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AMERUS GROUP CO/IA

Form 10-Q

August 13, 2001

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

FORM 10-Q  
-----

(Mark One)

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

For the quarterly period ended June 30, 2001

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

COMMISSION FILE NUMBER 000-30898

AMERUS GROUP CO.  
(Exact name of Registrant as specified in its charter)

699 WALNUT STREET  
DES MOINES, IOWA 50309-3948  
(Address of principal executive offices)

IOWA  
(State or other jurisdiction of  
incorporation or organization)

42-1458424  
(I.R.S. Employer  
Identification No.)

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

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

The number of shares outstanding of each of the Registrant's classes of common stock on August 6, 2001 was as follows:

Common Stock 42,849,226 shares

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SAFE HARBOR STATEMENT

All statements, trend analyses and other information contained in this

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report relative to markets for the Company's products and trends in the Company's operations, liquidity or financial results, as well as other statements including words such as "anticipate", "believe", "plan", "estimate", "expect", "intend", and other similar expressions, constitute forward-looking statements under the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors which may cause actual results to be materially different from those contemplated by the forward-looking statements. Such factors include, among other things: (1) general economic conditions and other factors, including prevailing interest rate levels and stock market performance, which may affect the ability of the Company to sell its products, the market value of the Company's investments and the lapse rate and profitability of policies; (2) the Company's ability to achieve anticipated levels of operational efficiencies and cost-saving initiatives and to meet cash requirements based upon projected liquidity sources; (3) customer response to new products, distribution channels and marketing initiatives; (4) mortality, morbidity, and other factors which may affect the profitability of the Company's insurance products; (5) changes in the Federal income tax laws and regulations which may affect the relative tax advantages of some of the Company's products; (6) increasing competition in the sale of insurance and annuities; (7) regulatory changes or actions, including those relating to regulation of insurance products and of insurance companies; (8) ratings assigned to the Company and its subsidiaries by independent rating organizations which the Company believes are particularly important to the sale of its products; (9) the performance of the investment portfolio; (10) the impact of purchase accounting adjustments; (11) expected life and annuity product margins; and (12) unanticipated litigation. There can be no assurance that other factors not currently anticipated by management will not also materially and adversely affect the Company's results of operations.

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### PART I - FINANCIAL INFORMATION

#### ITEM 1. FINANCIAL STATEMENTS

AMERUS GROUP CO.  
CONSOLIDATED BALANCE SHEETS  
(\$ in thousands)

	June 30, 2001	December 31, 2000
-----		
(unaudited)		
Assets		
Investments:		
Securities available-for-sale at fair value:		
Fixed maturity securities	\$ 10,466,581	\$ 8,261,647
Equity securities	76,740	152,903
Short-term investments	10,183	20,861
Securities held for trading purposes:		
Fixed maturity securities	2,295,917	-
Equity securities	2,288	-
Loans	931,730	534,857
Real estate	2,531	3,226
Policy loans	508,742	312,662
Other investments	270,743	320,650

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Total investments	14,565,455	9,606,806
Cash and cash equivalents	113,377	65,485
Accrued investment income	175,393	114,034
Premiums, fees and other receivables	7,458	9,652
Income taxes receivable	5,574	-
Reinsurance receivables	307,202	6,529
Deferred policy acquisition costs	489,152	437,312
Value of business acquired	699,138	468,430
Goodwill	184,645	183,491
Property and equipment	89,477	56,101
Other assets	540,701	491,296
Separate Account assets	342,034	-
Assets of discontinued operations	34,142	32,386
Total assets	\$ 17,553,748	\$11,471,522

See accompanying notes to consolidated financial statements.

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AMERUS GROUP CO.  
CONSOLIDATED BALANCE SHEETS  
(\$ in thousands)

	June 30, 2001	December 31, 2000
	(unaudited)	
Liabilities and Stockholders' Equity		
Policy reserves and policyowner funds:		
Future life and annuity policy benefits	\$ 11,380,715	\$ 9,482,625
Policyowner funds	3,529,377	325,251
	14,910,092	9,807,876
Accrued expenses and other liabilities	504,967	216,451
Dividends payable to policyowners	191,754	158,473
Policy and contract claims	23,224	11,890
Income taxes payable	-	8,825
Deferred income taxes	25,770	5,904
Notes and contracts payable	229,156	215,627
Separate Account liabilities	342,034	-
Liabilities of discontinued operations	20,157	14,806
Total liabilities	16,247,154	10,439,852
Company-obligated mandatorily redeemable preferred capital securities of		

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subsidiary trusts holding solely junior subordinated debentures of the Company	197,691	197,691
Stockholders' equity:		
Preferred Stock, no par value, 20,000,000 shares authorized, none issued	-	-
Common Stock, no par value, 230,000,000 shares authorized; 39,074,398 shares issued and outstanding in 2001 (net of 20,382 treasury shares) and 30,011,034 shares issued and outstanding in 2000	39,074	30,011
Paid-in capital	1,033,752	809,894
Accumulated other comprehensive income (loss)	(1,060)	(11,164)
Unearned compensation	(110)	(146)
Unallocated ESOP shares	(683)	(683)
Retained earnings	37,930	6,067
	-----	-----
Total stockholders' equity	1,108,903	833,979
	-----	-----
Total liabilities and stockholders' equity	\$ 17,553,748	\$11,471,522
	=====	=====

See accompanying notes to consolidated financial statements.

AMERUS GROUP CO.  
CONSOLIDATED STATEMENTS OF INCOME  
(\$ in thousands, except per share data)  
(Unaudited)

	For The Three Months Ended June 30,		For Th
	2001	2000	2000
	-----	-----	-----
Revenues:			
Insurance premiums	\$ 81,137	\$ 69,137	\$ 14
Universal life and annuity product charges	34,847	25,519	5
Net investment income	207,093	170,143	38
Realized/unrealized gains (losses) on investments	(11,825)	(7,162)	(5
Other income	11,952	7,345	2
	-----	-----	-----
	323,204	264,982	56
	-----	-----	-----
Benefits and expenses:			

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Policyowner benefits	198,788	148,622	32
Underwriting, acquisition and other expenses	35,121	34,252	6
Reorganization costs	202	5,495	
Amortization of deferred policy acquisition costs and value of business acquired	29,971	20,142	5
Dividends to policyowners	23,067	21,326	4
	-----	-----	-----
	287,149	229,837	49
	-----	-----	-----
Income from continuing operations	36,055	35,145	7
Interest expense	7,410	7,681	1
	-----	-----	-----
Income before income tax expense and minority interest	28,645	27,464	5
Income tax expense	8,950	11,070	1
Minority interest	-	8,664	
	-----	-----	-----
Net income from continuing operations	19,695	7,730	3
Discontinued operations (net of tax):			
Income (loss) from discontinued operations	532	147	
	-----	-----	-----
Net income before cumulative effect of change in accounting for derivatives	20,227	7,877	4
Cumulative effect of change in accounting for derivatives, net of tax	-	-	(
	-----	-----	-----
Net income	\$ 20,227	\$ 7,877	\$ 3
	=====	=====	=====
Net income from continuing operations per common share:			
Basic	\$ 0.57	\$ 0.44	\$
	=====	=====	=====
Diluted	\$ 0.57	\$ 0.44	\$
	=====	=====	=====
Net income from discontinued operations per common share:			
Basic	\$ 0.02	\$ 0.01	\$
	=====	=====	=====
Diluted	\$ 0.02	\$ 0.01	\$
	=====	=====	=====
Net income per common share:			
Basic	\$ 0.59	\$ 0.45	\$
	=====	=====	=====
Diluted	\$ 0.59	\$ 0.45	\$
	=====	=====	=====
Weighted average common shares outstanding:			
Basic	34,364,932	17,390,165	32,18
	=====	=====	=====
Diluted	34,528,541	17,407,252	32,32
	=====	=====	=====

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See accompanying notes to consolidated financial statements.

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AMERUS GROUP CO.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(\$ in thousands)  
(Unaudited)

	For The Three Months Ended June 30,		For Th
	2001	2000	200
	-----	-----	-----
Net income	\$ 20,227	\$ 7,877	\$ 3
Other comprehensive income, before tax:			
Unrealized gains (losses) on securities:			
Transfer related to unrealized gain on available-for-sale securities reclassified to trading	(1,092)	-	
Unrealized holding (losses) arising during period	(36,552)	(24,376)	(
Less: reclassification adjustment for gains (losses) included in net income	(6,808)	(3,907)	(1
	-----	-----	-----
Other comprehensive income, before tax	(30,836)	(20,469)	1
Income tax (expense) related to items of other comprehensive income	10,792	7,164	(
	-----	-----	-----
	(20,044)	(13,305)	
Amounts attributable to:			
Minority interest	-	5,607	
Change in accounting for derivatives	-		
	-----	-----	-----
Other comprehensive income, net of taxes	(20,044)	(7,698)	1
	-----	-----	-----
Comprehensive income	\$ 183	\$ 179	\$ 4
	=====	=====	=====

See accompanying notes to consolidated financial statements.

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AMERUS GROUP CO.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
June 30, 2001  
(\$ in thousands)

	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Unearned Compensation	Unallocated ESOP Shares	Un
	-----	-----	-----	-----	-----	-----
Balance at December 31, 1999	\$ -	\$ -	\$ (78,628)	\$ (187)	\$ (797)	\$
2000:						
Net income	-	-	-	-	-	-
Net unrealized gain (loss) on securities	-	-	67,641	-	-	-
Stock issued under various incentive plans, net of forfeitures	6	169	-	105	-	-
Dividends declared on common stock	-	-	-	-	-	-
Allocation of shares in leveraged ESOP	-	600	-	-	695	-
Minority interest ownership changes	-	-	(177)	-	(2)	-
Acquisition of minority interest	12,615	285,405	-	-	-	-
Demutualization of AmerUs Group	17,390	518,535	-	(64)	(579)	-
Other	-	5,185	-	-	-	-
	-----	-----	-----	-----	-----	-----
Balance at December 31, 2000	\$ 30,011	\$ 809,894	\$ (11,164)	\$ (146)	\$ (683)	\$
	=====	=====	=====	=====	=====	=====
2001 (unaudited):						
Net income before change in accounting	-	-	-	-	-	-
Change in accounting for derivatives	-	-	2,661	-	-	-
Transfer related to unrealized gain on available-for-sale securities reclassified to trading	-	-	(430)	-	-	-
Net unrealized gain (loss) on securities	-	-	9,942	-	-	-
Net unrealized gain (loss) on derivatives designated as cash flow hedges	-	-	(2,069)	-	-	-
Stock issued under various incentive						



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plans, net of forfeitures	46	1,414	-	36	-
Purchase of treasury stock	(27)	(830)	-	-	-
Acquisition of ILICO	9,044	223,274	-	-	-
	-----	-----	-----	-----	-----
Balance at June 30, 2001	\$ 39,074	\$1,033,752	\$ (1,060)	\$ (110)	\$ (683)
	=====	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

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AMERUS GROUP CO.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(\$ in thousands)  
(Unaudited)

	For The Six Months Ended June 30,	
	2001	2000
	-----	-----
Cash flows from operating activities		
Net Income	\$ 31,863	\$ 22,657
Less: (Income) loss from discontinued operations	(946)	58
Less: Cumulative effect of change in accounting for derivatives	8,236	-
	-----	-----
	39,153	22,715
Adjustments to reconcile net income to net cash provided by operating activities:		
Policyowner assessments on universal life and annuity products	(46,255)	(35,081)
Interest credited to policyowner account balances	181,081	151,766
Change in option value of equity-indexed products and market value adjustments on total return strategy annuities	(32,510)	-
Realized/unrealized investment (gains) losses	51,660	4,259
Goodwill amortization	3,898	4,233
VOBA amortization	37,057	21,964
Minority interest	-	15,270
Change in:		
Accrued investment income	(8,046)	(3,914)
Reinsurance receivables	(10,568)	12,514
Securities held for trading purposes:		

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Fixed maturities	(48,891)	-
Equity securities	(1,648)	-
Short-term investments	-	-
Deferred policy acquisition costs	(89,502)	(70,295)
Liabilities for future policy benefits	(3,283)	54,045
Policy and contract claims and other policyowner funds	(1,720)	(3,506)
Income taxes:		
Current	(12,292)	(11,938)
Deferred	20,690	31,717
Other, net	(48,809)	20,034

Net cash provided by operating activities	30,015	213,783
--	--------	---------

Cash flows from investing activities:

Purchase of fixed maturities available-for-sale	(1,603,208)	(1,035,781)
Maturities, calls and principal reductions of fixed maturities available-for-sale	1,166,090	843,613
Purchase of equity securities	(61,095)	(109,492)
Proceeds from sale of equity securities	54,557	2,230
Change in short-term investments, net	9,473	-
Purchase of loans	(81,967)	(51,318)

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AMERUS GROUP CO.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(\$ in thousands)  
(Unaudited)

	For The Six Months Ended June 30,	
	2001	2000
Proceeds from repayment and sale of loans	50,752	169,944
Purchase of real estate and other invested assets	(40,256)	(84,206)
Proceeds from sale of real estate and other invested assets	57,603	80,237
Change in policy loans, net	1,459	(9,079)
Other assets, net	(51,991)	(539)
Acquisitions, net of cash acquired	156,959	-
Net cash (used in) investing activities	(341,624)	(194,391)

