AMERUS GROUP CO/IA
Form 8-K/A
July 23, 2001

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

# FORM 8-K/A

## CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported: May 18, 2001)

AMERUS GROUP CO.
(Exact Name of Registrant as Specified in Charter)

| IOWA | 000-30898 | 42-1458424 |
|---|---|---|
| (State or Other Jurisdiction of Incorporation) | (Commission File Number) | (IRS 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

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On May 18, 2001, AmerUs Group Co. (the "Registrant") acquired all of the issued and outstanding stock of Indianapolis Life Insurance Company and filed with the Securities and Exchange Commission a Current Report on Form 8-K regarding such acquisition on May 23, 2001 (the "Report"). The Registrant omitted the financial statements and pro forma financial information required by Item 7 (a) (1) - (2) of Form 8-K from the Report in accordance with Item 7 (a) (4) and is filing such financial statements and pro forma financial information for Indianapolis Life Insurance Company in this amendment to the Report.

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS.

(a) Financial Statements of Business Acquired.

As permitted by Item 7 (a) (4) of Form 8-K, AmerUs hereby files the required financial statements of Indianapolis Life Insurance Company (ILICo).

Referenced below are financial statements and information which are

being filed as part of this Report.

| | Page Nos. |
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(b) Pro Forma Financial Information.

As permitted by Item 7 (b) (2) of Form 8-K, AmerUs hereby files the required pro forma financial information.

(c) Exhibits

23.1 Consent of Independent Auditors

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

AMERUS GROUP CO.

By: /s/ Michael G. Fraizer

Michael G. Fraizer
Executive Vice President &
Chief Financial Officer

Dated: July 23, 2001

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ITEM 7a. FINANCIAL STATEMENTS OF BUSINESS ACQUIRED.

CONSOLIDATED FINANCIAL STATEMENTS

Indianapolis Life Insurance Company and Subsidiaries

Years ended December 31, 2000, 1999 and 1998
with Report of Independent Auditors

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Indianapolis Life Insurance Company and Subsidiaries

Consolidated Financial Statements

Years ended December 31, 2000, 1999 and 1998

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Report of Independent Auditors

Board of Directors
Indianapolis Life Insurance Company

We have audited the accompanying consolidated balance sheets of Indianapolis Life Insurance Company and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of income, policyowners' surplus and cash flows each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Indianapolis Life Insurance Company and subsidiaries at December 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

February 28, 2001

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Indianapolis Life Insurance Company and Subsidiaries

Consolidated Balance Sheets

| | DECEMBER 31 2000 | 1999 |
|---|---|---|
| ASSETS | | |
| Investments: | | |
| Fixed maturity securities: | | |
| Available for sale, at fair value | $ 3,852,177,748 | $ 4,083,679,362 |
| Held to maturity, at amortized cost | 227,084,246 | 252,226,207 |
| Equity securities, at fair value | 13,195,074 | 8,484,261 |
| Mortgage loans | 369,510,962 | 378,053,935 |
| Policy loans | 191,305,265 | 184,737,369 |
| Other invested assets | 10,021,712 | 12,248,011 |
| Cash and cash equivalents | 94,382,900 | 174,417,353 |
| Total investments | 4,757,677,907 | 5,093,846,498 |
| Accrued investment income | 57,431,558 | 65,417,285 |
| Reinsurance recoverable | 267,097,679 | 236,849,542 |
| Deferred acquisition costs | 351,575,420 | 328,711,527 |

| | | |
|---|---|---|
| Receivables and other assets | 12,026,622 | 8,377,412 |
| Federal income taxes | 20,052,918 | 2,504,823 |
| Property and equipment | 29,809,203 | 23,826,898 |
| Present value of future profits | 7,959,364 | 10,293,213 |
| Goodwill | 17,701,533 | 12,841,316 |
| Separate account assets | 353,233,026 | 341,088,253 |
| Total assets | $ 5,874,565,230 | $ 6,123,756,767 |

See accompanying notes.



| | DECEMBER 31 | |
|---|---|---|
| | 2000 | 1999 |
| LIABILITIES AND POLICYOWNERS' SURPLUS | | |
| Liabilities: | | |
| Policy reserves for future benefits | $4,721,099,259 | $5,039,879,222 |
| Other policyowner funds | 189,907,621 | 142,752,796 |
| Accrued commissions and general expenses | 8,089,063 | 8,658,801 |
| Surplus notes | 25,000,000 | 25,000,000 |
| Other liabilities and reserves | 138,431,218 | 157,076,129 |
| Deferred federal income taxes | 14,672,670 | 39,870,241 |
| Separate account liabilities | 353,233,026 | 341,088,253 |
| Total liabilities | 5,450,432,857 | 5,754,325,442 |
| Minority interest in consolidated subsidiaries | 105,655,458 | 71,657,673 |
| Policyowners' surplus: | | |
| Accumulated other comprehensive income (loss) | 325,552 | (10,228,978) |
| Surplus | 318,151,363 | 308,002,630 |
| Total policyowners' surplus | 318,476,915 | 297,773,652 |
| Total liabilities and policyowners' surplus | $5,874,565,230 | $6,123,756,767 |



Indianapolis Life Insurance Company and Subidiaries

Consolidated Statements of Income

| | YEAR ENDED DECEMBER 2000 | 1999 |
|---|---|---|
| REVENUES | | |
| Premiums | $ 162,355,933 | $165,234,240 |
| Policy and contract charges | 76,766,251 | 64,466,246 |
| Net investment income | 273,251,144 | 256,904,634 |
| Net realized capital gains | 9,249,931 | 4,822,798 |
| Total revenues | 521,623,259 | 491,427,918 |
| BENEFITS AND EXPENSES | | |
| Policy benefits | 346,760,726 | 312,845,116 |
| Underwriting, acquisition and insurance expenses | 103,575,055 | 139,539,808 |
| Reorganization costs | 12,928,485 | 907,299 |
| Interest | 2,165,000 | 2,165,000 |
| Dividends to policyowners | 30,124,666 | 32,981,886 |
| Total benefits and expenses | 495,553,932 | 488,439,109 |
| Income before federal income taxes and minority interest | 26,069,327 | 2,988,809 |
| Federal income taxes | 11,637,338 | 1,592,549 |
| Income before minority interest | 14,431,989 | 1,396,260 |
| Minority interest in consolidated subsidiaries | 4,283,256 | 2,212,346 |
| Net income (loss) | $ 10,148,733 | $ (816,086) |

See accompanying notes.

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Indianapolis Life Insurance Company and Subsidiaries

Consolidated Statements of Policyowners' Surplus

| | ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) | SURPLUS | |
|---|---|---|---|
| Balance at January 1, 1998 | $ 17,803,911 | $287,626,936 | $ |
| Net income | - | 21,191,780 | |
| Change in net unrealized gains on available for sale securities, net of deferred taxes | 757,181 | - | |
| Comprehensive income | | | |

| | | | |
|---|---|---|---|
| Balance at December 31, 1998 | 18,561,092 | 308,818,716 | |
| Net loss | - | (816,086) | |
| Change in net unrealized gains on available for sale securities, net of deferred taxes | (28,790,070) | - | |
| Comprehensive loss | | | |
| Balance at December 31, 1999 | (10,228,978) | 308,002,630 | |
| Net income | - | 10,148,733 | |
| Change in net unrealized gains on available for sale securities, net of deferred taxes | 10,554,530 | - | |
| Comprehensive income | | | |
| Balance at December 31, 2000 | $ 325,552 | $318,151,363 | $ |

See accompanying notes.





Indianapolis Life Insurance Company and Subsidiaries

Consolidated Statements of Cash Flows

| | YEAR ENDED DEC | |
|---|---|---|
| | 2000 | 1999 |
| OPERATING ACTIVITIES | | |
| Net income (loss) | $ 10,148,733 | $ (816 |
| Minority interest in consolidated subsidiaries | 4,283,256 | 2,212 |
| Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities: | | |
| Amortization expense | 2,629,025 | 2,692 |
| Net realized capital gains | (9,249,931) | (4,822 |
| Changes in operating assets and liabilities: | | |
| Current and deferred income taxes | (5,993,239) | (10,163 |
| Deferred acquisition costs | (77,896,053) | (103,826 |
| Amortization of deferred acquisition costs | 49,146,028 | 53,448 |
| Policyowner assessments on universal life | (75,345,362) | (64,466 |
| Interest credited to policyowner accounts | 57,864,320 | 50,005 |
| Liabilities for future policy benefits | 12,357,786 | 77,700 |
| Policy, contract claims and other policyowner funds | 48,479,136 | 21,640 |
| Accrued investment income | 7,988,685 | (15,955 |
| Reinsurance recoverable | (317,393,069) | 749,573 |
| Other assets and liabilities | (37,662,115) | 101,557 |
| Net cash provided (used) by operating activities | (330,642,800) | 858,779 |

| | | |
|---|---|---|
| INVESTING ACTIVITIES | | |
| Proceeds from sales, calls or maturities: | | |
| Fixed maturities | 2,274,213,588 | 875,168 |
| Equity securities | 9,315,752 | 20,827 |
| Mortgage loans | 17,475,361 | 27,788 |
| Other invested assets | 9,406,242 | 2,067 |
| Purchases: | | |
| Fixed maturities | (2,041,244,077) | (2,026,527 |
| Equity securities | (18,871,752) | (25,148 |
| Mortgage loans | (8,950,766) | (50,217 |
| Other invested assets | (15,025,540) | (4,007 |
| Change in policy loans | (6,567,896) | 173 |
| Net cash provided (used) by investing activities | 219,750,912 | (1,179,876 |
| FINANCING ACTIVITIES | | |
| Capital contributions from minority interest in subsidiaries | 100,000,000 | 16,500 |
| Purchase of minority interest in subsidiaries | (77,240,539) | |
| Deposits to policyowner accounts | 204,337,552 | 337,967 |
| Withdrawals from policyowner accounts | (196,239,578) | (140,334 |
| Net cash provided by financing activities | 30,857,435 | 214,133 |
| Net increase (decrease) in cash | (80,034,453) | (106,963 |
| Cash and cash equivalents at beginning of year | 174,417,353 | 281,380 |
| Cash and cash equivalents at end of year | $ 94,382,900 | $ 174,417 |

See accompanying notes.

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Indianapolis Life Insurance Company and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2000

1. ORGANIZATION, BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Indianapolis Life Insurance Company (the "Company") is incorporated in the State of Indiana and is qualified to do business in forty-six states and the District of Columbia. Being a mutual company, it is owned and operated exclusively for the benefit of its policyowners. The Company's business consists primarily of providing individual life and annuity policies. The consolidated financial statements include the Company and its majority-owned subsidiary, The Indianapolis Life Group of Companies, Inc. ("IL Group"). IL Group is a holding company that owns IL Annuity and Insurance Company, Bankers Life Insurance Company of New York, Western Security Life Insurance Company and IL Securities, Inc.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). All significant intercompany balances and transactions have been eliminated.

Preparation of the consolidated financial statements requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

The Company and its insurance subsidiaries also each prepare their financial statements in conformity with accounting practices prescribed or permitted by the Department of Insurance of the respective state of domicile, which practices differ from GAAP, for the purpose of filing with regulatory authorities. The Company's statutory surplus at December 31, 2000 and 1999 was $91,603,466 and $102,608,552, respectively. The Company's statutory net income (loss), excluding subsidiaries, for 2000, 1999 and 1998 was $1,221,337, ($11,483,379), and $14,052,835, respectively.

