that produces a yield and total return that supports the various product line liabilities and our earnings goals.

The following table summarizes invested assets by asset category as of December 31, 2004 and 2003:

	Invested Assets December 31,			
	2004		2003	
	Carrying Value	% of Total	Carrying Value	% of Total
	($ in millions)			
Fixed maturity securities				
Public	$15,147.6	79.0%	$14,094.2	78.4%
Private	2,217.2	11.5%	1,940.3	10.8%
Subtotal	17,364.8	90.5%	16,034.5	89.2%
Equity securities	92.5	0.5%	76.5	0.4%
Mortgage loans	865.7	4.5%	968.6	5.4%
Policy loans	486.1	2.5%	494.6	2.7%
Other investments	374.2	2.0%	381.0	2.1%
Short-term investments	3.0	0.0%	29.1	0.2%
Total invested assets	$19,186.3	100.0%	$17,984.3	100.0%

Fixed Maturity Securities

The fixed maturity securities portfolio consists primarily of investment grade corporate fixed maturity securities, high-quality mortgage-backed securities (MBS) and United States government and agency obligations. As of December 31, 2004, fixed maturity securities were $17,364.8 million, or 90.5% of the carrying value of invested assets with public and private fixed maturity securities constituting $15,147.6 million, or 87.2%, and $2,217.2 million, or 12.8%, respectively, of total fixed maturity securities, respectively.

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The following table summarizes the composition of the fixed maturity securities by category as of December 31, 2004 and 2003:

	Composition of Fixed Maturity Securities December 31,			
	2004		2003	
	Carrying Value	% of Total	Carrying Value	% of Total
	($ in millions)			
U.S. government/agencies	$ 548.4	3.2%	$ 816.8	5.1%
State and political subdivisions	66.0	0.4%	67.1	0.4%
Foreign government bonds	118.6	0.7%	128.5	0.8%
Corporate bonds	12,359.0	71.2%	10,994.3	68.5%
Redeemable preferred stocks	40.2	0.2%	173.7	1.1%
Indexed debt instruments	564.7	3.3%	396.1	2.5%
Asset-backed bonds	528.1	3.0%	470.2	2.9%
Collateralized mortgage-backed securities	1,119.2	6.4%	973.0	6.1%
Mortgage-backed securities:				
U.S. government/agencies	1,824.1	10.5%	1,909.2	11.9%
Non-government/agencies	196.5	1.1%	105.6	0.7%
Subtotal-MBS	2,020.6	11.6%	2,014.8	12.6%
Total	$ 17,364.8	100.0%	$ 16,034.5	100.0%

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The following table summarizes fixed maturity securities by remaining maturity as of December 31, 2004:

Remaining Maturity of Fixed Maturity Securities

	Carrying Value	% of Total	Unrealized Loss	% of Total
		($ in millions)		
Available-for-Sale				
Due:				
In one year or less (2005)	$ 526.9	3.4%	$	0.0%
One to five years (2006-2010)	2,899.5	18.5%	4.0	8.1%
Five to 10 years (2011-2015)	6,086.8	38.9%	20.3	41.1%
10 to 20 years (2016-2025)	1,816.1	11.6%	14.2	28.7%
Over 20 years (2026 and after)	2,407.6	15.4%	7.0	14.2%
Subtotal	13,736.9	87.8%	45.5	92.1%
Mortgage-backed securities	1,909.8	12.2%	3.9	7.9%
Total	$ 15,646.7	100.0%	$ 49.4	100.0%
Held-for-Trading				
Due:				
In one year or less (2005)	$ 34.0	2.0%		
One to five years (2006-2010)	441.9	25.7%		
Five to 10 years (2011-2015)	320.8	18.7%		
10 to 20 years (2016-2025)	492.7	28.7%		
Over 20 years (2026 and after)	317.9	18.5%		
Subtotal	1,607.3	93.6%		
Mortgage-backed securities	110.8	6.4%		
Total	$ 1,718.1	100.0%		

The portfolio of investment grade fixed maturity securities is diversified by number and type of issuers. As of December 31, 2004, investment grade fixed maturity securities included the securities of 903 issuers, with 2,656 different issues of securities. No non-government/agency issuer represents more than 1% of investment grade fixed maturity securities.