Cash flows from financing activities:

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Deposits to policyowner account balances	1,010,247	701,359
Withdrawals from policyowner account balances	(639,913)	(698,549)
Change in debt, net	(11,471)	10,505
Dividends to shareholders	-	(1,265)
Other, net	638	(963)
	-----	-----
Net cash provided by financing activities	359,501	11,087
	-----	-----
Net increase (decrease) in cash	47,892	30,479
Cash and cash equivalents at beginning of period	65,485	297,698
	-----	-----
Cash and cash equivalents at end of period	\$ 113,377	\$ 328,177
	=====	=====
Supplemental disclosure of cash activities:		
Interest paid	\$ 14,392	\$ 16,012
	=====	=====
Income taxes paid	\$ 9,829	\$ 4,880
	=====	=====

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AMERUS GROUP CO.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(\$ in thousands)  
(Unaudited)

	For The Six Months Ended June 30,	
	2001	2000
	-----	-----
Details of acquisitions:		
Fair value of assets acquired	\$ 5,671,628	\$ -
Liabilities assumed	5,345,186	-
	-----	-----
Carrying value of acquisitions	326,442	-
Common stock issued	(232,318)	-
Accrual of cash payout component of purchase price	(9,121)	-
Preliminary investment in ILGC	(77,200)	-
Acquisition costs previously paid	(2,857)	-
	-----	-----
Cash paid	4,946	-
Less: Cash acquired	161,905	-
	-----	-----
Net cash (received in) acquisitions	\$ (156,959)	\$ -
	=====	=====

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AMERUS GROUP CO.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

(1) CONSOLIDATION AND 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 the instructions to Form 10-Q 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 six months ended June 30, 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 and for capitalized terms not defined in this 10-Q, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

The accompanying consolidated financial statements include the accounts and operations of the Company and its wholly-owned subsidiaries, principally AmerUs Life Insurance Company (ALIC), AmerUs Annuity Group Co. (AAG) (formerly known as AmVestors Financial Corporation), AmerUs Capital Management Group, Inc. (ACM), and ILICO Holdings, Inc., holding company of Indianapolis Life Insurance Company (ILICO). All significant intercompany transactions and balances have been eliminated in consolidation.

Certain amounts in the 2000 financial statements have been reclassified to conform to the 2001 financial statement presentation.

(2) EARNINGS PER SHARE

Basic earnings per share of common stock are computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per share assumes the issuance of common shares applicable to stock options and warrants calculated using the treasury stock method.

(3) 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,

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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 \$12.4 million (\$8.2 million after-tax) and an increase to Accumulated Other Comprehensive Income (AOCI) of \$2.7 million. The reduction to income, which is classified as a "cumulative effect of change in accounting for derivatives, net of tax" in the Consolidated Statements of Income, is attributable to losses on basis swaps that were natural hedges and losses on interest rate swaps reclassified from AOCI that have been redesignated as cash flow hedges of floating rate funding agreement liability effective January 1, 2001. In addition, the reduction to income includes adjustments to fair value for options being used as

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natural hedges of embedded options contained within equity-indexed annuity products. The increase in AOCI, which is classified as "change in accounting for derivatives" in the Consolidated Statements of Comprehensive Income, is attributable to the reclassification of the interest rate swap's fair value adjustment from AOCI to the Consolidated Statements of Income.

The Company uses financial instruments, including options, futures, swaps, caps and swaptions to reduce its exposure to changes in interest rates and to manage duration mismatches. The Company also uses call options to hedge equity-indexed annuity products. The use of these financial instruments modifies the exposure of these risks with the intent to reduce the risk and variability to the Company. Although the Company is subject to the risk that counterparties will fail to perform, credit standings of counterparties are monitored regularly. The Company only enters into transactions with highly-rated counterparties. The Company is not a party to leveraged derivatives.

Initially, upon adoption of the new derivative accounting requirements, and prospectively, on the date a derivative contract is entered into, the Company designates the derivative as either (1) a hedge of a recognized asset or liability or an unrecognized firm commitment (a fair value hedge), (2) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (a cash flow hedge), or (3) a natural hedging instrument whose change in fair value is recognized to act as an economic hedge against changes in the values of the hedged item and which does not meet the accounting hedge criteria for SFAS No. 133 (a natural hedge).

For fair value hedges, both the effective and ineffective portion of the changes in the fair value of the derivative, along with the gain or loss on the hedged item that is attributable to the hedged risk, are recorded in earnings and reported net in the Consolidated Statements of Income. The effective portion of the changes in the fair value of a derivative that is designated as a cash flow hedge is recorded in AOCI. When the hedged cash transaction is realized, the gain or loss included in AOCI is reported net in the Consolidated Statements of Income with the hedged cash transaction item. In addition, the ineffective portion of the changes in the fair value of derivatives designated as cash flow hedges are reported in net investment income in the Consolidated Statements of Income. For derivatives designated as a natural hedge, changes in fair value are classified as realized/unrealized gains (losses) on investments in the Consolidated Statements of Income.

The Company formally documents its hedge relationships, including identification of the hedging instruments and the hedged items, as well as its

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risk management objectives and strategies for undertaking the hedge transaction. Free standing derivatives are recorded in the Consolidated Balance Sheets at fair value in other assets and option derivatives embedded in equity-indexed annuity products are marked to fair value and classified in the Consolidated Balance Sheets as "policy reserves and policyowner funds." This process includes linking derivatives that are designated as hedges of specific assets, liabilities, firm commitments or forecasted transactions. The Company also formally assesses at inception and at least quarterly thereafter, whether the derivatives that are used in hedging transactions, other than natural hedges, are highly effective in offsetting changes in either the fair value or cash flows of the hedged item. When a determination is made that a derivative ceases to be a highly effective hedge, the Company will discontinue hedge accounting.

To manage interest rate risk, the Company has entered into interest rate swaps that effectively fix the interest payments of a floating rate funding agreement liability. These interest rate swap agreements are accounted for as cash flow hedges.

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The Company has equity-indexed annuity products that guarantee the return of principal to the customer and credits interest based on a percentage of the gain in the Standard & Poor's 500 Composite Stock Price Index(R) (S&P 500 Index). A portion of the premium from each customer is invested in investment grade fixed income securities to cover the minimum guaranteed value due the customer at the end of the term. A portion of the premium is used to purchase S&P 500 Index call options to hedge the growth in interest credited to the customer as a direct result of increases in the S&P 500 Index. The amounts to be paid or received pursuant to these agreements are accrued and recognized in income over the life of the agreements. Both call options held by the Company and the options embedded in the policy, which the Company has designated as a natural hedge, are valued at fair value. The change in fair value for the call options is included in realized/unrealized gains (losses) on investments and the change in fair value of the embedded options is included in policyowner benefits in the Consolidated Statements of Income.

The Company has certain 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 assets to which the selected strategy is linked, less certain charges. The total return adjustment is paid when a policyowner 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 six months of 2001, realized/unrealized gains (losses) on investments included an unrealized loss of \$34.1 million from the change in fair value on call options used as a natural hedge of embedded options within equity-indexed annuities and a \$3.5 million unrealized loss from the change in

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fair value on the trading securities backing the total return strategy products. Policyowner benefits included an offsetting adjustment from fair value changes in options embedded within the equity-indexed products and fair value changes on total return strategy annuity contracts totaling \$32.5 million. In addition, basis swaps were terminated during the first quarter of 2001 and an increase in fair value of \$1.8 million on those swaps was included in net investment income. AOCI included an unrealized loss of \$2.1 million from the fair value change in interest rate swaps used to hedge the floating rate funding agreement liability. The Company estimates that \$0.6 million of derivative losses included in AOCI will be reclassified into earnings within the next twelve months. The ineffectiveness of the interest rate swap cash flow hedge was not considered significant for the first half of 2001.

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The following table summarizes the income (loss) impact 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 six months of 2001:

	Cumulative Effect of Change in Accounting for Derivatives January 1, 2001	Six Months Ended June 30, 2001
	-----	-----
(\$ in thousands)		
Basis swaps (A)	\$ (921)	\$ -
Separate account swap (B)	(4,100)	-
Fixed maturity securities held for trading	-	(3,519)
Options on equity-indexed annuities	(4,056)	(34,096)
Equity-indexed and total return strategy fixed annuity liabilities	(1,335)	32,510
Deferred (loss) (C)	(899)	-
Deferred policy acquisition cost amortization impact of net annuity adjustments	(1,127)	2,102
	-----	-----
Pre-tax total	(12,438)	(3,003)
Income taxes	4,202	1,051
	-----	-----
After-tax total	\$ (8,236)	\$ (1,952)
	=====	=====

(A) Terminated during first quarter 2001.

(B) Future adjustments are through AOCI.

(C) Balance eliminated in transition adjustment.

The cumulative effect of change in accounting for derivatives per common share for the six months ended June 30, 2001:

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Basic	\$	0.26
Diluted	\$	0.25

Weighted average common shares outstanding:

Basic		32,181,646
Diluted		32,325,847

#### (4) CLOSED BLOCK

The Company has established two Closed Blocks. The first was established on June 30, 1996 in connection with the reorganization of ALIC to a stock form. The second was established on May 18, 2001 in connection with the reorganization of ILICO to a stock form. Insurance policies which had a dividend scale in effect as of each Closed Block establishment date, were included in the Closed Block.

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The Closed Block was designed to provide reasonable assurance to owners of insurance policies included therein that, after the reorganization of ALIC and ILICO, assets would be available to maintain the dividend scales and interest credits in effect prior to the reorganization if the experience underlying such scales and credits continues. Effective with the first quarter of 2001, the Company has adopted the Accounting Standards Executive Committee's Statement of Position 00-3 (SOP 00-3) "Accounting by Insurance Enterprises for Demutualizations and Formations of Mutual Holding Companies and for Certain Long-Duration Participating Contracts." The provisions of SOP 00-3 required the Company to modify its presentation of the Closed Block in its Consolidated Financial Statements to no longer show the operations of the Closed Block and the assets and liabilities of the Closed Block as single line items. In addition, the SOP required the Company to report unrealized gains and losses on Closed Block investments as a component of the Closed Block policyholder dividend obligation rather than AOCI. At June 30, 2001, there was an unrealized gain of \$16.5 million included in the policyholder dividend obligation.

Summarized balance sheet information of the combined Closed Blocks as of June 30, 2001 and December 31, 2000 and statements of income for the three months and six months ended June 30, 2001 and 2000 are as follows:

	June 30, 2001	December 31, 2000
	-----	
	(unaudited)	
(\$ in thousands)		
Assets:		
Securities available-for-sale at fair value:		
Fixed maturity securities	\$ 1,760,917	\$ 1,191,592
Loans	106,203	-
Policy loans	363,093	201,092





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Policyowner benefits	(110,898)	(100,570)
Underwriting, acquisition and other expenses	(1,687)	(1,262)
Amortization of deferred policy acquisition costs and value of business acquired	(8,588)	(7,329)
Dividends to policyowners	(38,823)	(34,798)
 Contribution from the Closed Block before income taxes	 -----	 -----
	\$ 14,605	\$ 11,568
	=====	=====

### (5) FEDERAL INCOME TAXES

The effective income tax rate for the three months and six months ending June 30, 2001 and 2000 varied from the prevailing corporate rate primarily as a result of goodwill amortization, non-deductible reorganization costs, low income housing and rehabilitation credits, and tax exempt income.

### (6) ACQUISITIONS

On May 18, 2001, the Company completed the acquisition of ILICO for an amount of cash, policy credits and shares of the Company's common stock equal to the value of 9.3 million shares of the Company's common stock. The purchase price totaled approximately \$326 million. The acquisition was accounted for using the purchase method of accounting and accordingly the total purchase price was

allocated to the assets and liabilities of ILICO based on the relative fair values as of May 18, 2001, with the 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 value of business acquired (VOBA). The reduction to VOBA was approximately \$8.0 million. The purchase price allocations related to VOBA were based on preliminary studies which will be finalized by year end. Therefore, the final allocations may differ from the amounts reflected as of June 30, 2001 and VOBA will be adjusted accordingly. Although the final allocations may differ, the consolidated financial statements as of June 30, 2001 reflect the Company's best estimate based on currently available information and the differences between the current and final allocations are not expected to be material. The operations of ILICO for the period of May 18, 2001 through June 30, 2001 have been included in the consolidated financial statement of income of the Company.

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

Investments (including cash and short-term investments)	\$ 4,655.7
Receivables and other assets	413.4
Value of business acquired	256.9
Separate account assets	345.6

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Policyowner reserves and funds	(4,811.5)
Other liabilities	(163.1)
Debt	(25.0)
Separate account liabilities	(345.6)
	-----
Total investment in ILICO	\$ 326.4
	=====

The following table sets forth certain pro forma operating data of the Company for the six months ended June 30, 2001 and 2000. This pro forma data assumes the acquisition of ILICO occurred on January 1, 2000.