In 1998, the National Association of Insurance Commissioners adopted codified statutory accounting principles ("Codification"), which will be effective January 1, 2001. Codification will result in changes to certain accounting practices that the Company uses to prepare statutory-basis financial statements. Management believes the impact of these changes will not result in a material reduction in the Company's statutory-basis capital and surplus as of adoption.







1. ORGANIZATION, BASIS OF PRESENTATION AND ACCOUNTING POLICIES (CONTINUED)

Generally, the net assets of the Company's insurance subsidiaries available for transfer to the Company are limited to the amounts that the insurance subsidiaries' net assets of approximately $54,610,000 at December 31, 2000, as determined in accordance with statutory accounting practices, exceed minimum statutory capital requirements; however, payments of such amounts as dividends may be subject to approval by regulatory authorities.

INVESTMENTS

Fixed maturity securities which may be sold to meet liquidity and other needs of the Company are categorized as available for sale and are reported at fair value with unrealized gains and losses reported as a separate component of policyowners' surplus. Fixed maturity securities which the Company has the positive intent and ability to hold to maturity are categorized as held-to-maturity and are reported at amortized cost. Equity securities are classified as available-for-sale and carried at fair value.

Cash and cash equivalents include all highly liquid debt instruments which have original maturities of three months or less, and are stated at cost which approximates fair value.

Mortgage loans and policy loans are stated at aggregate unpaid balances.

Realized gains and losses on sale or maturity of investments are based on specific identification of the investments sold and do not include amounts allocable to separate accounts. At the time a decline in value of an investment

is determined to be other than temporary, a provision for loss is recorded which is included in realized investment gains and losses.

DEFERRED ACQUISITION COSTS

Costs of acquiring new business which vary with and are primarily related to the production of new business have been deferred to the extent that such costs are deemed recoverable. Such costs include commissions, certain costs of policy underwriting and issue and certain variable agency expenses. These costs are amortized with interest as follows:





1. ORGANIZATION, BASIS OF PRESENTATION AND ACCOUNTING POLICIES (CONTINUED)

For participating whole life insurance products, over 30 years in relation to the present value of estimated gross margins from expenses, surrender gains, investments and mortality, discounted using the expected investment yield.

For universal life-type policies and investment contracts, 30 years and 15 years, respectively, in relation to the present value of estimated gross profits from surrender charges and investment, mortality and expense margins, discounted using the interest rate credited to the policy.

Recoverability of the unamortized balance of deferred policy acquisition costs is evaluated regularly. For universal life-type contracts, investment contracts and participating whole life policies, the accumulated amortization is adjusted (increased or decreased) whenever there is a material change in the estimated gross profits or gross margins expected over the life of a block of business in order to maintain a consistent relationship between cumulative amortization and the present value of gross profits or gross margins. For all contracts, the unamortized asset balance is reduced by a charge to income when the present value of future cash flows, net of policy liabilities, is not sufficient to cover such asset balance.

PROPERTY AND EQUIPMENT

Property and equipment are stated on the basis of cost, less allowances for depreciation of $34,268,926 and $29,087,910 at December 31, 2000 and 1999, respectively. Depreciation has been computed using the straight-line method at rates based on estimated useful lives.

INTANGIBLE ASSETS

Present value of future profits has been recorded in connection with the acquisition of subsidiaries. The initial value is based on the actuarially determined present value of the projected future gross profits from the in-force business acquired. The value of insurance in force purchased is amortized on a constant yield basis over the estimated life of the insurance in force at the date of acquisition in proportion to the emergence of profits over a period of approximately 20 years. Accumulated amortization of present value of future profits is $14,569,908 and $13,053,567 at December 31, 2000 and 1999,

respectively.





Indianapolis Life Insurance Company and Subsidiaries

Notes to Consolidated Financial Statements (continued)

December 31, 2000

1. ORGANIZATION, BASIS OF PRESENTATION AND ACCOUNTING POLICIES (CONTINUED)

INTANGIBLE ASSETS (CONTINUED)

Goodwill represents the excess of cost of acquisition of subsidiaries over the fair value of net assets acquired and is amortized using the straight-line method over 20 years. Accumulated amortization of goodwill is $5,362,428 and $4,471,710 at December 31, 2000 and 1999, respectively.

SEPARATE ACCOUNTS

Separate account assets and liabilities represent funds that are separately administered, principally for variable annuity contracts, and for which the contractholder, rather than the Company, bears the investment risk. Separate account contractholders have no claim against the assets of the general account of the Company. Separate account assets are reported at fair value. The operations of the separate accounts are not included in the accompanying consolidated financial statements.

POLICY RESERVES FOR FUTURE BENEFITS

Reserves for participating whole life policies are calculated using the net level premium method and assumptions as to interest and mortality. The interest rates and the mortality rates are those guaranteed in the calculation of cash surrender values described in the contract. Deposit administration funds are reserved using various rates as the interest credited generally fluctuates with interest rate changes in the market place. Reserves for term life policies are determined using the 1980 4% Commissioner's Reserve Valuation Method.

Reserves for universal life policies and investment contracts are the account values (premiums and interest credits less mortality and expense charges) plus a deferred revenue liability, if any, for excess first-year policyowner charges and net unrealized gains (losses) on investments allocated to policyowners.

The Company waives deduction of deferred fractional premiums upon death of insureds and returns any portion of the final premium beyond the date of death. Surrender values are not promised in excess of the legally computed reserves.





Indianapolis Life Insurance Company and Subsidiaries

Notes to Consolidated Financial Statements (continued)

December 31, 2000

1. ORGANIZATION, BASIS OF PRESENTATION AND ACCOUNTING POLICIES (CONTINUED)

Reinsurance premiums, expenses, recoveries and reserves related to reinsured business are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts, and reported on a gross basis.

PREMIUMS AND RELATED BENEFITS AND EXPENSES

Premium income is recognized as revenue when due.

The dividend scales used for determination of dividends payable to policyowners are approved by the Board of Directors. The liability for policy dividends payable in the following year is estimated based on approved dividend scales and historical experience and is charged to current operations. Participating policies represent approximately 26% and 31% of the life insurance inforce at December 31, 2000 and 1999, respectively, and approximately 64%, 71% and 77% of premiums in 2000, 1999 and 1998, respectively.

THIRD-PARTY ADMINISTRATORS

The Company has contractual arrangements with three third-party administrators to distribute and administer its annuity products. One of the third-party administrators, Legacy Marketing Group, distributes and administers the majority of this business.

COMPREHENSIVE INCOME

Comprehensive income is reported separately in policyowners' surplus and is comprised of the results of operations and the change in a portion of unrealized gains or losses in the Company's available-for-sale securities.





1. ORGANIZATION, BASIS OF PRESENTATION AND ACCOUNTING POLICIES (CONTINUED)

The Company's reclassification adjustment for 2000 and 1999 is as follows:

| YEAR ENDED DECEMBER 31, 2000 | GROSS | TAX EFFECT |
|---|---|---|
| Unrealized holding gains arising during year | $ 46,671,175 | $(16,334,911) |
| Reclassification adjustment for gains realized in net income | (39,618,087) | 13,866,330 |
| Allocated to future policy benefit reserves | 7,741,674 | (2,709,586) |
| Deferred acquisition costs valuation | 1,442,977 | (505,042) |
| Change in net unrealized gains on available for sale securities | $ 16,237,738 | $ (5,683,208) |

| YEAR ENDED DECEMBER 31, 1999 | GROSS | TAX EFFECT |
|---|---|---|
| Unrealized holding gains arising during year | $ 88,171,160 | $(30,859,906) |
| Reclassification adjustment for gains realized in net income | (10,949,979) | 3,832,493 |
| Allocated to future policy benefit reserves | (113,900,988) | 39,865,346 |
| Deferred acquisition costs valuation | (7,612,609) | 2,664,413 |
| Change in net unrealized gains on available for sale securities | $ (44,292,416) | $ 15,502,346 |

| YEAR ENDED DECEMBER 31, 1998 | GROSS | TAX EFFECT |
|---|---|---|
| Unrealized holding gains arising during year | $ 138,646,372 | $(48,526,230) |
| Reclassification adjustment for gains realized in net income | (21,935,229) | 7,677,330 |
| Allocated to future policy benefit reserves | (86,663,175) | 30,332,111 |
| Deferred acquisition costs valuation | (28,883,074) | 10,109,076 |
| Change in net unrealized gains on available for sale securities | $ 1,164,894 | $ (407,713) |





1. ORGANIZATION, BASIS OF PRESENTATION AND ACCOUNTING POLICIES (CONTINUED)

NEW ACCOUNTING STANDARDS

During 1998, the Financial Accounting Standards Board issued Statement No. 133, "Accounting for Derivative Investments and Hedging Activities" (SFAS No. 133) which is effective January 1, 2001. SFAS No. 133 defines derivative instruments and provides comprehensive accounting and reporting standards for the recognition and measurement of derivative and hedging activities. The Statement requires all derivatives to be recorded in the balance sheet at fair value. The impact of adopting SFAS No. 133 as of January 1, 2001 will be to reduce net income in 2001 by approximately $1,000,000 and will be recorded as a cumulative effect adjustment.

RECLASSIFICATION

Certain prior year amounts have been reclassified to conform to the current year presentation.

2. AFFILIATION

At December 31, 1999, American United Life Insurance Company ("AUL"), an

Indiana-domiciled mutual life insurance company, and Legacy Marketing Group ("Legacy"), a third party administrator, owned 33% and 6%, respectively, of IL Group.

On February 18, 2000, the Company entered into a definitive agreement with AmerUs Group Co. ("AmerUs"), formerly American Mutual Holding Company and AmerUs Life Holdings, Inc., which contemplates the ultimate combination of AmerUs and the Company. The transaction, which includes demutualization by the Company, is subject to various governmental and insurance department approvals and is expected to be finalized during the second quarter of 2001. Under the agreement, AmerUs initially acquired a 45% ownership interest in IL Group for $100,000,000, and IL Group used the proceeds of the investment to repurchase the ownership interests of AUL and Legacy in their entirety. The Company incurred costs related to this reorganization of $12,928,485 and $907,299 in 2000 and 1999, respectively.