Below-investment grade fixed maturity securities as of December 31, 2004, included the securities of 322 issuers representing 7.0% of total invested assets, with the largest being a $29.9 million investment.

As of December 31, 2004, 83.5% of total invested assets were investment grade fixed maturity securities. The following table sets forth the credit quality, by NAIC designation and Standard & Poor s rating equivalents, of fixed maturity securities as of December 31, 2004:

Fixed Maturity Securities By NAIC Designation

NAIC Designation	Standard & Poor s Equivalent Designation	Public Carrying Value	Public % of Total	Private Carrying Value	Private % of Total	Total Carrying Value	Total % of Total
				($ in millions)			
1	A- or higher	$ 9,643.2	63.7%	$1,134.2	51.1%	$10,777.4	62.1%
2	BBB- to BBB+	4,274.0	28.2%	968.8	43.7%	5,242.8	30.2%
	Total investment grade	13,917.2	91.9%	2,103.0	94.8%	16,020.2	92.3%
3	BB- to BB+	779.4	5.1%	72.4	3.3%	851.8	4.9%
4	B- to B+	424.8	2.8%	36.0	1.6%	460.8	2.6%
5 & 6	CCC+ or lower	26.2	0.2%	5.8	0.3%	32.0	0.2%
	Total below investment grade	1,230.4	8.1%	114.2	5.2%	1,344.6	7.7%
	Total	$15,147.6	100.0%	$2,217.2	100.0%	$17,364.8	100.0%

The following table summarizes fixed maturity securities by Standard & Poor s or equivalent rating, including unrealized losses, at December 31, 2004:

Fixed Maturity Securities by Standard & Poor s or Equivalent Rating

NAIC Designation	Standard & Poor s Equivalent Designation	Carrying Value	% of Total	Unrealized Loss	% of Total
			($ in millions)		
1	A- or higher	$10,777.4	62.1%	$34.0	68.8%
2	BBB- to BBB+	5,242.8	30.1%	10.9	22.1%
	Total investment grade	16,020.2	92.2%	44.9	90.9%
3	BB- to BB+	851.8	4.9%	2.4	4.9%
4	B- to B+	460.8	2.7%	1.8	3.6%
5 & 6	CCC+ or lower	32.0	0.2%	0.3	0.6%
	Total below investment grade	1,344.6	7.8%	4.5	9.1%
	Total	$17,364.8	100.0%	$49.4	100.0%

MBS investments are mortgage-related securities including collateralized mortgage obligations (CMOs) and pass-through mortgage securities. Asset-backed securities are both residential and non-residential including exposure to home equity loans, home improvement loans, manufactured housing loans as well as securities backed by loans on automobiles, credit cards, and other collateral or collateral bond obligations. As of December 31, 2004, asset-backed residential mortgages totaled $259.9 million or 1.4% of total invested assets. As of

December 31, 2004, residential mortgage pass-through and CMOs totaled $2,020.6 million or 10.5% of total invested assets. As of December 31, 2004, $1,824.1 million or 90.3% of MBS were from government sponsored enterprises. Other MBS were $196.5 million or 9.7% of MBS as of December 31, 2004. Management believes that the quality of assets in the MBS portfolio is generally high, with 99.5% of such assets representing agency backed or AAA rated securities. Collateralized mortgage backed securities (or CMBS) totaled $1,119.2 million or 5.8% of total invested assets as of December 31, 2004.