	Six months ended June 30, 2001	2000
	-----	-----
(in thousands, except per share data)		
Pro Forma operating data:		
Total revenue	\$ 746,575	\$ 789,863
Net income from continuing operations	41,038	39,024
Net income	32,306	39,024
Diluted pro forma net income from continuing operations per share of common stock	\$ 1.05	\$ 1.48
Diluted pro forma net income per share of common stock	\$ 0.83	\$ 1.48

Under the terms of the joint venture ALIC participates in with Ameritas, ALIC had an option to purchase an additional 5% to 15% of AMAL if certain premium growth targets were met. ALIC met the premium growth target requirement for one 5% purchase option in January 2001. ALIC exercised the option on March 28, 2001 and acquired an additional 5% ownership interest in AMAL for \$7.2 million. ALIC's ownership percentage in AMAL is now 39% and ALIC's has a remaining option to purchase an additional 5% to 10% of AMAL.

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### (7) SUBSEQUENT EVENTS

On July 27, 2001, the forward common stock purchase contract component of the Company's adjustable conversion-rate equity security (ACES) units matured. Under the terms of the contract, ACES unit holders had an obligation to purchase Company common stock at a price of \$31.5625 per share. In lieu of paying cash to satisfy their purchase obligation, the ACES unit holders could surrender the preferred security component of the ACES unit. Of the 4,080,500 ACES units outstanding, 4,075,625 were surrendered, and the remaining ACES unit holders submitted cash of approximately \$0.1 million to purchase Company common stock. The number of shares of common stock to be issued by the Company was based upon the average price of the Company's common stock for the twenty consecutive trading days ending on July 26, 2001, compared to the stated ACES unit amount of \$31.5625. As a result of this, the Company issued approximately 3.8 million shares of common stock and retired approximately \$128.7 million of ACES debt.

In July 2001, the Company consolidated various management functions in

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connection with its life insurance and annuity operations reorganization. As a result, the Company incurred one-time restructuring charges of approximately \$5.0 million pre-tax, primarily related to severance. These charges will be expensed in the Company's third quarter 2001 Consolidated Statement of Income.

On July 20, 2001, the FASB issued Statement of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets ("SFAS 142"), which change the accounting for business combinations, goodwill and other intangible assets. In particular, SFAS 142, which will generally become effective January 1, 2002, adopts a nonamortization, impairment-only model for the Company's goodwill and indefinite-lived intangible assets. This includes a more stringent impairment test methodology for measuring and recognizing impairment losses. The Company is presently studying the impact that the new Statements will have on its accounting policies. Under current GAAP standards, the Company has recorded goodwill amortization expense of approximately \$3.9 million and \$4.2 million for the six months ended June 30, 2001 and 2000, respectively.

### (8) OPERATING SEGMENTS

The Company has two operating segments: Life Insurance and Annuities. Products generally distinguish a segment. A brief description of each segment follows:

#### LIFE INSURANCE

The primary product offerings consist of whole life, universal life and term life insurance policies. These products are marketed on a national basis primarily through a Preferred Producer agency system and a Personal Producing General Agent (PPGA) distribution system.

#### ANNUITIES

The Annuity segment markets individual fixed and variable annuities on a national basis primarily through independent brokers and marketing companies. The Annuity segment also includes one insurance contract issued to a commercial paper conduit.

The Company uses the same accounting policies and procedures to measure operating segment income and assets as it uses to measure its consolidated income from operations and assets with the exception of the elimination of certain items which management believes are not necessarily indicative of overall operating trends. For example, net realized capital gains or losses on investments, excluding gains or losses on convertible debt which are considered core earnings, are not included as part of operating

segment income. These items are shown between adjusted pre-tax operating income and income from operations on the following operating segment income tables. Operating segment income is generally income before non-core realized gains and losses, interest expense, income tax and income or loss from discontinued operations. Premiums, product charges, policyowner benefits, insurance expenses, amortization of deferred policy acquisition costs and VOBA and dividends to policyowners are attributed directly to each operating segment. Net investment income and core realized gains and losses on investments are allocated based on

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directly-related assets required for transacting the business of that segment. Other revenues and benefits and expenses which are deemed not to be associated with any specific segment are grouped together in the All Other category. These items primarily consist of holding company revenues and expenses and the operations of the Company's real estate management subsidiary.

Assets are segmented based on policy liabilities directly attributable to each segment. There are no significant intersegment transactions.

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Operating segment income and assets are as follows:

Operating Segment Income  
(\$ in thousands)

For The Three Months Ended June 30, 2001

	Life Insurance	Annuities	All O
<b>Revenues:</b>			
Insurance premiums	\$ 78,331	\$ 2,581	\$
Universal life and annuity product charges	25,821	9,026	
Net investment income	65,294	138,684	3
Core realized/unrealized gains (losses) on investments	69	(305)	
Other income	-	9,732	2
	169,515	159,718	5
<b>Benefits and expenses:</b>			
Policyowner benefits	91,856	103,877	
Underwriting, acquisition, and other expenses	17,911	13,565	3
Amortization of deferred policy acquisition costs and value of business acquired, net of non-core adjustment of (\$4,899)	12,123	22,747	
Dividends to policyowners	23,067	-	
	144,957	140,189	4
Adjusted pre-tax operating income	\$ 24,558	\$ 19,529	\$ 1
Non-core realized gains (losses) on investments			
Change in option value of equity-indexed annuity products and market value adjustments on total return strategy annuities			

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Amortization of deferred policy acquisition costs  
due to non-core realized gains or losses

Reorganization costs

Income from continuing operations

Interest (expense)

Income tax (expense)

Income from discontinued operations, net of tax

Net income

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Operating Segment Income  
(\$ in thousands)

For The Three Months Ended June 30, 2000

	Life Insurance	Annuities	All O
	<hr/>		
Revenues:			
Insurance premiums	\$ 62,548	\$ 6,457	\$
Universal life and annuity product charges	15,767	9,752	
Net investment income	52,145	115,887	2
Core realized/unrealized gains (losses) on investments	4	(6,242)	
Other income	-	5,348	1
	<hr/>		
	130,464	131,202	4
Benefits and expenses:			
Policyowner benefits	73,694	74,902	
Underwriting, acquisition, and other expenses	15,794	14,242	4
Amortization of deferred policy acquisition costs and value of business acquired, net of non-core adjustment of (\$4,335)	7,528	16,949	
Dividends to policyowners	21,326	-	
	<hr/>		
	118,342	106,093	4
	<hr/>		
Adjusted pre-tax operating income	\$ 12,122	\$ 25,109	\$
	<hr/> <hr/>		

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Non-core realized gains (losses) on investments  
 Amortization of deferred policy acquisition costs  
     due to non-core realized gains or losses  
 Reorganization costs  
  
 Income from continuing operations  
  
 Interest (expense)  
  
 Income tax (expense)  
  
 Minority interest  
  
 Income from discontinued operations, net of tax  
  
  
     Net income

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Operating Segment Income  
 (\$ in thousands)

For The Six Months Ended June 30, 2001

	Life Insurance	Annuities	All O
Revenues:			
Insurance premiums	\$ 140,282	\$ 7,194	\$
Universal life and annuity product charges	42,955	16,158	
Net investment income	118,325	265,872	4
Core realized/unrealized gains (losses) on investments	313	347	
Other income	-	17,789	4
	301,875	307,360	8
Benefits and expenses:			
Policyowner benefits	166,387	194,235	
Underwriting, acquisition, and other expenses	32,051	28,082	6
Amortization of deferred policy acquisition costs and value of business acquired, net of non-core adjustment of (\$5,537)	21,733	39,046	
Dividends to policyowners	42,225	-	

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	262,396	261,363	
Adjusted pre-tax operating income	\$ 39,479	\$ 45,997	\$ 1
Non-core realized gains (losses) on investments			
Change in option value of equity-indexed annuity products and market value adjustments on total return strategy annuities			
Amortization of deferred policy acquisition costs due to non-core realized gains or losses			
Reorganization costs			
Income from continuing operations			
Interest (expense)			
Income tax (expense)			
Income from discontinued operations, net of tax			
Cumulative effect of change in accounting for derivatives, net of tax			
Net income			

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Operating Segment Income  
(\$ in thousands)

For The Six Months Ended June 30, 2000

	Life Insurance	Annuities	All O
Revenues:			
Insurance premiums	\$ 125,831	\$ 12,339	\$
Universal life and annuity product charges	30,553	18,241	
Net investment income	105,103	229,573	9
Core realized/unrealized gains (losses) on investments	577	(4,481)	
Other income	-	9,513	4



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	262,064	265,185	13
Benefits and expenses:			
Policyowner benefits	149,651	162,477	
Underwriting, acquisition, and other expenses	26,406	25,632	9
Amortization of deferred policy acquisition costs and value of business acquired, net of non-core adjustment of (\$3,715)	17,065	32,839	
Dividends to policyowners	37,496	-	
	-----	-----	
	230,618	220,948	9
	-----	-----	
Adjusted pre-tax operating income	\$ 31,446	\$ 44,237	\$ 4
	=====	=====	=====
Non-core realized gains (losses) on investments			
Amortization of deferred policy acquisition costs due to non-core realized gains or losses			
Reorganization costs			
Income from continuing operations			
Interest (expense)			
Income tax (expense)			
Minority interest			
Income from discontinued operations, net of tax			
Net income			

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Operating Segment Assets  
(\$ in thousands)

	Life Insurance	Annuities	All Other	Cons
	-----	-----	-----	-----
June 30, 2001				
Investments	\$ 4,500,025	\$ 10,028,828	\$ 36,602	\$ 14
Deferred policy acquisition costs and VOBA	589,864	598,426	-	1
Other assets	463,875	1,269,684	66,444	1

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Total assets	\$ 5,553,764	\$ 11,896,938	\$ 103,046	\$ 17
December 31, 2000				
Investments	\$ 2,673,659	\$ 6,859,314	\$ 73,833	\$ 9
Deferred policy acquisition costs and VOBA	365,819	539,923	-	
Other assets	216,088	660,738	82,148	
Total assets	\$ 3,255,566	\$ 8,059,975	\$ 155,981	\$ 11

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

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

NATURE OF OPERATIONS

The Company is a holding company engaged through its subsidiaries in the business of marketing, underwriting and distributing a broad range of individual life insurance and annuity products to individuals and businesses in all 50 states, the District of Columbia and the U.S. Virgin Islands. The Company also owns a real estate management company through which it conducts limited real estate management, development, syndication and marketing activities. 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 individual fixed and variable annuities.

The Company sold certain lines of business and made the decision to exit certain other businesses in 1998. These businesses are referred to as discontinued operations and include the following activities: banking, residential real estate brokerage, residential land development, and mortgage banking.

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

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preferred stock and bonds which 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.

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	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2001	2000	2001	2000
(\$ in thousands, except per share data)				
Net Income	\$ 20,227	\$ 7,877	\$ 31,863	\$ 20,227
Net non-core realized (gains) losses (A)	4,677	299	9,494	(1,317)
Net amortization of deferred policy acquisition costs due to non-core realized gains or losses (B)	(1,317)	(1,635)	(2,823)	(1,317)
Net effect of accounting differences from the adoption of SFAS No. 133 (C)	2,541	-	2,541	-
Reorganization costs (D)	202	4,834	202	4,834
Discontinued operations (E)	(532)	(147)	(946)	(147)
Cumulative effect of change in accounting for derivatives (F)	-	-	8,236	-
Adjusted Net Operating Income	\$ 25,798	\$ 11,228	\$ 48,567	\$ 25,798
Adjusted Net Operating Income per common share (G):				
Basic	\$ 0.75	\$ 0.65	\$ 1.51	\$ 0.75
Diluted	\$ 0.75	\$ 0.65	\$ 1.50	\$ 0.75
Weighted average common shares outstanding (G):				

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Basic	34,364,932	17,390,165	32,181,646	17,390,165
	=====	=====	=====	=====
Diluted	34,528,541	17,407,252	32,325,847	17,410,000
	=====	=====	=====	=====

- (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 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.
- (C) Represents the net effect of SFAS No. 133 related accounting entries during the quarter, adjusted for income taxes. The accounting entries consist of market value adjustments on trading securities, derivatives, certain annuity contracts, and the associated change in amortization of deferred acquisition costs resulting from such adjustments.

- (D) For the 2001 periods presented, represents costs directly related to ILICO's reorganization. For the 2000 periods presented, represents costs directly related to the Company's reorganization and merger with ALHI, adjusted for minority interest on such amounts. The costs consist primarily of legal, actuarial and consulting expenses.
- (E) Represents the net income from the Company's discontinued operations.
- (F) Represents the cumulative effect of change in accounting for derivatives, net of income taxes, as of January 1, 2001, resulting from the Company's adoption of SFAS No. 133. This statement is effective for fiscal years beginning after June 15, 2000.
- (G) The Company was formed in 1996 as a mutual holding company and therefore, had no shares of common stock outstanding until its demutualization on September 20, 2000. At that time, the Company distributed 17.4 million shares of its common stock to its former members and exchanged its common stock for the 12.9 million shares of common stock held by the public in ALHI on a one-for-one basis. The Company's operating income is primarily from its former subsidiary, ALHI. The Company has owned shares of ALHI common stock since 1996. Adjusted net operating income per share has been calculated on the basis that the shares of stock the Company owned of ALHI were distributed to members and outstanding from January 1, 1996 and the shares exchanged for ALHI shares were outstanding from the date of demutualization.