3. INVESTMENTS

Fixed maturity and equity securities consist of the following at December 31:

| | 2000 | | | |
|---|---|---|---|---|
| | AMORTIZED COST | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES | |
| Available for sale: | | | | |
| Fixed maturity securities: | | | | |
| U.S. government and agencies | $ 239,377,063 | $ 8,140,200 | $ 45,835 | $ 2 |
| Corporate | 3,285,046,248 | 176,260,447 | 196,874,160 | 3,2 |
| Asset backed securities | 46,707,540 | 309,968 | 1,061,565 | |
| Mortgage backed securities | 286,274,928 | 8,597,225 | 554,311 | 2 |
| Total fixed maturity securities | 3,857,405,779 | 193,307,840 | 198,535,871 | 3,8 |
| Equity securities: | | | | |
| Preferred stock | 2,093,905 | 21,595 | 461 | |
| Common stock | 11,480,468 | 841,649 | 1,242,082 | |
| Total equity securities | 13,574,373 | 863,244 | 1,242,543 | |
| | $3,870,980,152 | $ 194,171,084 | $ 199,778,414 | $3,8 |
| Held to maturity: | | | | |
| U.S. government and agencies | $ 4,774,643 | $ 192,624 | $ - | $ |
| Corporate | 216,080,657 | 7,981,481 | 877,741 | 2 |
| Asset backed securities | - | - | - | |
| Mortgage backed securities | 6,228,946 | 263,775 | - | |

| | | | | |
|---|---|---|---|---|
| | $ 227,084,246 | $ 8,437,880 | $ 877,741 | $ 2 |





Indianapolis Life Insurance Company and Subsidiaries

Notes to Consolidated Financial Statements (continued)

December 31, 2000

3. INVESTMENTS (CONTINUED)

| | 1999 | | | |
|---|---|---|---|---|
| | AMORTIZED COST | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES | |
| Available for sale: | | | | |
| Fixed maturity securities: | | | | |
| U.S. government and agencies | $ 190,185,642 | $ 252,024 | $ 5,485,691 | $ 1 |
| Corporate | 3,442,292,423 | 274,177,787 | 173,901,920 | 3,5 |
| Asset backed securities | 55,987,689 | 50,116 | 1,821,998 | |
| Mortgage backed securities | 303,425,996 | 3,785,185 | 5,267,891 | 3 |
| Total fixed maturity securities | 3,991,891,750 | 278,265,112 | 186,477,500 | 4,0 |
| Equity securities: | | | | |
| Preferred stock | 1,062,970 | - | 103,720 | |
| Common stock | 7,574,702 | 607,955 | 657,646 | |
| Total equity securities | 8,637,672 | 607,955 | 761,366 | |
| | $4,000,529,422 | $ 278,873,067 | $ 187,238,866 | $4,0 |
| Held to maturity: | | | | |
| U.S. government and agencies | $ 5,181,652 | $ 41,542 | $ 108,440 | $ |
| Corporate | 238,901,798 | 3,918,262 | 5,686,435 | 2 |
| Asset backed securities | 166,633 | 657 | - | |
| Mortgage backed securities | 7,976,124 | - | 234,217 | |
| | $ 252,226,207 | $ 3,960,461 | $ 6,029,092 | $ 2 |





Indianapolis Life Insurance Company and Subsidiaries

Notes to Consolidated Financial Statements (continued)

December 31, 2000

3. INVESTMENTS (CONTINUED)

The amortized cost and fair value of fixed maturity securities at December 31, 2000, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | AVAILABLE FOR SALE | | HELD TO MATURIT | |
|---|---|---|---|---|
| | AMORTIZED COST | FAIR VALUE | AMORTIZED COST | |
| Due in one year or less | $ 56,744,135 | $ 63,872,059 | $ 15,529,585 | $ |
| Due after one year through five years | 1,246,378,809 | 1,217,993,169 | 101,329,150 | |
| Due after five years through ten years | 894,811,508 | 875,750,030 | 56,848,324 | |
| Due after ten years | 1,374,182,147 | 1,400,244,647 | 47,148,242 | |
| Mortgage-backed securities | 286,274,928 | 294,317,843 | 6,228,945 | |
| | $3,858,391,527 | $3,852,177,748 | $ 227,084,246 | $ |

Net investment income consisted of the following:

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Fixed maturity securities | $235,723,904 | $210,785,436 | $148,322,043 |
| Equity securities | 120,995 | 165,680 | 97,018 |
| Mortgage loans | 31,716,045 | 32,708,068 | 29,697,737 |
| Real estate | - | - | 8,280 |
| Policy loans | 12,645,973 | 12,159,354 | 13,256,324 |
| Short term investments | 6,981,061 | 11,594,939 | 10,322,418 |
| Other | 4,291,792 | 7,259,596 | 4,183,019 |
| Gross investment income | 291,479,770 | 274,673,073 | 205,886,839 |
| Less investment expenses | 18,228,626 | 17,768,439 | 11,805,427 |
| Net investment income | $273,251,144 | $256,904,634 | $194,081,412 |

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Indianapolis Life Insurance Company and Subsidiaries

Notes to Consolidated Financial Statements (continued)

December 31, 2000

3. INVESTMENTS (CONTINUED)

Net unrealized gains (losses) on available-for-sale securities are as follows:

| | DECEMBER 31 2000 | 1999 |
|---|---|---|
| Fixed maturities: | | |
| Gross unrealized gains | $ 193,307,840 | $ 278,265,112 |
| Gross unrealized losses | (198,535,871) | (186,477,500) |
| | (5,228,031) | 91,787,612 |
| Equity securities: | | |
| Gross unrealized gains | 863,244 | 607,955 |
| Gross unrealized losses | (1,242,543) | (761,366) |
| | (379,299) | (153,411) |
| Deferred income taxes | 2,573,249 | (34,640,881) |
| Allocated to future policy benefit reserves | 5,032,088 | (74,035,642) |
| Deferred acquisition costs and present value of future profits valuation | (1,368,014) | 5,236,231 |
| Minority interest in consolidated subsidiaries | (304,441) | 1,577,113 |
| | $ 325,552 | $ (10,228,978) |

Proceeds from sales of available for sale securities during 2000, 1999 and 1998 were $2,147,082,063, $716,775,997 and $226,690,947, respectively. Gross gains of $166,562,086, $27,245,476 and $20,437,597 and gross losses of $104,527,532, $17,377,449 and $1,563,754 were realized in 2000, 1999 and 1998, respectively.

The Company maintains a diversified mortgage loan portfolio and exercises internal limits on concentrations of loans by geographic area, industry, use and individual mortgagor. Net realized capital gains include write downs and changes in the reserve for losses on mortgage loans and foreclosed real estate of $(86,270), $232,548 and $248,135 for 2000, 1999, and 1998, respectively.

The Company has outstanding mortgage loan commitments at December 31, 2000, of approximately $8,700,000.





Indianapolis Life Insurance Company and Subsidiaries

Notes to Consolidated Financial Statements (continued)

December 31, 2000

4. FEDERAL INCOME TAXES

A reconciliation of federal income taxes computed at statutory tax rates to federal income tax expense is as follows:

| | 2000 | 1999 | 1998 |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Income tax computed at statutory tax rates | $ 9,124,264 | $ 1,046,038 | $ 10,944,109 |
| Demutualization expenses | 4,766,156 | - | - |
| Mutual company differential earning amount | - | 2,637,919 | (2,754,247) |
| Tax credits | (1,966,357) | (1,801,377) | (1,383,442) |
| Amortization of goodwill | 389,439 | 279,988 | 650,710 |
| Dividend received deduction | (741,932) | (187,000) | - |
| Other | 65,768 | (383,019) | 1,179,168 |
| Federal income taxes | $ 11,637,338 | $ 1,592,549 | $ 8,636,298 |

Federal income taxes consist of the following:

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Current taxes | $ 308,297 | $ 9,324,472 | $ 14,380,161 |
| Deferred taxes (credits) | 11,329,041 | (7,731,923) | (5,743,863) |
| Total | $ 11,637,338 | $ 1,592,549 | $ 8,636,298 |

Significant components of the deferred tax assets (liabilities) at December 31, 2000 and 1999 are as follows:

| | 2000 | 1999 |
|---|---|---|
| Insurance reserves | $ 79,886,092 | $ 86,202,023 |
| Deferred policy acquisition costs | (88,161,260) | (79,514,798) |
| Unrealized depreciation (appreciation) of securities | 1,896,101 | (34,241,704) |
| Investments | (3,875,604) | (9,604,925) |
| Present value of future profits | (2,275,336) | (2,806,055) |
| Other | (1,384,480) | 930,471 |
| Total deferred tax liabilities | (13,914,487) | (39,034,988) |
| Valuation allowance | (758,183) | (835,253) |
| Net deferred tax liabilities | $(14,672,670) | $(39,870,241) |





4. FEDERAL INCOME TAXES (CONTINUED)

Valuation allowances have been recorded for operating losses, credit carryovers and alternative minimum tax credit carryovers. The amount of the tax net operating loss carryforwards are $1,592,754 at December 31, 2000. The operating loss carryovers expire between 2012 and 2017.

The Company paid federal income taxes of $22,182,789, $13,839,934 and $18,102,557 in 2000, 1999 and 1998, respectively and received refunds of $4,424,205 and $3,257,067 in 2000 and 1999, respectively.

5. REINSURANCE

The Company has entered into reinsurance cession agreements with other insurance companies to limit the net loss arising from large risks and maintain its exposure to loss within its capital resources. The Company remains liable for ceded risks in the event that reinsurers do not meet their obligations. Management believes its reinsurers will meet their obligations under existing contracts.

The effects of reinsurance on premiums were as follows:

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Reinsurance assumed | $ 54,733,302 | $ 47,600,550 | $ 41,940,233 |
| Reinsurance ceded | (79,798,329) | (71,099,915) | (56,776,068) |

Reinsurance recoveries on ceded reinsurance contracts were $34,159,587, $28,126,006 and $23,457,066 during 2000, 1999 and 1998, respectively.

IL Annuity and Insurance Company has entered into modified coinsurance cession agreements covering flexible premium deferred annuity policies distributed through a third-party administrator. Future policy benefit reserves include reinsurance payable of $1,987,574,940 and $2,279,437,605 at December 31, 2000 and 1999, respectively. Net realized capital gains are net of realized gains allocated to the reinsurer of $44,898,593, $15,316,835 and $14,194,580 in 2000,1999 and 1998, respectively.







6. BENEFIT PLANS

The Company has a noncontributory defined benefit pension plan, which generally covers all qualified employees that have attained the age of twenty-one. Benefits are based on years of service and compensation levels during employment. All Plan assets consist primarily of deposit administration funds and group annuity contracts held by the Company. Company contributions to the Plan are computed actuarially and funded annually.

The Company's Board of Directors approved a special Early Retirement Window for Plan participants, which was accompanied by a plan curtailment of benefits. Individuals meeting certain employment status, service and age criteria as of an

effective date of December 31, 2000 were eligible for early retirement, all which occurred on or before December 31, 2000. The actuarial valuation reflects the financial effects on the Plan of both the curtailment and Early Retirement Window. The financial impact on pension expense in 2000 as a result of the curtailment and early retirement was approximately $3.7 million.

In addition to the Company's defined benefit plan, the Company offers retired employees, retired full-time agents and eligible spouses and dependents certain postretirement benefits such as medical, life, and dental insurance.

The most recent actuarial valuation date for pension benefits and postretirement benefits was September 30 and December 31, respectively.