Derivatives

Interest rate swaps and options are primarily used to reduce exposure to changes in interest rates and to manage duration mismatches. Call options are primarily used to hedge equity indexed products. Credit default swaps are coupled with a bond to synthetically create an investment cheaper than the equivalent instrument traded in the cash market. Although we are subject to the risk that counterparties will fail to perform, credit standings of counterparties are monitored regularly. We only enter into transactions with counterparties rated at least AA or for which a collateral agreement is in place. We are also subject to the risk associated with changes in the value of contracts. However, such adverse changes in value generally are offset by changes in the value of the items being hedged. The notional principal amounts of the swaps and options, which represent the extent of our involvement in such contracts but not the risk of loss, at December 31, 2004, amounted to $4,097.6 million. The interest rate swaps had a carrying value of a net receivable position of $0.4 million at December 31, 2004. The credit default swaps had a carrying value of a net receivable position of $0.5 million at December 31, 2004. The carrying value of options amounted to $160.0 million at December 31, 2004. For each of these derivatives, the carrying value is equal to fair value as of December 31, 2004. The derivatives are reflected as other investments on the consolidated financial statements. The net amount payable or receivable from interest rate and credit default swaps are accrued as an adjustment to interest income. Effective October 1, 2003, we adopted DIG Issue B36. See note 4 to the consolidated financial statements for further discussion of the impact of adopting DIG B36.

Mortgage Loans

As of December 31, 2004, mortgage loans in the investment portfolio were $865.7 million, or 4.5% of the aggregate carrying value of invested assets. As of December 31, 2004, commercial mortgage loans and residential mortgage loans comprised 99.9% and 0.1%, respectively, of total mortgage loans. Commercial mortgage loans consist primarily of fixed-rate mortgage loans. As of December 31, 2004, we held 713 individual commercial mortgage loans with an average balance of $1.2 million.

As of December 31, 2004, there were no loans in the loan portfolio classified as delinquent or in foreclosure. As of the same date, there were no loans classified as restructured. During 2004, we had three foreclosures.

Other

As previously discussed in Liquidity and Capital Resources, we participate in a securities lending program and also securities borrowing arrangements.

We held $486.1 million of policy loans on individual insurance products as of December 31, 2004. Policy loans are permitted to the extent of a policy s contractual limits and are fully collateralized by policy cash values. As of December 31, 2004, we held equity securities of $92.5 million of which the largest holding was Federal Home Loan Bank common stock totaling $62.4 million.

We held $377.2 million of other invested assets (including short-term investments) on December 31, 2004. Other invested assets consist primarily of our Ameritas Joint Venture investment, various other joint ventures and limited partnership investments and derivatives.

Structured Securities Arrangements

We hold investments in indexed debt instruments (IDIs) in which the principal is initially partially defeased by an obligation of a third party financial institution (institution) collateralized by U.S. Treasuries which will accrete to 50% of the original principal amount of the IDIs at maturity. The balance of the principal amount due at maturity is subject to a dynamic defeasance mechanism, which should provide a return of the initial investment. The instruments issued by the institutions are linked to the performance of a hedge fund or fund of funds. The annual income on these investments will be equal to the quarterly distribution of the hedge fund or fund of funds plus the change in the present value of anticipated distributions to be received at maturity and will be included in net investment income. Over the life of the IDIs, the income will be a

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function of the cumulative performance of the linked hedge fund or fund of funds and the return on any defeased portion of the investment. The quarterly distribution paid, if any, reduces the amount of future participation in the performance of the linked hedge fund or fund of funds. At maturity, the Company will take delivery of the referenced hedge fund interests and cash or U.S. Treasuries equal to the portion of the instruments that have been defeased, the total of which should equal or exceed the instruments principal amount. The investment purpose of these instruments is to enable the Company to obtain the return as if they had invested in hedge funds or fund of funds with dynamic principal protection. The instruments as of December 31, 2004 carried an A rating or better by Fitch. The carrying value of IDIs was $564.7 million and $396.1 million at December 31, 2004 and 2003, respectively.