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Adjusted net operating income increased \$14.6 million to \$25.8 million, or \$0.75 per diluted share, for the second quarter of 2001 compared to \$11.2 million, or \$0.65 per diluted share, for the second quarter of 2000. For the six months ended June 30, adjusted net operating income was \$48.6 million in 2001 compared to \$26.1 million in 2000. The increase in adjusted net operating income in 2001 was primarily attributable to the acquisition of ILICO and the reduction in income applicable to the minority interest. Excluding the effects of these two items, adjusted net operating income remained approximately level between years for both the three month and six month periods. Adjusted net operating income is analyzed further in the operating segment discussion.

### SALES

#### LIFE INSURANCE

The following table sets forth information regarding the Company's life insurance sales activity by product:

	Sales Activity by Product		
	Direct First Year Annualized Premium		
	For the Three Months Ended June 30, 2001	2000	For the Six Months E 2001
	-----		-----
(\$ in thousands)			
Traditional life insurance:			
Whole life	\$ 1,506	\$ 2,627	\$ 3,518
Interest-sensitive whole life	2,425	-	2,425
Term life	2,624	1,651	4,027
Universal life	4,053	2,229	5,702
Equity-indexed universal life	5,455	1,595	10,724
	-----		-----
Total	\$ 16,063	\$ 8,102	\$ 26,396
	=====		=====

Life insurance sales as measured by annualized premiums were \$16.1 million in the second quarter of 2001 compared to \$8.1 million in the second quarter of 2000. Year-to-date, life insurance sales increased \$7.1 million to \$26.4 million in 2001 compared to \$19.3 million in 2000. Approximately \$5.9 million of the increase for the quarter and year-to-date was due to sales from ILICO, which was acquired during the second quarter of 2001. Excluding the sales from ILICO, life insurance sales increased 26% and 6% for the 2001 three month and six month periods, respectively, as compared to 2000. The increases were from the Company's new equity-indexed universal life products which allow the policyowner to elect an earnings strategy for a portion of the account value whereby

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earnings are credited based on increases in the S&P 500 Index, excluding dividends. The earnings credit is subject to a participation rate and an annual cap. In the first six months of 2001, sales of these products were \$10.7 million as compared to \$1.9 million for the same period a year ago. The Company anticipates continued higher sales of these products as compared to last year.

The following table sets forth the Company's life insurance collected premiums, including collected premiums associated with the Closed Block, for the periods indicated:

	Collected Premiums by Product		
	For the Three Months Ended June 30, 2001	2000	For the Six Months 2001
-----			
(\$ in thousands)			
Individual life premiums collected:			
Traditional life:			
First year and single	\$ 26,027	\$ 19,851	\$ 46,091
Renewal	65,022	46,399	114,222
-----			
Total	91,049	66,250	160,313
Universal life:			
First year and single	12,764	7,065	24,119
Renewal	24,547	17,820	44,368
-----			
Total	37,311	24,885	68,487
Total individual life	128,360	91,135	228,800
Reinsurance assumed	5,517	264	6,026
Reinsurance ceded	(15,802)	(6,558)	(25,152)
-----			
Total individual life, net of reinsurance	\$ 118,075	\$ 84,841	\$ 209,674
=====			

Traditional life insurance premiums collected were \$91.0 million for the second quarter of 2001 compared to \$66.3 million for the second quarter of 2000. For the first six months of 2001, traditional life insurance premiums increased \$25.0 million to \$160.3 million compared to \$135.3 million in 2000. The entire amount of the increase, for both 2001 reporting periods, was due to the additional premiums from ILICO. Excluding the ILICO premiums, first year and single premiums declined \$1.2 million for the second quarter of 2001 as compared to 2000, and renewal premium remained level between second quarter periods. Year-to-date, first year and single premium decreased approximately \$2.6 million while

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renewal premium increased \$1.6 million. The decrease in first year and single premium, exclusive of the ILICO premium, was primarily due to the Company's shift in sales from whole and term life to universal life. The increase in renewal premium is primarily a result of the maturing of the block of business.

Universal life insurance premiums collected were \$37.3 million for the second quarter of 2001 compared to \$24.9 million for the same period in 2000 and \$68.5 million for the first six months of 2001 compared to \$51.7 million for the first six months of 2000. Approximately \$7.3 million of the increase in the three month and six month 2001 periods was due to the additional universal life premiums from the ILICO acquisition. The remaining increase in the 2001 reporting periods was due to the new universal life products discussed previously.

Reinsurance assumed increased approximately \$5.3 million for both the three months and six months ended June 30, 2001 as compared to the same periods in 2000. The entire amount of the increase is from the ILICO acquisition. ILICO private labels various whole, universal and term life products. The products are issued by ILICO's private label partners and then assumed in whole or in part by ILICO.

Effective January 1, 2000, ALIC entered into additional reinsurance agreements which effectively reduced ALIC's retention limit to \$100,000 for the majority of policies issued since July 1, 1996 and for the majority of new business going forward. In addition, effective July 1, 2000, ALIC entered into a reinsurance agreement covering its Closed Block policies. Under this agreement, ALIC has reinsured approximately 90% of the Closed Block net amount at risk not previously reinsured. Reinsurance ceded was \$2.7 million higher for the second quarter of 2001 and \$6.2 million higher for the first six months of 2001 as compared to the same periods in 2000 due to these additional reinsurance agreements. The remainder of the increase in ceded premium was from the ILICO acquisition. ILICO's reinsurance agreements effectively reduce ILICO's retention limit to \$500,000.

The following table sets forth information regarding the Company's life insurance in force for each date presented:

	Individual Life Insurance in Force	
	As of June 30,	
	2001	2000
	-----	
(\$ in thousands)		
Traditional life		
Number of policies	403,718	249,483
GAAP life reserves	\$ 3,058,196	\$ 1,690,950
Face amounts	\$ 45,153,000	\$ 22,589,000
Universal life		
Number of policies	163,927	112,770
GAAP life reserves	\$ 1,440,699	\$ 937,233
Face amounts	\$ 21,249,000	\$ 12,386,000
Total life insurance		
Number of policies	567,645	362,253
GAAP life reserves	\$ 4,498,895	\$ 2,628,183
Face amounts	\$ 66,402,000	\$ 34,975,000

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The acquisition of ILICO increased the number of policies in force by 213,000, GAAP life reserves by \$1.8 billion, and face amounts by \$29.5 billion.

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### ANNUITIES

The following table sets forth annuity collected premiums for the periods indicated:

	Collected Premiums by Product		
	For the Three Months Ended June 30, 2001	2000	For the Six Months 2001
(\$ in thousands)			
Fixed annuities:			
Deferred fixed annuities	\$ 293,953	\$ 251,083	\$ 730,991
Multi-choice annuities	103,764	29,828	154,308
Equity-index annuities	35,879	70,160	69,688
Variable annuities	4,197	-	4,197
Total	437,793	351,071	959,184
Reinsurance assumed	-	-	-
Reinsurance ceded	(56,144)	(62)	(104,733)
Total annuities, net of reinsurance	\$ 381,649	\$ 351,009	\$ 854,451

The Company primarily markets its annuity products on a national basis through networks of independent agents who are supervised by regional vice presidents or Independent Marketing Organizations (IMOs). The Company's IMOs consist of approximately 78 contracted organizations and four wholly-owned organizations. Annuity collected premiums were \$437.8 million for the second quarter of 2001 compared to \$351.1 million for the same period in 2000. Year-to-date, annuity collected premiums were \$959.2 million in 2001 compared to \$648.5 million in 2000. The increase in annuity collected premiums was partially attributable to the introduction of multi-choice annuity products in late-1999 and early-2000. The multi-choice annuity product provides for various earnings strategies under one product, such as a long-term equity index, an annual equity index, an investment grade bond index, and a guaranteed one-year rate. Earnings are credited to this product based on the increases in the applicable indices, less management fees, and funds may be moved between investment alternatives. This product has continued to grow in popularity with consumers and agents since its introduction. In addition to the increase in multi-choice annuities, fixed annuity collected premiums increased in 2001 as compared to 2000 primarily due



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to product repricing, growth in agents, increased marketing efforts aimed at these products, and the acquisition of ILICO. Annuity collected premiums from ILICO were approximately \$29.7 million for the three months and six months ended June 30, 2001. With the acquisition of ILICO, the Company has variable annuity products. Sales of variable annuities were \$4.2 million for the period from May 18, 2001, the acquisition date, through June 30, 2001. The assets and liabilities related to the variable annuities are shown on the Consolidated Balance Sheets as "Separate Account assets" and "Separate Account liabilities".

Effective October 1, 2000, the Company entered into a reinsurance agreement to cede 35% of certain fixed annuity production on a modified coinsurance basis. As a result of this new agreement, fixed annuity production ceded was \$100.6 million higher in the first six months of 2001 as compared to the same period in 2000. In addition, ILICO reinsures approximately 75% of its fixed annuities on a modified coinsurance basis which increased reinsurance ceded by approximately \$4.0 million for the three months and six months ended June 30, 2001 as compared to the same periods in 2000. The ILICO

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modified coinsurance agreement also impacted the Company's balance sheet. At June 30, 2001, reinsurance receivables were \$307.2 million compared to \$6.5 million at December 31, 2000.

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

	Annuities in Force As of June 30,	
	2001	2000
(\$ in thousands)		
Deferred fixed and immediate annuities		
Number of policies	172,774	163,611
GAAP annuity reserves	\$ 6,498,895	\$ 5,859,591
Multi-choice annuities		
Number of policies	53,972	962
GAAP annuity reserves	\$ 2,968,823	\$ 51,092
Equity-index annuities		
Number of policies	16,516	12,364
GAAP annuity reserves	\$ 715,117	\$ 573,355
Total annuities		
Number of policies	243,262	176,937
GAAP annuity reserves	\$ 10,182,835	\$ 6,484,038

The acquisition of ILICO increased the total number of annuity policies by 58,000 and GAAP annuity reserves by \$3.0 billion.

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## RESULTS OF OPERATIONS

A summary of the Company's revenue follows:

	For The Three Months Ended June 30,	
	2001	2000
-----		
(\$ in thousands)		
Insurance premiums		
Life insurance - traditional	\$ 78,331	\$ 62,548
Annuities - Immediate annuity & supplementary contract premiums	2,581	6,457
All other	225	132
	-----	
Total insurance premiums	81,137	69,137
Product charges		
Life insurance - universal life	25,821	15,767
Annuities	9,026	9,752
	-----	
Total product charges	34,847	25,519
Net investment income		
Life insurance	65,294	52,145
Annuities	138,684	115,887
All other	3,115	2,111
	-----	
Total net investment income	207,093	170,143
Realized/unrealized gains (losses) on investments		
Life insurance - core	69	4
Annuities - core	(305)	(6,242)
All other - non-core	(11,589)	(924)
	-----	
Total realized/unrealized gains (losses) on investments	(11,825)	(7,162)
Other income		
Annuities	9,732	5,348
All other	2,220	1,997
	-----	
Total other income	11,952	7,345

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Total revenues

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 \$ 323,204 \$ 264,982  
 =====

Traditional life insurance premiums were \$78.3 million in the second quarter of 2001 compared to \$62.5 million in the first second of 2000. For the six months ended June 30, 2001, traditional life insurance premiums increased \$14.5 million to \$140.3 million compared to \$125.8 million for the same period in 2000. The acquisition of ILICO in the second quarter of 2001 added \$18.9 million of traditional life insurance premiums. Excluding these ILICO premiums, traditional life insurance premiums declined \$3.1 million and \$4.4 million for the three months and six months, respectively, ended June 30, 2001 as compared to the same periods a year ago. The decrease in traditional life insurance premiums in 2001 as compared to 2000 was primarily the result of the shift in sales focus from traditional life products to universal life products discussed previously. In addition, the new reinsurance agreements entered into in 2000 resulted in an increase in ceded premium for the first six months of 2001 of approximately \$5.0 million as compared to a year ago. Partially offsetting the decline in first year premium and the increase in ceded premium was increased renewal premium. Open block renewal premium increased approximately \$6.1 million in the first half of 2001 as compared to the same period a year ago primarily

due to the maturing of this block, while Closed Block renewal premium declined approximately \$4.5 million due to an increase in lapses. Total life insurance lapse rates, exclusive of ILICO, were 7.6% for the first half of 2001 as compared to 7.2% a year ago. This increase in lapses in the Closed Block followed the completion of the Company's demutualization. The total life insurance lapse rate including ILICO was 7.2% for the first half of 2001. As was the case with the Company's demutualization, lapses are anticipated to increase at ILICO now that its demutualization is completed.

Immediate annuity and supplementary contract premiums decreased by \$3.9 million to \$2.6 million for the second quarter of 2001 compared to \$6.5 million for the same period in 2000, and decreased \$5.1 million for the six months ended June 30, 2001 as compared to the six months ended June 30, 2000. A decrease in immediate annuity premiums was anticipated as a result of pricing adjustments made on these products.

Universal life product charges were \$25.8 million for the second quarter of 2001 compared to \$15.8 million for the second quarter of 2000. Year-to-date, universal life product charges increased \$12.4 million to \$43.0 million in 2001 compared to \$30.6 million in 2000. Approximately \$10.3 million of the universal life product charges for the three months and six months ended June 30, 2001 were attributable to the acquisition of ILICO. The decrease between quarter-to-date periods, excluding the impact of ILICO, was primarily due to increased reinsurance premiums. The 2001 year-to-date increase, excluding ILICO, primarily reflects the increased sales of universal life products and increased

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cost of insurance charges corresponding with the normal aging and growth of the block of business.