The reconciliation of the benefit obligation is as follows:

| | PENSION BENEFITS | | |
|---|---|---|---|
| | 2000 | 1999 | 199 |
| Benefit obligation at beginning of year | $32,910,998 | $31,443,397 | $26,37 |
| Service cost | 1,673,086 | 1,593,714 | 1,22 |
| Interest cost | 2,221,492 | 2,043,821 | 1,84 |
| Actuarial (gain) loss | (3,525,928) | (1,129,236) | 3,01 |
| Benefits paid | (1,008,593) | (1,040,698) | (1,01 |
| Additional obligation resulting from curtailment and window | 2,693,040 | - | |
| Benefit obligation at end of year | $34,964,095 | $32,910,998 | $31,44 |





Indianapolis Life Insurance Company and Subsidiaries

Notes to Consolidated Financial Statements (continued)

December 31, 2000

6. BENEFIT PLANS (CONTINUED)

| | POSTRETIREMENT BENEFITS | | |
|---|---|---|---|
| | 2000 | 1999 | 1 |
| Benefit obligation at beginning of year | $ 8,330,104 | $6,717,388 | $6, |
| Service cost | 252,424 | 281,668 | |
| Interest cost | 501,152 | 558,538 | |
| Actuarial (gain) loss | (1,322,396) | 1,200,682 | |
| Benefits paid | (404,262) | (428,172) | ( |
| Benefit obligation at end of year | $ 7,357,022 | $8,330,104 | $6, |

The changes in pension plan assets were as follows:

| | PENSION BENEFITS | | |
|---|---|---|---|
| | 2000 | 1999 | 1 |
| Fair value of plan assets at beginning of year | $27,588,103 | $25,191,760 | $23, |
| Actual return on plan assets | 1,885,328 | 1,790,758 | 1, |
| Employer contributions | 542,810 | 1,608,017 | 1, |
| Benefits paid | (1,160,574) | (1,002,432) | (1, |
| Additional benefits paid resulting from retirement window | (520,478) | - | |
| Fair value of plan assets at end of year | $28,335,189 | $27,588,103 | $25, |

The reconciliation of the funded status to the net benefit cost recognized is as follows:

| | PENSION BENEFITS | | |
|---|---|---|---|
| | 2000 | 1999 | |
| Funded status | ($3,415,388) | ($5,322,895) | ($6, |
| Unfunded additional benefits resulting from curtailment and retirement window | (3,213,518) | - | |
| Unrecognized net loss | 518,799 | 4,101,140 | 5, |
| Unrecognized transition obligation | 1,048,358 | 1,248,046 | 1, |
| Prepaid (accrued) benefit cost at December 31 | ($5,061,749) | $ 26,291 | $ |





Indianapolis Life Insurance Company and Subsidiaries

Notes to Consolidated Financial Statements (continued)

December 31, 2000

6. BENEFIT PLANS (CONTINUED)

| | POSTRETIREMENT BENEFITS | | |
|---|---|---|---|
| | 2000 | 1999 | 1998 |
| Funded status | ($7,357,022) | ($8,330,104) | ($6,717,388) |
| Unrecognized net loss | 367,866 | 834,481 | 1,512,229 |

| | | | |
|---|---|---|---|
| Unrecognized prior service cost | 773,994 | 435,809 | (1,486,994) |
| Accrued benefit cost at December 31 | ($6,215,162) | ($7,059,814) | ($6,692,153) |

The weighted average assumptions used in calculating the accrued liabilities are as follows:

| | PENSION BENEFITS | | | POSTRETIRE |
|---|---|---|---|---|
| | 2000 | 1999 | 1998 | 2000 |
| Discount rate | 7.50% | 6.75% | 6.50% | 7.50% |
| Rate of compensation increase | 4.50% | 4.50% | 4.50% | 5.00% |
| Expected rate of return on plan assets | 8.00% | 8.00% | 8.00% | - |

The assumed health care cost trend rate used in measuring the postretirement benefit obligations were as follows:

| | |
|---|---|
| 2000 | |
| Under age 65 | 7.8% with an assumed graded decrease to 5% |
| Over age 65 | 7.5% with an assumed graded decrease to 5% |
| 1999 | |
| Under age 65 | 8.2% with an assumed graded decrease to 5% |
| Over age 65 | 7.8% with an assumed graded decrease to 5% |
| 1998 | |
| Under age 65 | 8.6% with an assumed graded decrease to 5% |
| Over age 65 | 8.2% with an assumed graded decrease to 5% |





Indianapolis Life Insurance Company and Subsidiaries

Notes to Consolidated Financial Statements (continued)

December 31, 2000

6. BENEFIT PLANS (CONTINUED)

Below are the components of net periodic benefit cost:

| | PENSION BENEFITS | | |
|---|---|---|---|
| | 2000 | 1999 | 1998 |
| Service cost | $ 1,673,086 | $ 1,593,714 | $ 1,224,152 |
| Interest cost | 2,185,916 | 2,008,426 | 1,809,049 |
| Expected return on assets | (2,206,693) | (2,007,071) | (1,832,667 |
| Amortization of unrecognized net loss | 55,191 | 137,985 | - |
| Amortization of transition obligation | 156,006 | 156,006 | 156,006 |
| Net periodic benefit cost | $ 1,863,506 | $ 1,889,060 | $ 1,356,540 |

| | POSTRETIREMENT BENEFITS | | |
|---|---|---|---|
| | 2000 | 1999 | 1998 |
| Service cost | $ 252,424 | $ 281,668 | $ 229,772 |
| Interest cost | 501,152 | 558,538 | 437,536 |
| Amortization of unrecognized prior service cost | (79,002) | (169,106) | (288,005 |
| Amortization of unrecognized net loss | 82,387 | 124,733 | 144,909 |
| Net periodic benefit cost | $ 756,961 | $ 795,833 | $ 524,212 |

The Company sponsors a salary reduction/savings plan for employees as defined by Section 401(k) of the Internal Revenue Code. Participants may contribute on a pre-tax basis from 1% to 15% of their eligible earnings up to a maximum amount as permitted by law. Voluntary employee contributions are matched at an amount equal to 50% of the first 3% of each participant's contribution. Contributions made by the Company totaled $251,154, $271,307 and $282,510 for 2000, 1999 and 1998, respectively. Other liabilities and reserves include $12,910,540 and $11,915,375 at December 31, 2000 and 1999, respectively, relating to the plan.

The Company has a defined contribution pension plan covering substantially all of the agents. Company contributions are based on agent compensation and are funded annually; contributions for 2000, 1999 and 1998 were $146,955, $202,000 and $266,000, respectively. Other policyowner funds include $12,511,470 and $13,631,072 at December 31, 2000 and 1999, respectively, relating to the plan.





Indianapolis Life Insurance Company and Subsidiaries

Notes to Consolidated Financial Statements (continued)

December 31, 2000

6. BENEFIT PLANS (CONTINUED)

The Company also sponsors a deferred compensation plan for agents and a separate deferred compensation plan for officers and directors. Other liabilities and reserves include $7,382,615 and $5,797,227 at December 31, 2000 and 1999, respectively, relating to these plans. The deferred compensation plans are contributory and nonqualified.

7. SURPLUS NOTES

Any payment of interest and repayment of principal on the surplus notes may be paid only out of the Company's earnings, subject to approval by the Indiana Department of Insurance. A summary of the terms of these surplus notes follows:

| DATE ISSUED | INTEREST RATE | AMOUNT OF NOTES | ANNUAL INTEREST PAID | ACCRUED INTEREST AT DECEMBER 31 | DAT MAT |
|---|---|---|---|---|---|

| May 8, 1996 | 8.66% | $25,000,000 | $2,165,000 | $541,250 | April |
|---|---|---|---|---|---|

8. COMMITMENTS AND CONTINGENCIES

The Company is involved in pending and threatened litigation of the character incidental to the business transacted. Management believes that the conclusion of the litigation will not have a material adverse affect on the Company's financial position or results of operations.

During 1999, the Company reached an agreement to settle a market conduct class action lawsuit. The terms of the agreement call for the Company to make payments of cash, policy credits or additional death benefits to owners of eligible policies. These costs, plus legal expenses, total approximately $21,284,500 (net of taxes of $11,460,885) and were recognized in 1999.





9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments in the accompanying financial statements and notes thereto:

Cash and cash equivalents, accrued investment income and policy loans: The carrying amounts reported in the accompanying balance sheets for these financial instruments approximate their fair values.

Fixed maturity and equity securities: Fair values of bonds and stocks are based on quoted market prices where available. For bonds not actively traded, fair values are estimated using values obtained from independent pricing services, or in the case of private placements, by discounting expected future cash flow using a current market rate applicable to the yield, credit quality and maturity of the investments.

Mortgage loans: The fair value of mortgage loans was estimated by discounting the future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings for similar maturities.

Investment-type contracts: The fair value of deferred annuities is believed to approximate the cash surrender value. The carrying amounts of other investment-type contracts approximate their fair value.

Surplus notes: The fair value of surplus notes are estimated using values obtained from an independent pricing service based on the bid price of the notes on the given date.

Indianapolis Life Insurance Company and Subsidiaries

Notes to Consolidated Financial Statements (continued)

December 31, 2000

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value and fair values of the Company's financial instruments at December 31, are as follows:

| | 2000 | | 1999 |
|---|---|---|---|
| | CARRYING AMOUNT | FAIR VALUE | CARRYING AMOUNT |
| ASSETS: | | | |
| Fixed maturity securities: | | | |
| Available for sale | $3,852,177,748 | $3,852,177,748 | $4,083,679,362 |
| Held to maturity | 227,084,246 | 234,644,385 | 252,226,207 |
| Equity securities | 13,195,074 | 13,195,074 | 8,484,261 |
| Mortgage loans | 369,510,962 | 385,097,702 | 378,053,935 |
| LIABILITIES: | | | |
| Deferred annuities | 2,896,324,342 | 2,788,664,311 | 3,268,272,248 |
| Surplus notes | 25,000,000 | 27,027,500 | 25,000,000 |

The fair values of the Company's liabilities for insurance contracts other than investment-type contracts are not required to be disclosed. However, the estimated fair values for all insurance liabilities are taken into consideration in the Company's overall management of interest rate risk, which minimizes exposure to changing interest rates through the matching of investment maturities with amounts due under insurance contracts.

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INDIANAPOLIS LIFE INSURANCE COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
($ in thousands)

| | March 31, 2001 | December 31, 2000 |
|---|---|---|
| | (unaudited) | |
| Assets | | |
| Investments: | | |
| Fixed maturity securities: | | |
| Available for sale, at fair value | $1,464,167 | $3,852,178 |
| Trading, at fair value | 2,314,428 | - |
| Held to maturity, at amortized cost | 225,268 | 227,084 |
| Equity securities, at fair value | 10,772 | 13,195 |
| Mortgage loans | 371,442 | 369,511 |

| | | |
|---|---|---|
| Policy loans | 193,745 | 191,305 |
| Other invested assets | 16,388 | 10,022 |
| Cash and cash equivalents | 120,107 | 94,383 |
| Total investments | 4,716,317 | 4,757,678 |
| Accrued investment income | 51,190 | 57,432 |
| Reinsurance recoverable | 344,428 | 267,098 |
| Deferred acquisition costs | 359,073 | 351,575 |
| Receivables and other assets | 4,107 | 12,026 |
| Federal income taxes | 530 | 20,053 |
| Property and equipment | 33,269 | 29,809 |
| Present value of future profits | 9,491 | 7,959 |
| Goodwill | 17,415 | 17,702 |
| Separate account assets | 315,691 | 353,233 |
| Total assets | $5,851,511 | $5,874,565 |

See accompanying notes.