Impairments

Our evaluation of OTTI s for fixed income securities follows a three-step process: 1) screen and identify; 2) assess and document; 3) recommend and approve. In identifying potential OTTI s, we screen for all securities that have a fair value less than 80% of amortized cost. In addition, we monitor securities for general credit issues that have been identified and included on a watch list which may result in the potential impairment list including other securities that have a fair value at or greater than 80% of amortized cost. For asset backed securities, an impairment loss is established if the fair value of the security is less than amortized cost and there is an adverse change in estimated cash flows from the cash flows previously projected.

The list of securities identified is subject to a formal assessment to determine if an impairment is other than temporary. Management makes certain assumptions or judgments in its assessment of potentially impaired securities including but not limited to:

Industry characteristics and trends, company to industry profile, quality of management

Financial conditions and trends including strength of balance sheet and financial liquidity

Significant events affecting the company and/or industry

Viability of the business model incorporating an evaluation of default probability and associated recoverable value

Length of time the fair value was below 80% of amortized cost

Ability and intent to retain the investment to maturity or for a sufficient period of time for it to recover

If the determination is that the security is OTTI, it is written down to fair value. The write-down is reviewed and approved by senior management. The difference between amortized cost and fair value is charged to net income.

When actively traded market prices are not available, fair values are determined using present value or other standard valuation techniques such as earnings multiples and asset valuations. The fair value determinations are made at a specific point in time based on then available market information and judgments about the financial instruments. Factors considered in determining fair value include: coupon rate, term, collateral (if any), industry sector outlook, credit rating, expectations regarding going concern status, timing and amounts of expected future cash flows among other factors.

There are risks and uncertainties inherent in the process of monitoring impairments and determining if an impairment is OTTI. Risks may include 1) the credit characteristics change affecting the creditor s ability to meet all of its contractual obligations; 2) the economic outlook may be worse than expected or impact the credit more than anticipated; 3) accuracy of information provided by issuers could affect valuations; and 4) new information may change our intent to hold the security to maturity. Any of these items could result in a charge to net income in the future.

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The following table lists material investment impairments exceeding $3 million in 2004, 2003 and 2002. The write-downs occurred due to creditor and/or issue specific circumstances.

Material Impairments

General Description	Impairment Loss ($ in millions)	Circumstances	Impact on Other Material Investments
2004			
Major US Airline	$ 3.0	High probability of restructuring and threat of bankruptcy	Negative industry trends with analysis done on an issue-by-issue basis concluding no impact on other material investments other than those written down
2003			
Major US Airline	$ 11.6	High probability of restructuring and threat of bankruptcy	Negative industry trends with analysis done on an issue-by-issue basis concluding no impact on other material investments other than those written down
Merchant Energy Generator	3.6	High probability of restructuring and threat of bankruptcy	Negative industry trends with analysis done on an issue-by-issue basis concluding no impact on other material investments other than those written down
2002			
Large telecommunication company	$ 17.7	Materially inaccurate financial statements and imminent default or bankruptcy	Credit specific issues with no impact on other material investments
Securitized medical receivables	14.5	Materially inaccurate financial statements and default event	Alleged credit specific fraud and default issues with no impact on other material investments
Merchant energy generator and distributor	11.3	Significant off-balance sheet liabilities and high probability of a restructuring	Negative industry trends with analysis done on an issue-by-issue basis concluding no impact on other material investments other than those written down
Collateralized Debt Obligation	8.0	Adverse change in cash flows on underlying portfolios	Specific collateral and structure issues with no impact on other material investments
Property and casualty insurance company	7.7	Rating downgrade and announced suspension of interest payments	Credit specific issues with no impact on other material investments
Merchant energy generator	7.4	Default on interest payment	Negative industry trends with analysis done on an issue-by-issue basis concluding no impact on other material investments other than those written down
Securitized manufactured housing loans	7.2	Suspension of guarantee payments related to manufactured housing	Credit specific issues with no impact on other material investments
Major US airline	5.7	Bankruptcy and lease rejection	Negative industry trends with analysis done on an issue-by-issue basis concluding no impact on other material investments other than those written down
Northeast electric energy generator	3.4	Default on interest payment	Negative industry trends with analysis done on an issue-by-issue basis

concluding no impact on other material investments other than those written down

The following tables present unrealized losses for fixed maturity securities at December 31, 2004 and 2003 by investment category and industry sector:

Composition of Fixed Maturity Securities

	December 31, 2004			
	Carrying Value	% Total	Unrealized Losses	% Total
	($ in millions)			
U.S. government/agencies	$ 548.4	3.2%	$ 1.2	2.4%
State and political subdivisions	66.0	0.4%	0.7	1.4%
Foreign government bonds	118.6	0.7%	0.1	0.2%
Corporate bonds	12,359.0	71.2%	29.1	59.0%
Redeemable preferred stocks	40.2	0.2%		
Indexed debt instruments	564.7	3.3%	9.0	18.2%
Asset-backed bonds	528.1	3.0%	1.2	2.4%
Collateralized mortgage-backed securities	1,119.2	6.4%	4.2	8.5%
Mortgage-backed securities:				
U.S. government/agencies	1,824.1	10.5%	3.6	7.3%
Non-government	196.5	1.1%	0.3	0.6%
Subtotal-MBS	2,020.6	11.6%	3.9	7.9%
Total	17,364.8	100.0%	49.4	100.0%

	December 31, 2003			
	Carrying Value	% Total	Unrealized Losses	% Total
	($ in millions)			
U.S. government/agencies	$ 816.8	5.1%	$ 1.7	1.4%
State and political subdivisions	67.1	0.4%	1.4	1.2%
Foreign governments	128.5	0.8%	0.3	0.2%
Corporate bonds	10,994.3	68.5%	57.8	48.7%
Redeemable preferred stocks	173.7	1.1%	37.1	31.3%
Indexed debt instruments	396.1	2.5%	8.3	7.0%
Asset-backed bonds	470.2	2.9%	1.5	1.2%
Collateralized mortgage-backed securities	973.0	6.1%	2.7	2.3%
Mortgage-backed securities:				
U.S. government/agencies	1,909.2	11.9%	7.9	6.7%
Non-government	105.6	0.7%		
Subtotal-MBS	2,014.8	12.6%	7.9	6.7%
Total	16,034.5	100.0%	118.7	100.0%

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	December 31, 2004			
	Carrying Value	% Total	Unrealized Loss	% Total
	($ in millions)			
Basic industry	$ 916.9	5.3%	$ 2.9	5.9%
Capital goods	902.3	5.2%	1.4	2.8%
Communications	1,304.2	7.5%	2.9	5.9%
Consumer cyclical	1,247.6	7.2%	2.1	4.3%
Consumer non-cyclical	1,691.2	9.7%	4.5	9.1%
Energy	1,059.9	6.1%	1.3	2.6%
Technology	229.0	1.3%	0.7	1.4%
Transportation	539.7	3.1%	2.3	4.7%
Industrial other	146.9	0.9%	0.4	0.8%
Utilities	1,795.0	10.3%	4.5	9.1%
Financial institutions	2,704.5	15.6%	14.3	28.9%
Subtotal	12,537.2	72.2%	37.3	75.5%
Other	4,827.6	27.8%	12.1	24.5%
Total	$ 17,364.8	100.0%	$ 49.4	100.0%

	December 31, 2003			
	Carrying Value	% Total	Unrealized Loss	% Total
	($ in millions)			
Basic industry	$ 756.0	4.7%	$ 5.6	4.7%
Capital goods	865.0	5.4%	4.0	3.4%
Communications	1,124.7	7.0%	8.6	7.2%
Consumer cyclical	981.5	6.1%	2.3	1.9%
Consumer non-cyclical	1,701.8	10.6%	7.5	6.3%
Energy	965.5	6.0%	2.3	1.9%
Technology	245.7	1.5%	0.6	0.5%
Transportation	462.7	2.9%	5.9	5.0%
Industrial other	154.5	1.0%	0.4	0.3%
Utilities	1,548.0	9.7%	12.0	10.1%
Financial institutions	2,427.9	15.2%	52.0	44.0%
Subtotal				