Annuity product charges were \$9.0 million for the second quarter of 2001 compared to \$9.8 million for the same period in 2000, and \$16.2 million for the first half of 2001 compared to \$18.2 million for the first half of 2000. Annuity product charges from the acquisition of ILICO totaled approximately \$2.4 million for the three months and six months ended June 30, 2001. Excluding these ILICO amounts, annuity product charges declined \$3.2 million and \$4.5 million for the three months and six months, respectively, ended June 30, 2001 as compared to the same periods in 2000. The decrease in product charges was primarily due to decreased surrenders of annuity policies with surrender charges. Surrenders totaled approximately \$510.2 million for the first six months of 2001 compared to \$571.5 million for the first six months of 2000. Annuity withdrawal rates averaged 14.6% in the first half of 2001 compared to 15.7% in the first half of 2000. Excluding internal replacements, withdrawal rates decreased 2.8% to 11.8% for the first half of 2001 compared to 14.6% for the same period a year ago. Annuity withdrawal rates, including ILICO from the acquisition date forward, averaged 15.6% for the first half of 2001. Surrenders at ILICO from the acquisition date through June 30, 2001 were approximately \$77.6 million.

Total net investment income was \$207.1 million for the second quarter of 2001 compared to \$170.1 million for the same period in 2000 and \$388.2 million for the first six months of 2001 compared to \$343.8 million for the same period in 2000. Approximately \$26.2 million of net investment income for the three months and six months ended June 30, 2001 was attributable to the acquisition of ILICO. Excluding ILICO, 2001 net investment increased primarily due to higher average invested assets (excluding market value adjustments) and higher effective yields as compared to 2000. Average invested assets (excluding market value adjustments) increased approximately \$171.9 million and \$141.6 million between quarterly and year-to-date periods, respectively. The increase was primarily due to the growth of the Company's life insurance and annuity businesses since last year. Partially offsetting this growth in assets from the product lines was a reduction in holding company cash equivalents. The cash equivalents were generated primarily from the sale of the Company's discontinued operations in mid-1998 and were carried as invested assets of the Company until October 2000, when the Company distributed the funds to its former Members in connection with its reorganization. Investment income on the cash equivalents was approximately \$4.1 million and \$7.2 million for the second quarter 2001 period and year-to-date 2001 period, respectively. Net investment income for 2001 was also negatively impacted as compared to 2000 due to lower equity earnings from the Company's variable products joint venture. Equity earnings from this joint venture were \$0.8 million for the first six months of 2001 compared to \$1.6 million for the

same period in 2000. This decline was consistent with the operating results of others in the variable product industry.

The effective yield on the entire investment portfolio in the second quarter of 2001 was 6.72% compared to 6.91% in the second quarter of 2000 and 7.00% for the first six months of 2001 compared to 7.02% for the first six months of 2000. Excluding ILICO, 2001 second quarter and year-to-date yields

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increased to 7.21% and 7.28%, respectively. The increase in yields, exclusive of ILICO, primarily resulted from the market value adjustments the Company made to its assets in connection with its reorganization, in the third quarter of 2000. The overall yield is lower including ILICO primarily due to the higher percentage of convertible securities ILICO carries in its investment portfolio. The convertible securities are associated with ILICO's total return strategy fixed annuity products. The effective yield on the deferred fixed annuity portfolio increased 27 basis points to 7.11% for the second quarter of 2001 as compared to 6.84% for the second quarter of 2000. Year-to-date, the yields increased 32 basis points to 7.15% as compared to 6.83% for 2000. The deferred fixed annuity portfolio yield was also positively impacted by the market value adjustments made in the third quarter of 2000.

Total realized and unrealized gains and losses on investments were a net loss of \$11.8 million for the second quarter of 2001 compared to a net loss of \$7.2 million for the same period a year ago, and a net loss of \$51.7 million for the first half of 2001 compared to a net loss of \$4.3 million for the first half of 2000. The significant change between periods is primarily driven by the Company's adoption of SFAS No. 133 "Accounting for Certain Derivative Instruments and Hedging Activities." In accordance with this Statement, the Company has adjusted its options to market value, which, due to the economic environment, resulted in an unrealized loss of \$0.8 million and \$34.1 million for the second quarter and first half, respectively, of 2001. The Company uses its options to hedge its equity-indexed annuity products. In addition, the Company also has trading securities that back its total return strategy fixed annuity products. The market value adjustment on the trading securities resulted in a loss of \$3.5 million for the 2001 second quarter and six month periods. The majority of the unrealized gains and losses on the options and trading securities are offset by similar adjustments to the option portion of the equity-indexed annuity reserves and to the total return strategy annuity reserves. The reserve adjustments are reflected in the policyowner benefits line of the Consolidated Statements of Income and are discussed in the next section of Management's Discussion and Analysis of Results of Operations and Financial Condition. The remainder of the second quarter and year-to-date 2001 realized and unrealized gains and losses on investments consisted of \$7.5 million and \$14.1 million, respectively, of realized losses on investments. 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.

Other income primarily consists of real estate operating income, property management fees, structured finance fees from affordable housing programs, Corporate Owned Life Insurance (COLI) income, and third party annuity commissions received by wholly-owned IMOs. Other income increased approximately \$4.7 million in the second quarter of 2001 to \$12.0 million as compared to \$7.3 million in the second quarter of 2000. Year-to-date, other income was \$22.3 million in 2001 compared to \$13.9 million in 2000. Approximately \$4.3 million of the year-to-date 2001 increase in other income was due to the acquisition of another IMO in January, 2001 and the remainder reflects the income on a \$100 million COLI investment the Company made in the fourth quarter of 2000. COLI is classified as an other asset and accordingly the income from this asset appears in other income instead of net investment income.

A summary of the Company's policyowner benefits follows:

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	For the Three Months Ended June 30,		For the Six Months Ended June 30,
	2001	2000	2001
(\$ in thousands)			
Life Insurance:			
Traditional			
Death benefits	\$ 15,125	\$ 8,737	\$ 25,074
Change in liability for future policy benefits and other policy benefits	51,827	46,431	97,371
Total traditional	66,952	55,168	122,445
Universal			
Death benefits in excess of cash value	7,877	7,050	16,094
Interest credited on policyowner account balances	15,763	11,376	26,253
Other	1,264	100	1,595
Total universal	24,904	18,526	43,942
Total life insurance benefits	91,856	73,694	166,387
Annuities			
Interest credited to deferred annuity account balances	81,243	61,298	154,828
Other annuity benefits	22,634	13,604	39,407
Total annuity benefits	103,877	74,902	194,235
All other benefits	596	26	585
Change in option value of equity-indexed products and market value adjustments on total return strategy annuities	2,459	-	(32,510)
Total policyowner benefits	\$ 198,788	\$ 148,622	\$ 328,697

Total life insurance benefits were \$91.9 million in the second quarter of 2001 compared to \$73.7 million in the second quarter of 2000. For the first half of 2001, total life insurance benefits increased \$16.7 million to \$166.4 million compared to \$149.7 million in the same period in 2000. The acquisition of ILICO in the second quarter of 2001 increased life insurance benefits \$20.7 million for the three months and six months ended June 30, 2001. Excluding the impact of the ILICO acquisition, total life insurance benefits decreased \$2.5 million and \$4.0 million for the three months and six months, respectively, ended June 30, 2001 as compared to the same periods in 2000. This decrease in life insurance benefits exclusive of the impact of ILICO was primarily due to decreased death

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benefits and interest credited on universal life policies. The weighted average crediting rate on universal life policyowner account balances for the first half of 2001 decreased 6 basis points to 5.56% compared to 5.62% for the first half of 2000. In addition, traditional life benefits, excluding ILICO, decreased in the 2001 reporting periods as compared to 2000. The Company experienced unfavorable mortality in its traditional Closed Block policies in the second quarter of 2001 compared to 2000 resulting in increased death benefits of approximately \$2.4 million. This increase in traditional death benefits was more than offset by a lower change in traditional life reserves.

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Annuity benefits were \$103.9 million in the second quarter of 2001 compared to \$74.9 million in the same period a year ago. Year-to-date, annuity benefits increased \$31.7 million to \$194.2 million in 2001 compared to \$162.5 million in 2000. Approximately \$15.1 million of the increase in annuity benefits in both the three month and six month 2001 periods was due to the acquisition of ILICO in the second quarter of 2001. Annuity benefits increased approximately \$13.9 million and \$16.6 million for the three months and six months, respectively, ending June 30, 2001 as compared to 2000, exclusive of the impact of the ILICO acquisition. Interest credited to deferred annuity account balances increased \$20.7 million, exclusive of ILICO, in the first half of 2001 compared to the same period a year ago. Between 2001 and 2000 six month periods, average deferred fixed annuity account balances increased approximately \$194.0 million and the weighted average crediting rate on deferred fixed annuity account balances increased 20 basis points to 5.08%. The increase in crediting rates reflects the change in product mix and the increase in the investment yields of the deferred fixed annuity portfolio. Overall, spreads on deferred fixed annuities widened 11 basis points to 208 basis points in the first half of 2001 as compared to the same period a year ago. Including ILICO deferred fixed annuity products, the weighted average crediting rate remained at 5.08% and spreads were 207 basis points. Other annuity benefits declined approximately \$4.1 million, exclusive of ILICO, between first half periods, which corresponds with the decline in immediate annuity and supplementary contract premiums. ILICO added approximately \$11.3 million to the 2001 other annuity benefits due to payments made under modified coinsurance agreements.

Included in policyowner benefits is the fair value change in options embedded within the equity-indexed products and fair value changes on total return strategy fixed annuity contracts. These fair value changes are being recorded in accordance with SFAS No. 133, which the Company adopted January 1, 2001. Based on the economic environment for the three months ended June 30, 2001, the fair value changes resulted in a \$2.5 million increase in reserve balances while the year-to-date fair value changes in 2001 were a \$32.5 million decrease in reserve balances. As discussed previously, there is an offsetting adjustment to these fair value changes in the realized/unrealized gains (losses) on investments line of the Consolidated Income Statement related to the fair value changes on the options that hedge the equity-indexed products and on the trading securities that back the total return strategy products. All of these fair value changes are excluded from adjusted net operating income as they do not indicate overall operating trends.

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A summary of the Company's expenses follows:

	For the Three Months Ended June 30,	
	2001	2000
	-----	
(\$ in thousands)		
Life Insurance		
Underwriting, acquisition and other expenses	\$ 17,911	\$ 15,794
Amortization of deferred policy acquisition costs and value of business acquired (VOBA), net of non-core adjustment of \$411 and \$62 for the three months ended June 30, 2001 and 2000, respectively, and \$584 and \$83 for the six months ended June 30, 2001 and 2000, respectively	12,123	7,528
	-----	
Total life insurance	30,034	23,322
Annuities		
Underwriting, acquisition and other expenses	13,565	14,242
Amortization of deferred policy acquisition costs and value of business acquired (VOBA), net of non-core adjustment of (\$5,310) and (\$4,397) for the three months ended June 30, 2001 and 2000, respectively, and (\$6,121) and (\$3,798) for the six months ended June 30, 2001 and 2000, respectively	22,747	16,949
	-----	
Total annuities	36,312	31,191
Amortization of deferred policy acquisition costs due to non-core realized gains or losses	(4,899)	(4,335)
All other expenses	3,645	4,216
Reorganization costs	202	5,495
	-----	
Total expenses	\$ 65,294	\$ 59,889
	=====	

Total life insurance expenses were \$30.0 million in the second quarter of 2001 compared to \$23.3 million in the same period in 2000. For the first six



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months of 2001, life insurance expenses totaled \$53.8 million compared to \$43.5 million a year ago. The acquisition of ILICO in the second quarter of 2001 increased total life insurance expenses approximately \$6.5 million for the three months and six months ended June 30, 2001. Excluding the impact of the ILICO acquisition, underwriting, acquisition and insurance expenses decreased approximately \$1.4 million in the second quarter of 2001 and increased approximately \$2.1 million in the first half of 2001, as compared to the same periods a year ago. The decrease in the second quarter 2001 expenses as compared to a year ago was primarily due to lower technology costs while the increase in the year-to-date 2001 expenses as compared to last year was primarily due to general compensation increases, depreciation on the new life insurance administrative system and distribution system enhancements. Amortization of deferred policy acquisition costs and value of business acquired (VOBA), exclusive of ILICO, increased \$1.6 million in both the second

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quarter of 2001 and the first six months of 2001 compared to the comparable periods in 2000. Deferred policy acquisition costs are generally amortized in proportion to gross margins. The increase in amortization in 2001 as compared to 2000 is primarily associated with the Company's market value adjustment completed at the end of the third quarter 2000. Additional VOBA was established as a result of the market value adjustment.