INDIANAPOLIS LIFE INSURANCE COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
($ in thousands)

| | March 31, 2001 | December 31, 2000 |
|---|---|---|
| | (unaudited) | |
| Liabilities and policyowners' surplus | | |
| Liabilities: | | |
| Policy reserves for future benefits | $4,695,748 | $4,721,099 |
| Other policyowner funds | 201,441 | 189,908 |
| Accrued commissions and general expenses | 4,884 | 8,089 |
| Surplus notes | 25,000 | 25,000 |
| Other liabilities and reserves | 156,141 | 138,431 |
| Deferred federal income taxes | 21,562 | 14,673 |
| Separate account liabilities | 315,691 | 353,233 |
| Total liabilities | 5,420,467 | 5,450,433 |
| Minority interest in consolidated subsidiaries | 106,629 | 105,655 |
| Policyowners' surplus: | | |
| Accumulated other comprehensive income | 5,173 | 326 |
| Surplus | 319,242 | 318,151 |
| Total policyowners' surplus | 324,415 | 318,477 |

| | | |
|---|---|---|
| Total liabilities and policyowners' surplus | $5,851,511 | $5,874,565 |





INDIANAPOLIS LIFE INSURANCE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
($ in thousands)
(unaudited)

| | Three Months Ended March 31, 2001 | Three Months Ended March 31, 2000 |
|---|---|---|
| Revenues | | |
| Premiums | $ 42,351 | $ 43,643 |
| Policy and contract charges | 19,910 | 16,895 |
| Net investment income | 64,005 | 68,393 |
| Realized/unrealized gains (losses) on investments | (13,798) | 5,990 |
| Total revenues | 112,468 | 134,921 |
| Benefits and expenses | | |
| Policy benefits | 80,186 | 83,270 |
| Underwriting, acquisition and insurance expenses | 20,306 | 30,383 |
| Reorganization Costs | 783 | 1,934 |
| Interest | 541 | 541 |
| Dividends to policyowners | 8,085 | 8,139 |
| Total benefits and expenses | 109,901 | 124,267 |
| Income before federal income taxes and minority interest | 2,567 | 10,654 |
| Federal income taxes | 926 | 3,982 |
| Minority interest in consolidated subsidiaries | 55 | 1,343 |
| Income before cumulative effect of change in accounting for derivatives | 1,586 | 5,329 |
| Cumulative effect of change in accounting for derivatives, net of tax and minority interest | (495) | - |
| Net income | $ 1,091 | $ 5,329 |

See accompanying notes.

INDIANAPOLIS LIFE INSURANCE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF POLICYOWNERS' SURPLUS
($ in thousands)

| | Accumulated Other Comprehensive Income (Loss) | Surplus |
|---|---|---|
| Balance at December 31, 1999 | $ (10,229) | $ 308,003 |
| Net income | - | 10,148 |
| Change in net unrealized gains on available for sale securities, net of deferred taxes | 10,555 | - |
| Comprehensive income | 10,555 | 10,148 |
| Balance at December 31, 2000 | 326 | 318,151 |
| (2001 unaudited) | | |
| Net income | - | 1,586 |
| Change in accounting for derivatives | - | (495) |
| Transfer related to unrealized loss on available-for-sale securities reclassified to trading | 9 | - |
| Change in net unrealized gains on available for sale securities, net of deferred taxes | 4,838 | - |
| Comprehensive income | 4,847 | 1,091 |
| Balance at March 31, 2001 | $ 5,173 | $ 319,242 |

See accompanying notes.





INDIANAPOLIS LIFE INSURANCE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
($ in thousands)
(unaudited)

| | Three Months Ended March 31, 2001 | 2000 |
|---|---|---|
| Operating activities | | |
| Net income | $ 1,091 | $ 5,329 |
| Minority interest in consolidated subsidiaries | 55 | 1,343 |
| Cumulative effect of change in accounting for derivatives | 495 | - |

| | | |
|---|---|---|
| Adjustments to reconcile net income to net cash provided (used) by operating activities: | | |
| Amortization expense | 323 | 393 |
| Realized/unrealized gains (losses) on investments | 13,798 | (5,990) |
| Changes in operating assets and liabilities: | | |
| Current and deferred income taxes | 15,458 | 5,962 |
| Deferred acquisition costs | (24,928) | (23,511) |
| Amortization of deferred acquisition costs | 12,079 | 16,143 |
| Policyowner assessments on universal life | (19,910) | (16,895) |
| Interest credited to policyowner accounts | 3,266 | 12,804 |
| Liabilities for future policy benefits | 135,213 | (59,115) |
| Policy, contract claims and other policyowner funds | 7,961 | 10,658 |
| Accrued investment income | 6,242 | 900 |
| Reinsurance recoverable | (209,798) | 19,012 |
| Fixed maturity securities held for trading purposes | 137,141 | - |
| Other assets and liabilities | 11,648 | (2,066) |
| Net cash provided (used) by operating activities | 90,134 | (35,033) |
| Investing activities | | |
| Proceeds from sales, calls or maturities: | | |
| Fixed maturities | 628,534 | 278,370 |
| Equity securities | 2,060 | 21 |
| Mortgage loans | 5,756 | 7,724 |
| Other invested assets | 1,206 | 186 |
| Purchases: | | |
| Fixed maturities | (709,486) | (326,566) |
| Equity securities | (449) | (1,410) |
| Mortgage loans | (7,939) | (10,198) |
| Other invested assets | (3,178) | (3,521) |
| Change in policy loans | (2,440) | (345) |
| Net cash provided (used) by investing activities | (85,936) | (55,739) |
| Financing activities | | |
| Investment from minority interest in subsidiaries | - | 100,000 |
| Purchase of minority interest in subsidiaries | - | (77,241) |
| Deposits to policyowner accounts | 67,448 | 68,748 |
| Withdrawals from policyowner accounts | (45,922) | (45,581) |
| Net cash provided by financing activities | 21,526 | 45,926 |
| Net increase (decrease) in cash | 25,724 | (44,846) |
| Cash and cash equivalents at beginning of year | 94,383 | 174,417 |
| Cash and cash equivalents at end of year | $ 120,107 | $ 129,571 |

See accompanying notes.

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INDIANAPOLIS LIFE INSURANCE COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

MARCH 31, 2001

(1) BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for annual financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All adjustments were of a normal recurring nature, unless otherwise noted in Management's Discussion and Analysis and the Notes to Financial Statements. Operating results for the three months ended March 31, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001 (see further discussion in Management's Discussion and Analysis). For further information, refer to the 2000 consolidated financial statements and footnotes thereto.

(2) DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standard (SFAS) No. 133 "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137 and SFAS No. 138, which requires that all derivative instruments, including certain derivative instruments embedded in other contracts, be reported on the balance sheet at fair value. Accounting for gains and losses resulting from changes in the values of derivatives is dependent upon the use of the derivative and its qualification for special hedge accounting. In accordance with the provisions of SFAS No. 133, the Company recorded a transition adjustment as of January 1, 2001, upon adoption of the standard to recognize its derivative instruments at fair value resulting in a pre-tax reduction to income of $1.4 million ($0.5 million net of tax and minority interest). The reduction to income, which is classified as a "cumulative effect of change in accounting for derivatives, net of tax and minority interest" in the Consolidated Statements of Income, is attributable to adjustments to fair value for certain fixed annuity products.

The Company has three fixed annuity products that credit interest based on a total return strategy. Under the total return strategy, the policyowner is allowed to allocate their premium payments to different asset classes within the Company's general account. The annuity contract is credited with an interest rate equal to the total return on the general account assets to which the selected strategy is linked, less certain charges. The total return adjustment is paid when a policyholder accesses the funds. The Company guarantees a minimum return of premium plus approximately 3% interest per annum over the life of the contract. The general account assets backing the total return strategy of these products are fixed maturity securities and are designated by the Company as held for trading. Both the trading securities held by the Company and the annuity contracts are valued at fair value. The change in fair value for the trading securities is included in realized/unrealized gains (losses) on investments and the change in fair value of the annuity contracts is included in policyowner benefits in the Consolidated Statements of Income.

During the first quarter of 2001, realized/unrealized gains (losses) on investments included an unrealized loss of $16.0 million from the change in fair value on trading securities. Policyowner benefits included an offsetting adjustment from fair value changes in total return strategy annuity contracts of $3.4 million.

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The following table summarizes the impact on net income of adopting

SFAS No. 133 in the cumulative effect of change in accounting for derivatives as of January 1, 2001, and the market value adjustments on trading securities and derivatives in the first quarter of 2001:

| | Cumulative Effect of Change in Accounting for Derivatives January 1, 2001 |
|---|---|
| Fixed maturity securities held for trading | $ - |
| Total return strategy fixed annuity liabilities | (5,571) |
| Deferred policy acquisition cost amortization impact of net adjustments | 4,185 |
| Pre-tax (loss) | (1,386) |
| Income taxes | 485 |
| Minority interest | 406 |
| Net (loss) | $ (495) |

The after-tax loss of $1.3 million for the three months ended March 31, 2001 includes $0.5 million of after-tax loss related to the initial reclassification of the fixed maturity securities from available-for-sale to trading.

(3) REORGANIZATION AND BUSINESS COMBINATION

The Company was formerly a mutual insurance company that was owned by individuals and entities who held insurance policies or annuity contracts issued by the Company (Members). On May 18, 2001, the Company converted to a stock form and AmerUs acquired 100% of the stock from the ILICO Members for an amount of cash, policy credits and shares of AmerUs common stock equal to the value of 9.3 million shares of AmerUs common stock (the "Combination"). The purchase price totaled approximately $326 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF INDIANAPOLIS LIFE INSURANCE COMPANY AND SUBSIDIARIES

MARCH 31, 2001

The following analysis of the consolidated results of operations and financial condition of the Company should be read in conjunction with the Selected Consolidated Financial and Operating Data and Consolidated Financial Statements and related notes.

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NATURE OF OPERATIONS

Indianapolis Life Insurance Company (ILICO) is an insurance company engaged in the business of marketing, underwriting and distributing individual life and annuity products. ILICO is incorporated in the State of Indiana and conducts business in 46 states and the District of Columbia. As of March 31,

2001, ILICO owned a 55% interest (100% of the outstanding voting common stock) in The Indianapolis Life Group of Companies, Inc. (ILGC). AmerUs Group Co. (AmerUs) owned the remaining 45% interest (100% of the outstanding nonvoting common stock) in ILGC. ILGC is a holding company that owns four principal subsidiaries: IL Annuity and Insurance Company (IL Annuity), Bankers Life Insurance Company of New York (Bankers), Western Security Life Insurance Company (Western) and IL Securities, Inc. (IL Securities). The consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations include the accounts and operations of ILICO, ILGC, IL Annuity, Bankers, Western and IL Securities (collectively the Company). The Company has two reportable operating segments: Life Insurance and Annuities. The Life Insurance segment's primary product offerings consist of whole life, universal life and term life insurance policies. The primary product offerings of the Annuity segment are fixed and variable annuities.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In accordance with GAAP, premium revenues reported for traditional life insurance products are recognized as revenues when due. Future policy benefits and policy acquisition costs are recognized as expenses over the life of the policy by means of a provision for future policy benefits and amortization of deferred policy acquisition costs. Interest sensitive life insurance premiums and annuity deposits received are reflected as increases in liabilities for policyowner account balances and not as revenues. Revenues reported for interest sensitive life and annuity products consist of policy charges for the cost of insurance, administration charges and surrender charges assessed against policyowner account balances. Surrender benefits paid relating to interest sensitive life insurance policies and annuity products are reflected as decreases in liabilities for policyowner account balances and not as expenses. Amounts for interest credited to interest sensitive life and annuity policyowner account balances are reported as expenses in the financial statements. The Company receives investment income earned from the funds deposited into account balances by interest sensitive life and annuity policyowners, the majority of which is passed through to such policyowners in the form of interest credited or a total return adjustment.