Total annuity expenses increased by \$5.1 million to \$36.3 million in the second quarter of 2001 compared to \$31.2 million in the second quarter of 2000. Year-to-date, total annuity expenses were \$67.1 million in 2001 compared to \$58.5 million in 2000. Approximately \$1.1 million of the 2001 total annuity expenses in both the second quarter and year-to-date periods were due to the ILICO acquisition. Excluding these ILICO expenses, underwriting, acquisition and insurance expenses decreased approximately \$1.3 million in the second quarter of 2001 compared to the same period a year ago and increased approximately \$1.8 million between year-to-date periods. The decrease in the second quarter expenses primarily reflects the reduction in expenses from the consolidation of annuity operations in Topeka while the year-to-date increase was primarily due to the new IMO acquired in January of 2001. The increase in expense due to the new IMO was offset by the increase in other income from the IMO discussed previously. Exclusive of the impact of ILICO, amortization of deferred policy acquisition costs and VOBA increased \$5.4 million in the second quarter of 2001 as compared to the same period in 2000 and \$5.8 million between year-to-date periods. The increase in amortization was partially attributable to the general growth in the deferred policy acquisition cost asset associated with the continued growth in annuity sales. In addition, VOBA amortization was higher in 2001 due to the additional VOBA established in connection with the Company's third quarter market value adjustment.

Other expenses decreased by \$0.6 million in the second quarter of 2001 to \$3.6 million compared to \$4.2 million in the same period in 2000. Year-to-date, other expenses were \$6.3 million in 2001 compared to \$9.2 million in 2000. Other expenses primarily consist of expenses related to the real estate management company and the holding company, and tend to fluctuate from period to period depending on the properties under management each quarter. Beginning in 1999, the Company began decreasing the number of properties under management and,

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accordingly, other expenses are also declining.

The 2000 reorganization costs consist primarily of legal, actuarial and consulting expenses associated with the demutualization of the Company that was completed in the third quarter of 2000. The 2001 reorganization costs are associated with the demutualization of ILICO, which was completed in connection with the Company's acquisition of ILICO. As these costs are not of a continuing nature, they have been excluded from the Operating Segment amounts.

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A summary of the Company's income from operations by operating segment follows:

	For the Three Months Ended June 30,		For the Six Months June 30,	
	2001	2000	2001	
(\$ in thousands)				
Life Insurance:				
Open Block:				
Revenues	\$ 169,515	\$ 130,464	\$ 301,875	\$
Benefits and expenses	(121,890)	(97,016)	(220,171)	
Dividends to policyowners	(23,067)	(21,326)	(42,225)	
	24,558		39,479	
Adjusted pre-tax operating income				
Annuities:				
Revenues	159,718	131,202	307,360	
Benefits and expenses	(140,189)	(106,093)	(261,363)	
	19,529		45,997	
Adjusted pre-tax operating income				
All other adjusted pre-tax operating (loss)	1,319	(2)	1,865	
	\$ 45,406		\$ 87,341	
Total adjusted pre-tax operating income	\$ 45,406		\$ 87,341	

Adjusted pre-tax operating income from Life Insurance operations was \$24.6 million in the first quarter of 2001 compared to \$12.1 million in the second quarter of 2000. For the first six months of 2001, adjusted pre-tax operating income from Life Insurance operations increased \$8.1 million to \$39.5 million compared to \$31.4 million in 2000. The acquisition of ILICO contributed \$11.0 million of adjusted pre-tax operating income to the Life Insurance segment in

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the second quarter. Exclusive of the impact of the ILICO acquisition, Life Insurance operating income increased \$1.5 million between quarterly periods and decreased \$2.9 million between year-to-date periods. Gross margins in the Life Insurance segment remained level between year over year periods with the fluctuations in insurance expenses and the decline in earnings from the Company's variable products joint venture primarily impacting the overall results.

Adjusted pre-tax operating income from Annuity operations was \$19.5 million in the second quarter of 2001 compared to \$25.1 million in the same period in 2000. Year-to-date, adjusted pre-tax operating income from Annuity operations increased \$1.8 million to \$46.0 million in 2001 compared to \$44.2 million in 2000. Annuity operating income was negatively impacted approximately \$1.0 million from the acquisition of ILICO. Excluding this loss from ILICO, Annuity operating income decreased \$4.6 million between quarterly periods and increased \$2.8 million between year-to-date periods. The decrease in the second quarter of 2001 was primarily due to lower margins on equity-indexed annuity products. Year-to-date, the decreased margins on the equity-indexed annuity products were offset by the increase in spreads on the deferred fixed annuity products.

All other adjusted pre-tax operating income was \$1.9 million in the first half of 2001 compared to \$4.1 million in the first half of 2000. The decrease in 2001 compared to 2000 was primarily due to decreased investment income as the Company distributed approximately \$340 million of cash equivalents in October 2000 in connection with its reorganization.

Interest expense decreased \$0.3 million in the second quarter of 2001 to \$7.4 million compared to \$7.7 million in the second quarter of 2000. Year-to-date, interest expense was \$14.7 million in 2001

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compared to \$14.8 million in 2000. The decreased interest expense in 2001 was primarily due to lower borrowing rates in 2001 as compared to 2000. The 2001 interest expense also included approximately \$0.3 million of interest expense from ILICO. ILICO has a \$25 million, 8.66% surplus note, due on April 1, 2011.

Income tax expense was \$19.0 million in the first half of 2001 compared to \$23.7 million in the same period in 2000. The effective tax rate was 32.6% and 38.4% for the first half of 2001 and 2000, respectively. The decrease in the effective tax rate in 2001 reflected the decline in nondeductible expenses associated with the Company's reorganization and increased tax exempt income from the COLI investment.

Minority interest represents the minority stockholders ownership percentage share of net income of ALHI prior to the Company's acquisition of this Minority Interest. The minority shareholder ownership percentage was 42% for the six months ended June 30, 2000. As a result of the Company's acquisition of the Minority Interest there is no net income applicable to the Minority Interest in 2001.

Net income from continuing operations increased \$12.0 million to \$19.7 million in the second quarter of 2001 compared to \$7.7 million in the second quarter of 2000. Year-to-date, net income from continuing operations was \$39.2

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million in 2001 and \$22.7 million in 2000. Approximately \$4.1 million of the increase in the quarter and year-to-date periods was from the ILICO acquisition and the remainder was due to the lower effective tax rate and the reduction in net income applicable to the Minority Interest.

The Company adopted SFAS No. 133 January 1, 2001. In accordance with the provisions of the Statement, the Company has recorded the differences between the previous carrying amounts of its derivative instruments and the fair value of its derivative instruments, as of this 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 of approximately \$11.3 million. The deferred policy acquisition cost and VOBA amortization impact from the derivative adjustments was approximately \$1.1 million and the income tax benefit was \$4.2 million, resulting in the net cumulative effect of change in accounting for derivatives of \$8.2 million.

Net income was \$20.2 million in the second quarter of 2001 compared to \$7.9 million in the second quarter of 2000 and \$31.9 million in the first half of 2001 compared to \$22.7 million in the first half of 2000. The acquisition of ILICO increased net income approximately \$4.1 million in the 2001 second quarter and year-to-date periods. In addition, the lower effective tax rate and reduction in net income applicable to Minority Interest also increased net income in the 2001 periods as compared to 2000. Year-to-date, the adoption of SFAS No. 133 in the first quarter of 2001 had a one-time cumulative effect of reducing net income by \$8.2 million.

### LIQUIDITY AND CAPITAL RESOURCES

#### THE COMPANY

The Company's cash flows from operations consist of dividends from subsidiaries, if declared and paid, interest from income on loans and advances to its subsidiaries (including a surplus note issued to the Company by ALIC), investment income on assets held by the Company and fees which the Company charges its subsidiaries and certain other of its affiliates for services, offset by the expenses incurred for debt service, salaries and other expenses.

The Company intends to rely primarily on dividends and interest income from its life insurance subsidiaries in order to make dividend payments to its shareholders. The payment of dividends by its life insurance subsidiaries is regulated under various state laws. Generally, under the various state statutes, the Company's life insurance subsidiaries dividends may be paid only from the earned surplus arising

from their respective businesses and must receive the prior approval of the respective state regulator to pay any dividend that would exceed certain statutory limitations. The current statutes generally limit any dividend, together with dividends paid out within the preceding 12 months, to the greater of (i) 10% of the respective company's policyowners' surplus as of the preceding year end or (ii) the net gain from operations for the previous calendar year. Generally, the various state laws give the state regulators broad discretion to approve or disapprove requests for dividends in excess of these limits. Based on

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these limitations and 2000 results, the Company's subsidiaries could pay an estimated \$102.9 million in dividends in 2001 without obtaining regulatory approval. Of this amount, the Company's subsidiaries paid the Company \$20.0 million in the first six months of 2001. The 2000 statutory results exceeded prior years' statutory results primarily due to reinsurance transactions entered into in 2000 and the acquisition of ILICO. As reinsurance activity varies from year to year, 2001 statutory results may decline as compared to 2000 and dividend capacity would change accordingly.

The Company has a \$150 million revolving credit facility with a syndicate of lenders (the "Bank Credit Facility"). As of June 30, 2001, there was a \$64 million outstanding loan balance under the Bank Credit Facility. The Bank Credit Facility provides for typical events of default and covenants with respect to the conduct of business of the Company and its subsidiaries and requires the maintenance of various financial levels and ratios. Among other covenants, the Company (a) cannot have a leverage ratio greater than 0.35:1.0, (b) cannot have an interest coverage ratio less than 2.50:1.0, (c) is prohibited from paying cash dividends on its common stock in excess of an amount equal to 3% of its consolidated net worth as of the last day of the preceding fiscal year, and (d) must cause certain of its life insurance subsidiaries to maintain certain ratings from A.M. Best and certain levels of risk-based capital.

The Company has announced that its Board of Directors approved a stock purchase program under which the Company may purchase up to three million shares of its common stock at such times and under such conditions as the Company deems advisable. The purchases may be made in the open market or by such other means as the Company determines to be appropriate, including privately negotiated purchases. The purchase program supercedes all prior purchase programs. The funds for the purchase program would come from a combination of internal sources from its life insurance subsidiaries and utilization of its Bank Credit Facility.

### LIFE INSURANCE SUBSIDIARIES

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

Management anticipates that funds to meet its short-term and long-term capital expenditures, cash dividends to shareholders and operating cash needs will come from existing capital and internally generated funds. Management believes that the current level of cash and available-for-sale and short-term securities, combined with expected net cash inflows from operations, maturities of fixed maturity investments, principal payments on mortgage-backed securities and its insurance products, will be adequate to meet the anticipated short-term cash obligations of the Company's life insurance subsidiaries.

Matching the investment portfolio maturities to the cash flow demands of the type of insurance being provided is an important consideration for each type of life insurance product and annuity. The Company continuously monitors benefits and surrenders to provide projections of future cash requirements. As part of this monitoring process, the Company performs cash flow testing of its assets

and liabilities under various scenarios to evaluate the adequacy of reserves. In developing its investment strategy, the Company establishes a level of cash and securities which, combined with expected net cash inflows from operations, maturities of fixed maturity investments and principal payments on mortgage-backed securities, are believed adequate to meet anticipated short-term and long-term benefit and expense payment obligations. There can be no assurance that future experience regarding benefits and surrenders will be similar to historic experience since withdrawal and surrender levels are influenced by such factors as the interest rate environment and the claims-paying and financial strength ratings of the Company's life insurance subsidiaries.

The Company takes into account asset/liability management considerations in the product development and design process. Contract terms for the Company's interest-sensitive products include surrender and withdrawal provisions which mitigate the risk of losses due to early withdrawals. These provisions generally do one or more of the following: limit the amount of penalty-free withdrawals, limit the circumstances under which withdrawals are permitted, or assess a surrender charge or market value adjustment relating to the underlying assets. The following table summarizes liabilities for interest-sensitive life products and annuities by their contractual withdrawal provisions at June 30, 2001 (including liabilities in both the Closed Block and the general account):

	(\$ in millions)
	-----
Not subject to discretionary withdrawal	\$ 578.0
Subject to discretionary withdrawal with adjustments:	
Specified surrender charges (A)	5,742.1
Market value adjustments	3,921.5
	-----
Subtotal	9,663.6
	-----
Subject to discretionary withdrawal without adjustments	1,509.1
	-----
Total	\$ 11,750.7
	=====

(A) Includes \$620.1 million of statutory liabilities with a contractual surrender charge of less than five percent of the account balance.

ALIC is a party to a \$250 million separate account funding agreement. Under this agreement, a five-year floating rate insurance contract is issued to a commercial paper conduit. The funding agreement is secured by assets in a separate account and is further backed by the general account assets of ALIC. The separate account assets are legally segregated and are not subject to claims that arise out of any other business of ALIC. The separate account assets and liabilities are included with general account assets in the financial

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statements. The funding agreement may not be cancelled by the commercial paper conduit unless there is a default under the agreement, but ALIC may terminate at any time.

ALIC and its joint venture partner are contingently liable in the event the joint venture, AVLIC, cannot meet its obligations. At June 30, 2001, AVLIC had statutory assets of \$2,296.0 million, liabilities of \$2,230.3 million and surplus of \$65.7 million.

Through their respective memberships in the Federal Home Loan Banks (FHLB) of Des Moines and Topeka, ALIC and American Investors Life Insurance Company, a subsidiary of AAG, are eligible to borrow under variable-rate short term fed funds arrangements to provide additional liquidity. These borrowings are secured and interest is payable at the current rate at the time of any advance. There were

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no borrowings under these arrangements outstanding at June 30, 2001. In addition, ALIC has long-term advances from the FHLB outstanding of \$15.2 million at June 30, 2001.

The Company's life insurance subsidiaries may also obtain liquidity through sales of investments. The Company's investment portfolio as of June 30, 2001 had a carrying value of \$14.7 billion, including Closed Block investments.

At June 30, 2001, the statutory surplus of the Company's subsidiaries was approximately \$645.2 million. The Company believes that this level of statutory capital is more than adequate as each insurance subsidiary's risk based capital is significantly in excess of required levels.

In the future, in addition to their cash flows from operations and borrowing capacity, the life insurance subsidiaries would anticipate obtaining their required capital from the Company as the Company has access to the public debt and equity markets.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The main objectives in managing the investment portfolios of the Company and its insurance subsidiaries are to maximize investment income and total investment returns while minimizing credit risks in order to provide maximum support to the insurance underwriting operations. Investment strategies are developed based on many factors including asset liability management, regulatory requirements, fluctuations in interest rates and consideration of other market risks. Investment decisions are centrally managed by investment professionals based on guidelines established by management and approved by the boards of directors.

Market risk represents the potential for loss due to adverse changes in the fair value of financial instruments. The market risks related to financial instruments of the Company and its subsidiaries primarily relate to the investment portfolio, which exposes the Company to risks related to interest rates and, to a lesser extent, credit quality and prepayment variation. Analytical tools and monitoring systems are in place to assess each of these elements of market risk.

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Interest rate risk is the price sensitivity of a fixed income security to changes in interest rates. Management views these potential changes in price within the overall context of asset and liability management. Company actuaries estimate the payout pattern of the Company's liabilities, primarily the Company's lapsation, to determine liability duration. The asset duration is determined after consideration of the duration of these liabilities and other factors, which management believes mitigates the overall effect of interest rate risk for the Company.

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The table below provides information about the Company's fixed maturity investments and mortgage loans at June 30, 2001. The table presents cash flows of principal amounts and related weighted average interest rates by expected maturity dates. The cash flows are based on the earlier of the call date or the maturity date or, for mortgage-backed securities, expected payment patterns. Actual cash flows could differ from the expected amounts.

Amortized	EXPECTED CASH FLOWS						
	6 mos 2001	2002	2003	2004	2005	2006	Thereafter
	(\$ in millions)						
Fixed maturity securities	\$ 391	\$ 725	\$ 1,617	\$ 1,327	\$ 1,617	\$ 1,107	\$ 5,964
Average interest rate	6.8%	6.6%	6.1%	6.3%	6.5%	7.2%	6.8%
Mortgage loans	\$ 30	\$ 52	\$ 53	\$ 67	\$ 69	\$ 66	\$ 595
Average interest rate	8.1%	8.3%	8.2%	8.2%	8.2%	8.1%	7.9%
Total	\$ 421	\$ 777	\$ 1,670	\$ 1,394	\$ 1,686	\$ 1,173	\$ 6,559

The Company and its subsidiaries have consistently invested in high quality marketable securities. As a result, management believes that the Company has minimal credit quality risk. Fixed maturity securities are comprised of U.S. Treasury, government agency, mortgage-backed and corporate securities. Approximately 64% of fixed maturity securities are issued by the U.S. Treasury or U.S. government agencies or are rated A or better by Moody's, Standard and Poor's, or the NAIC. Less than 7% of the bond portfolio is below investment grade. Fixed maturity securities have a weighted average maturity of approximately 7.24 years.

Prepayment risk refers to the changes in prepayment patterns that can either shorten or lengthen the expected timing of the principal repayments and thus the average life and the effective yield of a security. Such risk exists primarily within the Company's portfolio of mortgage-backed securities.



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Management monitors such risk regularly. The Company invests primarily in those classes of mortgage-backed securities that are less subject to prepayment risk.

The Company's use of derivatives is generally limited to hedging purposes and has principally consisted of using interest rate swaps, caps, swaptions and options. These instruments, viewed separately, subject the Company to varying degrees of market and credit risk. However when used for hedging, the expectation is that these instruments would reduce overall market risk. Credit risk arises from the possibility that counterparties may fail to perform under the terms of the contracts.

Equity price risk is the potential loss arising from changes in the value of equity securities. In general, equities have more year-to-year price variability than intermediate term grade bonds. However, returns over longer time frames have been consistently higher. The Company's equity securities consist primarily of its investment in AMAL. The remainder of the Company's equity securities are high quality and readily marketable.

All of the above risks are monitored on an ongoing basis. A combination of in-house systems and proprietary models and externally licensed software are used to analyze individual securities as well as each portfolio. These tools provide the portfolio managers with information to assist them in the evaluation of the market risks of the portfolio.

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### PART II - OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

In the ordinary course of business, the Company and its subsidiaries are parties to certain litigation, none of which management believes is material to the Company's results of operations.

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

The results of the votes at the annual meeting of the Company's shareholders on May 10, 2001 were reported on the Company's Form 10-Q dated May 15, 2001.

#### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

##### (a) Exhibits

A list of exhibits included as part of this report is set forth in the Exhibit Index which immediately precedes such exhibits and is hereby incorporated by reference herein.

##### (b) The following report on Form 8-K was filed during the quarter ended June 30, 2001:

Form 8-K dated May 18, 2001 announcing the Company's completion of the acquisition of Indianapolis Life Insurance Company.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DATED: August 13, 2001

AMERUS GROUP CO.

By /s/ Michael G. Fraizer

-----  
Executive Vice President and  
Chief Financial Officer

By /s/ Brenda J. Cushing

-----  
Vice President and Controller  
(Principal Accounting Officer)

AMERUS GROUP CO. AND SUBSIDIARIES

INDEX TO EXHIBITS

Exhibit No. -----	Description -----
2.1	Plan of Reorganization dated October 27, 1995, filed as Exhibit 2.1 to the registration statement of AmerUs Life Holdings, Inc. on Form S-1, Registration Number 333-12239, is hereby incorporated by reference.
2.2	Amended and Restated Agreement and Plan of Merger, dated as of September 19, 1997 and as amended and restated as of October 8, 1997, by and among AmerUs Life Holdings, Inc., AFC Corp. and AmVestors Financial Corporation ("AmVestors"), filed as Exhibit 2.2 to the Registration Statement of AmerUs Life Holdings, Inc. on Form S-4, Registration Number 333-40065 is hereby incorporated by reference.

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- 2.3 Agreement and Plan of Merger, dated as of August 13, 1997 and as amended as of September 5, 1997, among AmerUs Life Holdings, Inc., a wholly owned subsidiary of AmerUs Life Holdings, Inc. and Delta Life Corporation, filed as Exhibit 2.2 to Form 8-K of AmerUs Life Holdings, Inc. dated October 8, 1997, is hereby incorporated by reference.
- 2.4 Combination and Investment Agreement, dated February 18, 2000, among American Mutual Holding Company, AmerUs Life Holdings, Inc., Indianapolis Life Insurance Company and The Indianapolis Life Group of Companies, Inc., filed as Exhibit 2.1 to AmerUs Life Holdings, Inc.'s report on Form 8-K/A on March 6, 2000, is hereby incorporated by reference.
- 2.5 Purchase Agreement, dated as of February 18, 2000, by and between American Mutual Holding Company and AmerUs Life Holdings, Inc., filed as Exhibit 2.5 on Form 10-K, dated March 8, 2000, is hereby incorporated by reference.
- 2.6 Agreement and Plan of Merger, dated December 17, 1999, by and between American Mutual Holding Company and AmerUs Life Holdings, Inc., filed as Exhibit 2.6 on Form 10-K, dated March 8, 2000, is hereby incorporated by reference.
- 2.7 Amendment No. 1 to Agreement and Plan of Merger, dated February 18, 2000, by and between American Mutual Holding Company and AmerUs Life Holdings, Inc., filed as Exhibit 2.7 on Form 10-K, dated March 8, 2000, is hereby incorporated by reference.
- 2.8 Letter agreement, dated December 17, 1999, by and between American Mutual Holding Company and AmerUs Life Holdings, Inc., filed as Exhibit 2.8 on Form 10-K, dated March 8, 2000, is hereby incorporated by reference.
- 2.9 Notification Agreement, dated as of February 18, 2000, by and among American Mutual Holding Company, AmerUs Life Holdings, Inc. and Bankers Trust Company, filed as Exhibit 2.9 on Form 10-K, dated March 8, 2000, is hereby incorporated by reference.
- 2.10 Amendment No. 2 to Agreement and Plan of Merger, dated April 3, 2000, by and between American Mutual Holding Company and AmerUs Life Holdings, Inc., filed as Exhibit 2.10 on Form 10-Q, dated May 15, 2000, is hereby incorporated by reference.
- 2.11 Amendment No. 1 to the Purchase Agreement, dated April 3, 2000, by and between American Mutual Holding Company and AmerUs Life Holdings, Inc., filed as Exhibit 2.11 on Form 10-Q, dated May 15, 2000, is hereby incorporated by reference.
- 2.12 Amendment to Combination and Investment Agreement dated February 18, 2000 among American Mutual Holding Company, AmerUs Life Holdings, Inc., Indianapolis Life Insurance Company and The Indianapolis Life Group of Companies, Inc., dated September 18, 2000, filed as Exhibit 2.2 to Form 8-K12G3 of the Registrant dated September 21, 2000, is hereby incorporated by reference.
- 3.1 Amended and Restated Articles of Incorporation of the Registrant filed as Exhibit 3.1 on Form 10-Q, dated November 14, 2000 is hereby incorporated by reference.
- 3.2 Amended and Restated Bylaws of the Registrant, filed as Exhibit 3.2 on Form 10-Q, dated November 14, 2000 is hereby incorporated by reference.

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- 4.1 Amended and Restated Trust Agreement dated as of February 3, 1997 among AmerUs Life Holdings, Inc., Wilmington Trust Company, as property trustee, and the administrative trustees named therein (AmerUs Capital I business trust), filed as Exhibit 3.6 to the registration statement of AmerUs Life Holdings, Inc. and AmerUs Capital I on Form S-1, Registration Number 333-13713, is hereby incorporated by reference.
- 4.2 Indenture dated as of February 3, 1997 between AmerUs Life Holdings, Inc. and Wilmington Trust Company relating to the Company's 8.85% Junior Subordinated Debentures, Series A, filed as Exhibit 4.1 to the registration statement of AmerUs Life Holdings, Inc. and AmerUs Capital I on Form S-1, Registration Number, 333-13713, is hereby incorporated by reference.
- 4.3 Guaranty Agreement dated as of February 3, 1997 between AmerUs Life Holdings, Inc., as guarantor, and Wilmington Trust Company, as trustee, relating to the 8.85% Capital Securities, Series A, issued by AmerUs Capital I, filed as Exhibit 4.4 to the registration statement on Form S-1, Registration Number, 333-13713, is hereby incorporated by reference.
- 4.4 Common Stock Purchase Warrant, filed as Exhibit (10)(v) to Form 10-Q of AmVestors Financial Corporation dated May 13, 1992, is hereby incorporated by reference.
- 4.5 Amended and Restated Declaration of Trust of AmerUs Capital II, dated as of July 27, 1998, among AmerUs Life Holdings, Inc., First Union Trust Company and the administrative trustees named therein, relating to AmerUs Life Holdings, Inc.'s 7.0% ACES Units, filed as Exhibit 4.5 on Form 10-Q, dated August 13, 1998, is hereby incorporated by reference.
- 4.6 Certificate of Trust of AmerUs Capital III filed as Exhibit 4.7 to the registration statement of AmerUs Life Holdings, Inc., AmerUs Capital II and AmerUs Capital III, on Form S-3 (No. 333-50249), is hereby incorporated by reference.
- 4.7 Common Trust Securities Guarantee Agreement, dated as of July 27, 1998, by AmerUs Life Holdings, Inc., relating to AmerUs Life Holdings, Inc.'s 7.0% ACES Units, filed as Exhibit 4.7 on Form 10-Q, dated August 13, 1998, is hereby incorporated by reference.
- 4.8 QUIPS Guarantee Agreement, dated as of July 27, 1998, by AmerUs Life Holdings, Inc., relating to AmerUs Life Holdings, Inc.'s 7.0% ACES Units, filed as Exhibit 4.8 on Form 10-Q, dated August 13, 1998, is hereby incorporated by reference.
- 4.9 Master Unit Agreement, dated as of July 27, 1998, between AmerUs Life Holdings, Inc. and First Union National Bank relating to AmerUs Life Holdings, Inc.'s 7.0% ACES Units, filed as Exhibit 4.9 on Form 10-Q, dated August 13, 1998, is hereby incorporated by reference.
- 4.10 Call Option Agreement, dated as of July 27, 1998, between Goldman, Sachs & Co. and First Union National Bank relating to AmerUs Life Holdings, Inc.'s 7.0% ACES Units, filed as Exhibit 4.10 on Form 10-Q, dated August 13, 1998, is hereby incorporated by reference.
- 4.11 Pledge Agreement, dated as of July 27, 1998, among AmerUs Life Holdings, Inc., Goldman, Sachs & Co. and First Union National Bank relating to AmerUs Life Holdings, Inc.'s 7.0% ACES Units, filed as Exhibit 4.11 on Form 10-Q, dated August 13, 1998, is hereby incorporated by reference.
- 4.12 Senior Indenture, dated as of June 16, 1998, by and between AmerUs Life Holdings, Inc. and First Union National Bank, as Indenture Trustee, relating to the AmerUs Life Holdings, Inc.'s 6.95% Senior Notes, filed as Exhibit 4.14 on Form 10-Q, dated August 13, 1998, is hereby incorporated by reference.
- 4.13 Subordinated Indenture, dated as of July 27, 1998, by and between AmerUs Life Holdings, Inc. and First Union National Bank, as Indenture Trustee, relating to AmerUs Life Holdings, Inc.'s 6.86% Junior Subordinated Deferrable Interest Debentures, filed as Exhibit

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4.15 on Form 10-Q, dated August 13, 1998, is hereby incorporated by reference.