The costs related to acquiring new business, including certain costs of issuing policies and certain other variable selling expenses (principally commissions), defined as deferred policy acquisition costs, are deferred to the extent that such costs are deemed collectible. The method of amortizing deferred policy acquisition costs for life insurance product varies, dependent upon whether the contract is participating or non-participating. Participating contracts are those which are expected to pay dividends to policyowners in proportion to their relative contribution to the Company's statutory surplus. Non-participating traditional life insurance deferred policy acquisition costs are amortized over the premium-paying period of the related policies in proportion to the ratio of annual premium revenues to total anticipated premium revenues using assumptions consistent with those used in computing policy benefit reserves. Deferred acquisition costs for participating and interest sensitive policies are amortized as an expense primarily in proportion to expected profits or margins from such policies. This amortization is adjusted when current or estimated future gross profits or margins on the underlying policies vary from previous estimates. For example, the amortization of deferred policy acquisition costs is accelerated when policy terminations are higher than originally estimated or when investments supporting the policies are sold at a gain prior to their anticipated maturity. Death and other policyowner benefits reflect exposure to mortality risk and fluctuate from period to period based on the level of claims incurred within insurance retention limits. The profitability of the Company is primarily affected by expense levels, interest spread results (i.e., the

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excess of investment earnings over the interest credited to policyowners) and fluctuations in mortality, persistency and other policyowner benefits. The Company has the ability to mitigate adverse experience through adjustments to credited interest rates, policyowner dividends or cost of insurance charges.

ADJUSTED NET OPERATING INCOME

The following table reflects net income adjusted to eliminate certain items (net of applicable income taxes and minority interest) which management believes do not necessarily indicate overall operating trends. For example, net realized capital gains or losses on investments, excluding gains or losses on convertible preferred stocks and bonds that are considered core earnings, are eliminated. Net realized capital gains or losses on investments may be realized at the sole discretion of management and are often realized in accordance with tax planning strategies. Therefore, net realized capital gains or losses do not reflect the Company's ongoing earnings capacity. Different items are likely to occur in each period presented and others may have different opinions as to which items may warrant adjustment. Adjusted net operating income is the basis used by the Company in assessing its overall performance. Adjusted net operating income as described here may not be comparable to similarly titled measures reported by other companies. The adjusted net operating income shown below does not constitute net income computed in accordance with GAAP.

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2001 | 2000 |
| ($ in thousands) | | |
| Net Income | $ 1,091 | $ 5,329 |
| Net non-core realized (gains) losses (A) | (214) | (58) |
| Net effect of accounting differences from the adoption of SFAS 133 (B) | 1,333 | - |
| Net amortization of deferred policy acquisition costs due to non-core realized gains or losses (C) | 38 | 41 |
| Reorganization costs (D) | 705 | 1,257 |
| Cumulative effect of change in accounting for derivatives (E) | 495 | - |
| Adjusted Net Operating Income | $ 3,448 | $ 6,569 |

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(A) Represents total realized gains or losses on investments less core realized gains or losses (defined as gains or losses on the convertible preferred stock

and bond portfolio) adjusted for income taxes and minority interest on such amounts. Non-core realized gains or losses may vary widely between periods. Such amounts are determined by management's timing of individual transactions and do not necessarily correspond to the underlying operating trends.

(B) Represents the net effect of the accounting differences during the quarter resulting from the Company's adoption of SFAS No. 133, adjusted for income taxes and minority interests. The accounting differences consist of market value adjustments on trading securities and certain annuity contracts, and the associated change in amortization of deferred acquisition costs resulting from such adjustments.

(C) Represents amortization of deferred policy acquisition costs on the non-core realized gains or losses that are included in product margins, adjusted for income taxes and minority interest on such amounts.

(D) Represents costs directly related to the Company's demutualization adjusted for income taxes. These costs consist primarily of legal, actuarial and consulting expenses.

(E) Represents the cumulative effect of change in accounting for derivatives, net of income taxes and minority interest, as of January 1, 2001, the initial date of application SFAS No. 133.

Adjusted net operating income decreased $3.2 million to $3.4 million for the first quarter of 2001 compared to $6.6 million for the first quarter of 2000. The decrease in adjusted net operating income was primarily due to decreased investment results not fully offset by lower policy benefits. The changes in adjusted net operating income are analyzed further in the results of operations discussion.

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RESULTS OF OPERATIONS

The Company has two reportable operating segments: Life Insurance and Annuities. The following table sets forth information regarding the Company's sales activity by product:

| ($ in thousands) | Three Months Ended March 31, 2001 | 2000 |
|---|---|---|
| Life Premiums: | | |
| Traditional life insurance: | | |
| Whole life | $ 256 | $ 385 |
| Term life | 860 | 2,303 |
| Interest sensitive life: | | |
| Whole life | 7,196 | 5,661 |
| Universal life | 3,945 | 4,568 |
| Sub-total | 12,257 | 12,917 |
| Reinsurance assumed | 707 | 1,381 |
| Reinsurance ceded | (1,547) | (2,296) |
| Total life premiums, net of reinsurance (1) | $ 11,417 | $ 12,002 |

Annuity Premiums:

| | | |
|---|---|---|
| Fixed | $ 28,597 | $ 97,976 |
| Variable | 10,483 | 21,864 |
| Sub-total | 39,080 | 119,840 |
| Reinsurance assumed | - | - |
| Reinsurance ceded | (9,129) | (60,966) |
| Total annuity premiums, net of reinsurance (2) | $ 29,951 | $ 58,874 |

(1) Annualized premiums
(2) Annuity collected premium 1st year

Total direct life insurance sales as measured by annualized premiums decreased $0.6 million to $12.3 million for the three months ended March 31, 2001, compared to $12.9 million for the same period in 2000. The Company has shifted its focus from traditional life products to interest sensitive products which resulted in a decline in traditional whole life and term premiums of $1.5 million in 2001 as compared to 2000 and an increase in interest sensitive life premiums between the periods of $0.9 million. As expected, term life sales declined by sixty percent from first quarter 2000, as last year's sales were temporarily boosted by higher consumer demand in anticipation of impacts to term product pricing from insurance industry regulatory changes taking effect January 1, 2000.

The Company also private labels various whole life, term and interest sensitive life products. The products are issued by the Company's private label partners and then assumed in whole or in part by the Company. Sales through the private label distribution channel, shown as Reinsurance assumed in

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the above table, totaled $0.7 million for 2001 compared to $1.4 million for the same period in 2000. The decline in private label distribution sales between periods was primarily attributable to the reduced consumer demand for term products discussed previously and the loss of one private label partner. The Company has added two new private label partners who commenced production during the first quarter of 2001 that are anticipated to more than offset the discontinued partner's production.

Annuity sales declined $80.7 million to $39.1 million for the three months ended March 31, 2001, compared to $119.8 million for the same period in 2000. The majority of the Company's annuity sales are fixed annuity sales that are primarily produced by one independent marketing organization, Legacy Marketing Group (LMG). The Company has marketed two fixed annuity products, VisionMark and VisionMark II, through Legacy Marketing Group, each of which is based on a total return strategy and allow the policyowner to allocate their premium payments to different asset classes within the Company's general account. Under the total return strategy, the annuity contract is credited with an interest rate equal to the total return on the general account assets to which the selected strategy is linked less certain charges. This total return adjustment is paid when a policyholder accesses the funds. The Company guarantees a minimum return of premium plus approximately 3% interest per annum over the life of the contract. The Company has reinsured approximately 80% of the VisionMark product and 70% of the VisionMark II. Both contracts are reinsured on a modified coinsurance basis. LMG produced approximately $1.3 billion and $1.5 billion of fixed annuities for the Company in 1999 and 1998, respectively. A variety of factors, including general market conditions, increased competition in the marketplace, product performance and delays in the

introduction of new product, substantially reduced sales of fixed annuity products through LMG in 2000 to $195.0 million. Sales of fixed annuities by LMG for the first three months of 2001 were $21.1 million compared to $90.2 million for the first three months of 2000. This resulted in a corresponding decline in reinsurance ceded to $9.1 million for the first three months of 2001 from $61.0 million for the first three months of 2000. With the introduction of a third generation fixed annuity product, VisionMark Advantage, during January, 2001, it is anticipated that fixed annuity sales through LMG during 2001 will be approximately $200 million.

A summary of the Company's revenue follows:

| ($ in thousands) | Three Months Ended March 31, 2001 | 2000 |
|---|---|---|
| Premiums | $ 42,351 | $ 43,643 |
| Policy and contract charges | 19,910 | 16,895 |
| Net investment income | 64,005 | 68,393 |
| Realized/unrealized gains (losses) on investments | (13,798) | 5,990 |
| Total | $ 112,468 | $ 134,921 |

Premiums were $42.4 million for the three months ended March 31, 2001, compared to $43.6 million for the same period in 2000. Premiums primarily consist of traditional term and participating product premiums. The decrease in premiums in 2001 as compared to 2000 was primarily due to the shift in sales focus from these traditional products to interest sensitive life products. As explained previously, interest sensitive life insurance premiums are reflected as increases in liabilities for policyowner account balances and the revenues on these products are reflected as policy charges, which are discussed below. This shift in sales focus is expected to continue in future periods.

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Policy and contract charges increased $3.0 million to $19.9 million for the three months ended March 31, 2001, compared to $16.9 million for the same period in 2000. Policy and contract charges primarily consist of charges for the cost of insurance, administrative charges and surrender charges assessed on interest sensitive life and annuity product policyowner account balances. The growth in interest sensitive life product sales increased policy and contract charges by approximately $1.8 million. Annuity surrenders were higher in the first quarter of 2001 as compared to the first quarter 2000, increasing policy and contract charges by approximately $1.3 million. Annuity results are driven by the large block of total return strategy fixed annuity policies discussed previously. The market performance of these assets declined for the three months ended March 31, 2001, and this contributed to an increase in the withdrawal rate on the fixed annuity block from 13.5% in 2000 to 17.6% in 2001. To combat the higher withdrawal rate, the Company is in the process of implementing an enhanced conservation program targeted to start during the third quarter of 2001. In addition, the Company is utilizing new investment managers to improve product performance.

Net investment income was $64.0 million for the three months ended March 31, 2001, compared to $68.4 million for the same period in 2000. The decrease of $4.4 million in 2001 was primarily attributable to lower average invested assets. Average invested assets decreased approximately $365.4 million

to $4,737.0 million for the first quarter of 2001 from $5,102.4 million for the first quarter of 2000, primarily due to increased surrenders of the Company's fixed annuity business. Partially offsetting this decrease in average invested assets was a higher effective yield. The effective yield of the investment portfolio increased 4 basis points to 5.40% for the three months ended March 31, 2001, compared to 5.36% for the same period in 2000. The increase in yield primarily resulted from higher investment yields on assets acquired in 2001 versus the portfolio yield in the prior period. The effective yield of the portfolio is lower than would typically be expected due to the Company's high percentage of convertible bonds in its investment portfolio. The convertible bonds back a majority of the Company's total return strategy fixed annuity products. While convertible bonds typically result in lower investment income, they provide the potential for higher total returns through realized capital gains, which are included in the total return adjustment to the annuity policyholders.

Total realized/unrealized gains (losses) on investments were a net loss of $13.8 million for the first quarter of 2001 compared to a net gain of $6.0 million for the same period a year ago. The significant change between periods is primarily driven by the Company's adoption of SFAS No. 133, which resulted in a $16.0 million unrealized loss on investments for the first quarter of 2001. In connection with adopting SFAS No. 133, the Company reclassified the fixed maturity securities that back its total return strategy fixed annuity products from available-for-sale to trading. SFAS No. 133 requires the Company to adjust to market the total return strategy fixed annuity contracts. By classifying the assets that back these products as trading, the Company also records a market value adjustment on these assets which offsets a portion of the market value change on the liabilities. The corresponding market value adjustment on the liability side was a $3.4 million reduction in the total return strategy fixed annuity liabilities which is reflected in the "Policy benefits" line of the Consolidated Statements of Income. In addition, there was an $8.9 million reduction in deferred policy acquisition cost amortization due to the impact these two market value adjustments had on gross margins. Partially offsetting the $16.0 million unrealized loss incurred during the quarter on the trading portfolio were $2.2 million of realized gains on investments. In comparison, there were $6.0 million of realized gains on investments a year ago. The level of realized gains and losses will fluctuate from period to period depending on the prevailing interest rate and economic environment and the timing of the sale of investments.

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A summary of the Company's benefits and expenses follows:

| ($ in thousands) | Three Months Ended March 31, 2001 | 2000 |
|---|---|---|
| Policy benefits | $ 80,186 | $ 83,270 |
| Underwriting, acquisition and insurance expenses | 12,089 | 13,847 |
| Amortization of deferred policy acquisition costs | 8,217 | 16,536 |
| Reorganization costs | 783 | 1,934 |
| Interest | 541 | 541 |
| Dividends to policyowners | 8,085 | 8,139 |
| Total | $ 109,901 | $ 124,267 |

Policy benefits decreased $3.1 million to $80.2 million for the quarter ended March 31, 2001, compared to $83.3 million for the same period in 2000. Policy benefits primarily consist of death and surrender benefits and changes in reserves on traditional products, death benefits in excess of account value and interest credited on policyowner account balances for interest sensitive and annuity products, and modified coinsurance reinsurance interest payments. As discussed previously, the Company's adoption of SFAS No. 133 also impacted this line item and contributed to the decline in policy benefits between first quarter periods. In accordance with SFAS No. 133, the Company adjusted the total return strategy fixed annuity contracts to market which, based on the economic environment, resulted in a $3.4 million reduction in reserve balances. In addition, the decrease in average annuity account balances due to increased surrenders also decreased the amount of interest credited included in policy benefits. Annuity spreads remained constant between first quarter periods at 255 basis points. Partially offsetting these reductions to policy benefits was slightly higher mortality expense as compared to a year ago and increased interest credited on interest sensitive life policies. The weighted average crediting rate on interest sensitive life products was 5.9% for the first quarter of 2001 compared to 5.6% for the same period in 2000.

Underwriting, acquisition and insurance expenses decreased $1.7 million to $12.1 million for the three months ended March 31, 2001, compared to $13.8 million for the same period in 2000. The reduction in 2001 expenses was primarily attributable to decreased consulting and actuarial expenses. Partially offsetting this decline in expenses was $1.8 million of legal settlement costs incurred in the first quarter of 2001.

Amortization of deferred policy acquisition costs was $8.2 million for the quarter ended March 31, 2001, compared to $16.5 million for the same period in 2000. Deferred policy acquisition costs are generally amortized in proportion to gross margins. As discussed previously, due to the impact the market value adjustments made to trading securities and annuity liabilities in accordance with SFAS Nos. 133 had on gross margins, amortization of deferred policy acquisition costs was reduced by approximately $8.9 million.

Reorganization expenses, which consist primarily of legal, actuarial and consulting expenses relating to the Company's demutualization, decreased to $0.8 million for the first three months of 2001 as





compared to $1.9 million for the first three months of 2000. The 2000 period expense was higher due to outside consultant expenses incurred in relation to the Company's demutualization during that period.

Interest expense was $0.5 million for both of the three month periods ended March 31, 2001 and 2000. Interest expense for both periods reflected three months of interest expense on the Company's $25.0 million, 8.66% outstanding surplus note, due on April 1, 2011.

Dividends to policyowners were $8.1 million for both of the three months ended March 31, 2001 and 2000.

Income before federal income taxes and minority interest was $2.6 million for the three months ended March 31, 2001 compared to income before federal income taxes and minority interest of $10.7 million for the same period in 2000. The adoption of SFAS No. 133 resulted in a decline of approximately

$3.7 million in income before federal income taxes and minority interest as compared to a year ago. In addition, the reduction in realized gains on investments and net investment income discussed previously, partially offset by reduced legal, actuarial, and consulting expenses, contributed to the remaining decrease in pre-tax income between first quarter periods.

Federal income tax expense was $0.9 million for the three months ended March 31, 2001, compared to $4.0 million for the same period in 2000. The effective income tax rate was 36.1% and 37.4% for the first quarter of 2001 and 2000, respectively. These rates are above the effective corporate tax rate of 35% primarily due to certain non-deductible expenses associated with the Company's reorganization. In addition, during the first three months of 2000, there was a $1.0 million charge for policy reserves which was not deductible for tax purposes and, therefore, contributed to the higher effective tax rate for that period.

Minority interest represents the minority stockholder's ownership percentage share of consolidated net income of ILICO's subsidiary, ILGC. The minority stockholder ownership percentage was 45.0% for both the three months ended March 31, 2001 and 2000. The minority interest in consolidated subsidiaries' share of net income for the first three months was $0.1 million for 2001 and $1.3 million for 2000 consistent with the lower income levels in 2001.

The Company adopted SFAS No. 133 as of January 1, 2001. In accordance with the provisions of this statement, the Company has recorded the difference between the previous carrying amounts of its derivative instruments and the fair value of its derivative instruments, as of the initial application date, as the effect of a change in accounting principle. The gross difference between carrying amounts and fair value amounts of the Company's derivative instruments was a reduction to income of approximately $5.6 million. The deferred policy acquisition cost amortization impact from the derivative adjustments was approximately $4.2 million, the income tax benefit was $0.5 million, and the minority interest portion was $0.4 million, resulting in the net cumulative effect of change in accounting for derivatives of $0.5 million.

Net income was $1.1 million for the three months ended March 31, 2001, compared to net income of $5.3 million for the same period in 2000. As discussed above, the Company adopted SFAS No. 133 effective January 1, 2001, which had a cumulative effect of reducing net income by $0.5 million. Excluding this one-time cumulative effect, net income decreased by $3.7 million. As discussed previously, the accounting changes from SFAS No. 133, along with lower investment income and realized gains, primarily resulted in the reduction in net income between first quarter periods.





ITEM 7b. UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The following tables show financial information after giving effect to the Combination as though it had occurred on an earlier date (which we refer to as "pro forma" information). In the Combination, ILICO eligible Members receive AmerUs common stock, cash and policy credits. The value of the aggregate payment is equal to the value of 9.3 million shares of AmerUs common stock. The following pro forma financial information also reflects that AmerUs, as part of the Combination, made a preliminary investment of $100 million in ILGC, of which $77.2 million was used by ILGC to repurchase its former minority interest (stock held by two other investors), with the remainder retained in ILGC as additional

capital. The financial information is provided as of March 31, 2001, and for the three months ended March 31, 2001 and for the year ended 2000. In presenting the pro forma balance sheet information, we assumed that the Combination had occurred March 31, 2001. In presenting the pro forma income statement information for March 31, 2001 and 2000, we assumed that the Combination had occurred as of January 1, 2000. The pro forma information gives effect to the Combination under the purchase method of accounting in accordance with GAAP.

We expect that we will incur transaction and integration charges as a result of combining the companies. The pro forma information, while helpful in illustrating the financial characteristics of the combined company under one set of assumptions, does not reflect these expenses and, accordingly, does not attempt to predict or suggest future results. It also does not necessarily reflect what the historical results of the combined company would have been had the Combination occurred on January 1, 2000, or any other date.





AMERUS GROUP
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
MARCH 31, 2001
($ IN MILLIONS)

| | AmerUs Historical | ILI Histo |
|---|---|---|
| ASSETS: | | |
| Investments: | | |
| Securities available for sale at fair value: | | |
| Fixed maturity securities | $ 8,612.2 | $ 1,4 |
| Equity securities | 162.2 | |
| Short-term investments | 13.2 | |
| Fixed maturity securities held for trading at fair value | 36.5 | 2,3 |
| Fixed maturity securities held to maturity at amortized cost | | 2 |
| Loans | 563.6 | 3 |
| Real estate | 1.9 | |
| Policy loans | 311.1 | 1 |
| Other investments | 294.9 | |
| Total investments | 9,995.6 | 4,5 |
| Cash and cash equivalents | 44.5 | 1 |
| Accrued investment income | 123.4 | |
| Premiums, fees and other receivables | 8.1 | |
| Reinsurance receivables | 8.9 | 3 |
| Deferred policy acquisition costs | 423.3 | 3 |
| Value of business acquired | 430.6 | |
| Goodwill | 186.4 | |
| Premises and equipment, net | 55.3 | |

| | | |
|---|---|---|
| Other assets | 517.6 | |
| Separate account assets | - | 3 |
| Total Assets | $ 11,793.7 | $ 5,8 |
| LIABILITIES: | | |
| Policy reserves and policyowner funds | $ 10,037.2 | $ 4,8 |
| Other liabilities | 682.8 | 1 |
| Notes and contracts payable | - | |
| Separate account liabilities | - | 3 |
| Total Liabilities | 10,720.0 | 5,4 |
| MINORITY INTEREST | - | 1 |
| COMPANY OBLIGATED MANDITORILY REDEEMABLE PREFERRED CAPITAL SECURITIES | 197.7 | |
| STOCKHOLDERS' EQUITY | | |
| Common stock, $1 stated value, 39,018,217 shares assumed outstanding March 31, 2001 on a pro forma basis | 30.0 | |
| Additional paid-in capital | 810.1 | |
| Unearned compensation | (0.1) | |
| Accumulated other comprehensive income | 19.0 | |
| Unallocated ESOP shares | (0.7) | |
| Retained earnings | 17.7 | |
| Unassigned surplus | - | 3 |
| Total Stockholders' Equity | 876.0 | 3 |
| Total Liabilities and Equity | $ 11,793.7 | $ 5,8 |
| Book value per share | $ 29.20 | |
| Share used in the calculation of book value per share (in millions) | 30.0 | |

(The Accompanying Notes are an integral part of this Unaudited Pro Forma Consolidated Balance Sheet)

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AMERUS GROUP
UNAUDITED PRO FORMA
CONDENSED CONSOLIDATED STATEMENT OF INCOME

THREE MONTHS ENDED MARCH 31, 2001
($ IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

| | AmerUs Historical | ILI Histo |
|---|---|---|
| Revenues | | |

| | |
|---|---|
| Insurance premiums | $ 66.6 |
| Universal life and annuity product charges | 24.3 |
| Net investment income | 181.1 |
| Realized/unrealized gains (losses) on investments | (39.8) |
| Other income | 10.3 |
| | 242.5 |
| Operating Expenses | |
| Policyowner benefits | 129.9 |
| Underwriting, acquisition, and insurance expenses | 31.3 |
| Reorganization costs | - |
| Amortization of deferred policy acquisition costs & VOBA | 25.3 |
| Dividends to policyowners | 19.2 |
| | 205.7 |
| Income from continuing operations before interest expense, income taxes and minority interest | 36.8 |
| Interest expense | 7.3 |
| Income before income taxes and minority interest | 29.5 |
| Income tax (expense) | (10.0) |
| Minority interest | - |
| Net income from continuing operations | $ 19.5 |
| Net income from continuing operations per share (O): | |
| Basic | $ 0.65 |
| Diluted | $ 0.64 |
| Share used in the calculation of net income from continuing operations per share (in millions) (O): | |
| Basic | 30.0 |
| Diluted | 30.4 |

(The Accompanying Notes are an integral part of this Unaudited Pro Forma Consolidated Statement of Income)

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AMERUS GROUP
UNAUDITED PRO FORMA
CONDENSED CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2000
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

| | AmerUs Historical | ILI Histo |
|---|---|---|
| **Revenues** | | |
| Insurance premiums | $ 88.9 | $ 1 |
| Universal life and annuity product charges | 87.5 | |
| Net investment income | 586.6 | 2 |
| Realized gains (losses) on investments | (8.6) | |
| Other income | 34.5 | |
| Contribution from Closed Block | 24.5 | |
| | 813.4 | 5 |
| **Operating Expenses** | | |
| Policyowner benefits | 451.2 | 3 |
| Underwriting, acquisition, and insurance expenses | 122.1 | |
| Reorganization costs | 11.3 | |
| Amortization of deferred policy acquisition costs and VOBA | 77.8 | |
| Dividends to policyowners | 6.0 | |
| | 668.4 | 4 |
| Income from continuing operations before interest expense, income taxes and minority interest | 145.0 | |
| Interest expense | 29.7 | |
| Income before income taxes and minority interest | 115.3 | |
| Income tax (expense) | (42.5) | ( |
| Minority interest | (21.7) | |
| Net income from continuing operations | $ 51.1 | $ |
| Net income from continuing operations per share (O): | | |
| Basic | $ 2.44 | |
| Diluted | $ 2.43 | |
| Share used in the calculation of net income from continuing operations per share (in millions) (O): | | |
| Basic | 20.9 | |
| Diluted | 21.0 | |

(The Accompanying Notes are an integral part of this Unaudited Pro Forma Consolidated Statement of Income)





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NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(A) Giving effect to the Combination under purchase accounting, the total purchase cost of ILICO will be allocated to the assets and liabilities acquired based on the relative fair values as of the effective date of the Combination, with any excess of the fair value of the assets acquired less the fair value of the liabilities assumed over the purchase price recorded as a reduction of non-current assets (value of business acquired). The cost allocations, primarily related to value of business acquired, investments, policy reserves and policyowner funds, and other liabilities are based on studies which are not yet completed. Accordingly, the final allocations may differ from the amounts reflected here due to interest rate fluctuations, operating experience, and results of operations through the date of closing. Although the final allocations may differ, the pro forma financial statements reflect AmerUs' best estimate based on currently available information and the differences between the current and final allocations are not expected to be material.

The average closing price of AmerUs common stock used in this pro forma data is $25.6875 per share, which represents the average of the closing prices of AmerUs Common Stock on the date of the announcement of the amended terms of the Combination, two days preceding, and two days succeeding the announcement.

The Combination agreement calls for payment to ILICO's eligible Members of shares of AmerUs common stock, cash and policy credits equal in value to the value of at least 9.3 million shares of AmerUs common stock. Under the terms of the Combination agreement, AmerUs is committed at a minimum to distribute cash and policy credits equivalent to the value of approximately 300,000 shares of its common stock to ILICO's eligible Members. The Combination consideration consists of cash equal to the value of the minimum share amount of approximately 300,000 shares at a fair value of $35.63 per share and 9.0 million shares of AmerUs common stock. The fair value per share of $35.63 represents the average of the closing prices of the AmerUs common stock on the transaction closing date of May 18, 2001 and nine days succeeding the transaction closing date. In addition, the Combination consideration includes the preliminary investment AmerUs made in ILGC of $77.2 million and the costs of the Combination.

The purchase price and additional capital contribution in accordance with the terms of the Combination are as follows:

| | |
|---|---|
| Common stock at $1.00 stated value | $ |
| Additional paid-in capital | 2 |
| Total value of common stock exchanged, 9 million shares at $25.687 per share | $ 2 |
| Cash paid to ILICO's eligible Members, equivalent to 300,000 shares at $35.63 per share | |
| Cash paid to acquire minority interest | |
| Costs of the combination | |
| Total purchase price | $ 3 |
| Additional cash capital contribution to ILGC | |
| Total investment in ILICO | $ 3 |

NOTES TO UNAUDITED PRO FORMA CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

After issuance of 9.0 million shares of AmerUs common stock as Member consideration, AmerUs would have 39,018,217 shares of common stock outstanding on a pro forma basis.

The allocation of the purchase price of ILICO is as follows (in millions):

| | |
|---|---|
| Investments (including cash and short-term investments) | $ 4,725.3 |
| Receivables and other assets | 435.3 |
| Value of business acquired | 239.0 |
| Separate account assets | 315.7 |
| Policyowner reserves and funds | (4,863.8) |
| Other liabilities | (161.2) |
| Debt | (25.0) |
| Separate account liabilities | (315.7) |
| Total investment in ILICO | $ 349.6 |

The historical components of ILICO's equity have been eliminated in accordance with purchase accounting. In addition, common stock is adjusted to reflect the assumed number of shares issued in conjunction with the Combination, amounting to $9.0 million. Additional paid-in capital is also adjusted, based on the assumptions, for the excess of the Member consideration exchanged over the stated value of the AmerUs common stock, amounting to $222.2 million.

(B) Under purchase accounting, ILICO's assets and liabilities are required to be adjusted to their estimated fair value. The estimated fair value of the assets and liabilities has been determined by AmerUs based on available information as follows:

Fixed maturities and equity securities: fair values for bonds are based on quoted market prices or dealer quotes. If a quoted market price is not available, fair value is estimated using values obtained from independent pricing services or, in the case of private placements, are estimated by discounting expected future cash flows using a current market rate applicable to the yield, credit quality, and maturity of the investments. The fair values for preferred and common stocks are based on quoted market prices.

Loans: for all performing fixed interest rate loans, the estimated net cash flows to maturity were discounted to derive an estimated market value. The discount rate used was based on the individual loan's remaining weighted average life and a basis point spread based on the market conditions for the type of loan and credit quality. These spreads were over the March 31, 2001, United States Treasury yield curve. Performing variable rate commercial loans and residential loans were valued at the current outstanding balance. Loans which have been restructured, in foreclosure, significantly delinquent or are to affiliates were valued primarily at the lower of the estimated net cash flows to maturity discounted at a market rate of interest or the current outstanding principal balance.

Real estate, premises and equipment: fair value is based on estimated appraised value.

Policy reserves and policyowner funds: fair value is equal to the historical GAAP amounts for these items, with the exception that the unearned reserve liability has been eliminated.





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NOTES TO UNAUDITED PRO FORMA CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(C) Represents the elimination of the carrying amount as of March 31, 2001 of the AmerUs preliminary investment in ILGC.

(D) Represents the elimination of the unamortized balance of deferred policy acquisition costs (DAC).

(E) Value of the insurance business acquired (VOBA) reflects the estimated fair value of the business in force and represents the portion of the cost to acquire ILICO that is allocated to the value of the right to receive future cash flows from the life insurance and annuity contracts existing as of the assumed date of the acquisition, reduced by the excess of the fair value of the assets acquired less the fair value of the liabilities assumed over the purchase price. This reduction amounted to approximately $8.0 million, resulting in a net VOBA asset of $239 million. Amortization is recognized in proportion to expected future gross profits over periods between 20 and 30 years and is based on the average interest crediting rates which range from 2.5% to 7.4% for 2001 and over the next five years. The estimated amortization for the next five years is as follows (in millions):

| | |
|---|---|
| 2001 | $ 24.3 |
| 2002 | $ 20.0 |
| 2003 | $ 19.2 |
| 2004 | $ 18.8 |
| 2005 | $ 18.0 |

The Condensed Consolidated Statements of Income for the three months ended March 31, 2001 and the year ended December 31, 2000 reflect the reduction in DAC amortization due to the elimination of the DAC asset at the assumed effective date of the Combination, offset by the addition of VOBA amortization from the VOBA asset established at the assumed effective date of the Combination.

(F) Represents the elimination of the unamortized balance of goodwill at the assumed effective date of the Combination.

(G) Represents various liabilities assumed in connection with the Combination and the net impact on the deferred tax liability as a result of the purchase accounting adjustments as follows (in millions):

| | |
|---|---|
| Deferred income taxes on purchase accounting adjustments | $ (27.6) |
| Establish liability for employment and severance agreements | 6.2 |
| | $ (21.4) |

(H) Represents estimated transaction costs, primarily investment banking and legal fees. Of the estimated total transaction costs of $7.7 million, approximately $3.5 million had been paid and capitalized prior to March 31, 2001. The remaining $4.2 million of estimated transaction costs are shown as a reduction in cash.





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NOTES TO UNAUDITED PRO FORMA CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(I) Represents the following adjustments to net investment income as a result of the Combination and purchase accounting adjustments (in millions):

| | Three Months Ended March 31, 2001 | Year Ende December 3 2000 |
|---|---|---|
| Reduction of net investment income from change in carrying value of the investment portfolio at the assumed effective date of the Combination | $ (1.2) | $ (3. |
| Elimination of the earnings on the cash paid to ILICO's Eligible Members and the cash paid for the costs of the Combination, based upon a rate of 5% per annum | (0.2) | (0. |
| Elimination of the earnings on AmerUs' preliminary investment in ILICO included in AmerUs' historical net investment income | (0.1) | (4. |
| Elimination of the earnings on the cash paid by ILGC to repurchase its former minority interest, based upon a rate of 7% per annum | - | (0. |
| | $ (1.5) | $ (9. |

(J) Represents the reduction in unrealized losses on trading investments due to market value adjustments to the investment portfolio at the assumed effective date of the Combination. This adjustment only applies to the three month period ended March 31, 2001 due to the Company's adoption of SFAS 133 on January 1, 2001.

(K) Represents the reduction of product charges due to the elimination of unearned revenues at the assumed effective date of the Combination. The unearned revenues are eliminated due to their inclusion in the determination of the value of the business acquired. This adjustment only applies to the year ended December 31, 2000 due to the Company's adoption of SFAS 133 on January 1, 2001.

(L) Represents the reduction in policyowner benefits resulting from decreased investment income as previously discussed and the increase in policyowner reserves at the assumed effective date of the Combination due to market value adjustments to the investment portfolio. This adjustment only applies to the year ended December 31, 2000 due to the Company's adoption of SFAS 133 on January 1, 2001.





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NOTES TO UNAUDITED PRO FORMA CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(M) Includes the effects of increased depreciation of $0.1 million and $0.2 million for the three months ended March 31, 2001 and the year ended December 31, 2000, respectively, on the write-up of the ILICO home office premises calculated over 30 years on the straight-line method and the decreased goodwill amortization of $0.3 million and $1.1 million for the three months ended March 31, 2001 and the year ended December 31, 2000, respectively, due to the elimination of historical goodwill.

(N) Represents the income tax effects on the net pro forma adjustments based upon a 35% effective tax rate and the elimination of the mutual company differential earnings tax of $0.1 million for the year ended December 31, 2000.

(O) The basic earnings per share calculation reflects net income from continuing operations divided by the weighted average number of shares outstanding for the three months ended March 31, 2001 and the year ended December 31, 2000, assuming that 9 million shares of AmerUs common stock were issued January 1, 2000 in connection with the Combination. The diluted earnings per share amount is calculated in the same manner with the weighted average number of shares outstanding increased for the dilutive effect of options, warrants, stock appreciation rights.