- 4.14 First Supplement to Indenture dated February 3, 1997 among American Mutual Holding Company, AmerUs Life Holdings, Inc. and Wilmington Trust Company as Trustee, relating to the Company's 8.85% Junior Subordinated Debentures, Series A, dated September 20, 2000, filed as Exhibit 4.14 on Form 10-Q dated November 14, 2000, is hereby incorporated by reference.

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- 4.15 Assignment and Assumption Agreement to Amended and Restated Trust Agreement, dated February 3, 1997 between American Mutual Holding Company and AmerUs Life Holdings, Inc., dated September 20, 2000, filed as Exhibit 4.15 on Form 10-Q dated November 14, 2000, is hereby incorporated by reference.
- 4.16 Assignment and Assumption to Guaranty Agreement, dated February 3, 1997 between American Mutual Holding Company and AmerUs Life Holdings, Inc., dated September 20, 2000, filed as Exhibit 4.16 on Form 10-Q, dated November 14, 2000, is hereby incorporated by reference.
- 4.17 First Supplement to Subordinated Indenture, dated July 27, 1998, relating to AmerUs Life Holdings, Inc.'s 6.86% Junior Subordinated Deferrable Interest Debentures, among American Mutual Holding Company, AmerUs Life Holdings, Inc. and First Union National Bank, as Indenture Trustee, dated September 20, 2000, filed as Exhibit 4.17 on Form 10-Q, dated November 14, 2000, is hereby incorporated by reference.
- 4.18 First Supplement to Master Unit Agreement dated July 27, 1998, relating to AmerUs Life Holdings, Inc.'s 7.0% ACES units, between American Mutual Holding Company and First Union National Bank, as Unit Agent, dated September 20, 2000, filed as Exhibit 4.18 on Form 10-Q, dated November 14, 2000, is hereby incorporated by reference.
- 4.19 Assignment and Assumption Agreement to the QUIPS Guarantee Agreement dated July 27, 1998, relating to AmerUs Life Holdings, Inc.'s 7.0% ACES units, between American Mutual Holding Company and AmerUs Life Holdings, Inc., dated September 20, 2000, filed as Exhibit 4.19 on Form 10-Q, dated November 14, 2000, is hereby incorporated by reference.
- 4.20 Assignment and Assumption Agreement to the Common Trust Securities Guarantee Agreement dated July 27, 1998, relating to AmerUs Life Holdings, Inc.'s 7.0% ACES units, between American Mutual Holding Company and AmerUs Life Holdings, Inc., dated September 20, 2000, filed as Exhibit 4.20 on Form 10-Q, dated November 14, 2000, is hereby incorporated by reference.
- 4.21 First Supplement to Purchase Contracts between American Mutual Holding Company and Holders, as specified, dated September 20, 2000, filed as Exhibit 4.21 on Form 10-Q, dated November 14, 2000, is hereby incorporated by reference.
- 4.22 First Supplement to the Pledge Agreement dated July 27, 1998, relating to AmerUs Life Holdings, Inc.'s 7.0% ACES units, among American Mutual Holding Company, Goldman Sachs & Co., as Call Option Holder, the Chase Manhattan Bank, as Collateral Agent and First

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- Union National Bank, as Unit Agent, dated September 20, 2000, filed as Exhibit 4.22 on Form 10-Q, dated November 14, 2000, is hereby incorporated by reference.
- 4.23 First Supplement to Senior Indenture dated June 16, 1998, relating to AmerUs Life Holdings, Inc.'s 6.95% Senior Notes, among American Mutual Holding Company, AmerUs Life Holdings, Inc. and First Union National Bank, as Trustee, dated September 20, 2000, filed as Exhibit 4.23 on Form 10-Q, dated November 14, 2000, is hereby incorporated by reference.
- 10.1 Joint Venture Agreement, dated as of June 30, 1996, between American Mutual Insurance Company and Ameritas Life Insurance Corp., filed as Exhibit 10.2 on Form 10-K, dated March 25, 1998, is hereby incorporated by reference.
- 10.2 Management and Administration Service Agreement, dated as of April 1, 1996, among American Mutual Life Insurance Company, Ameritas Variable Life Insurance Company and Ameritas Life Insurance Corp., filed as Exhibit 10.3 to the registration statement of AmerUs Life Holdings, Inc. on Form S-1, Registration Number 333-12239, is hereby incorporated by reference.
- 10.3 AmerUs Life Holdings, Inc. Executive Stock Purchase Plan, dated November 13, 1998, filed as Exhibit 4.11 to the registration statement of AmerUs Life Holdings, Inc. on Form S-8, Registration Number 333-72237, is hereby incorporated by reference.
- 10.4 All+AmerUs Supplemental Executive Retirement Plan, effective January 1, 1996, filed as Exhibit 10.6 to the registration statement of AmerUs Life Holdings, Inc. on Form S-1, Registration Number 333-12239, is hereby incorporated by reference.

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- 10.5 Management Incentive Plan, filed as Exhibit 10.9 to the registration statement of AmerUs Life Holdings, Inc. on Form S-1, Registration Number 333-12239, is hereby incorporated by reference.
- 10.6 AmerUs Life Insurance Company Performance Share Plan, filed as Exhibit 10.10 to the registration statement of AmerUs Life Holdings, Inc. on Form S-1, Registration Number 333-12239, is hereby incorporated by reference.
- 10.7 AmerUs Life Stock Incentive Plan, filed as Exhibit 10.11 to the registration statement of AmerUs Life Holdings, Inc. on Form S-1, Registration Number 333-12239, is hereby incorporated by reference.
- 10.8 AmerUs Life Non-Employee Director Stock Plan, filed as Exhibit 10.13 to the registration statement of AmerUs Life Holdings, Inc. on Form S-1, Registration Number 333-12239, is hereby incorporated by reference.
- 10.9 Form of Indemnification Agreement executed with directors and certain officers, filed as Exhibit 10.33 to the registration statement of AmerUs Life Holdings, Inc. on Form S-1, Registration Number 333-12239, is hereby incorporated by reference.
- 10.10 Tax Allocation Agreement dated as of November 4, 1996, filed as Exhibit 10.68 to the registration statement of AmerUs Life Holdings, Inc. on Form S-1, Registration Number 333-12239, is hereby incorporated by reference.
- 10.11 Credit Agreement, dated as of October 23, 1997, among AmerUs Life Holdings, Inc., Various Lender Institutions, the Co-Arrangers and The Chase Manhattan Bank, as Administrative Agent, filed as Exhibit

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- 10.84 to the registration statement of AmerUs Life Holdings, Inc. on Form S-4, Registration Number 333-40065, is incorporated by reference.
- 10.12 AmVestors Financial Corporation 1996 Incentive Stock Option Plan, filed as Exhibit (4) (a) to Registration Statement of AmVestors Financial Corporation on Form S-8, Registration Number 333-14571 dated October 21, 1996, is hereby incorporated by reference.
- 10.13 Consent dated as of May 20, 1998 to the Credit Agreement dated as of October 23, 1997 among AmerUs Life Holdings, Inc., Various Lender Institutions, the Co-Arrangers and The Chase Manhattan Bank, as Administrative Agent, filed as Exhibit 10.72 on Form 10-Q, dated November 12, 1998, is hereby incorporated by reference.
- 10.14 First Amendment dated as of May 30, 1997 to the Credit Agreement dated as of October 23, 1997 among AmerUs Life Holdings, Inc., Various Lender Institutions, the Co-Arrangers and The Chase Manhattan Bank, as Administrative Agent, filed as Exhibit 10.73 on Form 10-Q, dated November 12, 1998, is hereby incorporated by reference.
- 10.15 Second Amendment dated as of June 22, 1998 to the Credit Agreement dated as of October 23, 1997 among AmerUs Life Holdings, Inc., Various Lender Institutions, the Co-Arrangers and The Chase Manhattan Bank, as Administrative Agent, filed as Exhibit 10.74 on Form 10-Q, dated November 12, 1998, is hereby incorporated by reference.
- 10.16 Second Consent and Amendment dated as of October 2, 1998 to the Credit Agreement dated as of October 23, 1997 among AmerUs Life Holdings, Inc., Various Lender Institutions, the Co-Arrangers and The Chase Manhattan Bank, as Administrative Agent, filed as Exhibit 10.75 on Form 10-Q, dated November 12, 1998, is hereby incorporated by reference.
- 10.17 MIP Deferral Plan dated as of September 1, 1998, filed as Exhibit 10.76 on Form 10-Q, dated November 12, 1998, is hereby incorporated by reference.
- 10.18 Open Line of Credit Application and Terms Agreement, dated March 5, 1999, between Federal Home Loan Bank of Des Moines and AmerUs Life Insurance Company, filed as Exhibit 10.34 on Form 10-Q dated May 14, 1999, is hereby incorporated by reference.
- 10.19 Third Waiver to Credit Agreement dated as of November 16, 1998 to the Credit Agreement dated as of October 23, 1997 among AmerUs Life Holdings, Inc., Various Lender Institutions, the Co-Arrangers and The Chase Manhattan Bank, as Administrative Agent, filed as Exhibit 10.37 on Form 10-K, dated March 30, 1999, is hereby incorporated by reference.

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- 10.20 Fourth Consent and Amendment, dated as of December 4, 1998 to the Credit Agreement dated as of October 23, 1997 among AmerUs Life Holdings, Inc., Various Lender Institutions, the Co-Arrangers and The Chase Manhattan Bank, as Administrative Agent, filed as Exhibit 10.38 on Form 10-K, dated March 30, 1999, is hereby incorporated by reference.
- 10.21 Facility and Guaranty Agreement, dated February 12, 1999, among The First National Bank of Chicago and AmerUs Life Holdings, Inc., filed as Exhibit 10.39 on Form 10-Q dated May 14, 1999, is hereby incorporated by reference.

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- 10.22 Form of Reimbursement Agreement, dated February 15, 1999, among AmerUs Life Holdings, Inc. and Roger K. Brooks, Victor N. Daley, Michael G. Fraizer, Thomas C. Godlasky, Marcia S. Hanson, Mark V. Heitz and Gary R. McPhail, filed as Exhibit 10.40 on Form 10-Q dated May 14, 1999, is hereby incorporated by reference.
- 10.23 Amendment No. 1 to Facility Agreement, dated March 23, 1999, among The First National Bank of Chicago and AmerUs Life Holdings, Inc., filed as Exhibit 10.41 on Form 10-Q dated May 14, 1999, is hereby incorporated by reference.
- 10.24 1999 Non-Employee Stock Option Plan, dated April 19, 1999, filed on Form S-3, Registration Number 333-72643, is hereby incorporated by reference.
- 10.25 Fifth Waiver and Amendment to Credit Agreement dated as of October 1, 1998 to the Credit Agreement dated as of October 23, 1997 among AmerUs Life Holdings, Inc., Various Lender Institutions, the Co-Arrangers and The Chase Manhattan Bank, as Administrative Agent, filed as Exhibit 10.43 on Form 10-Q dated August 13, 1999, is hereby incorporated by reference.
- 10.26 Sixth Amendment to Credit Agreement dated as of May 18, 1999 to the Credit Agreement dated as of October 23, 1997 among AmerUs Life Holdings, Inc., Various Lender Institutions, the Co-Arrangers and The Chase Manhattan Bank, as Administrative Agent, filed as Exhibit 10.44 on Form 10-Q dated August 13, 1999, is hereby incorporated by reference.
- 10.27 Amendment No. 2 to Facility Agreement, dated January 25, 2000, among The First National Bank of Chicago and the Registrant, filed as Exhibit 10.44 on Form 10-K, dated March 8, 2000, is hereby incorporated by reference.
- 10.28 Irrevocable Standby Letter of Credit Application and Terms Agreement, dated February 1, 2000, between Federal Home Loan Bank of Des Moines and AmerUs Life Insurance Company, filed as Exhibit 10.45 on Form 10-K, dated March 8, 2000, is hereby incorporated by reference.
- 10.29 Seventh Amendment to Credit Agreement dated as of December 23, 1999 to the Credit Agreement dated as of October 23, 1997 among AmerUs Life Holdings, Inc., Various Lender Institutions, the Co-Arrangers and The Chase Manhattan Bank, as Administrative Agent, filed as Exhibit 10.46 on Form 10-K, dated March 8, 2000, is hereby incorporated by reference.
- 10.30 Investment Advisory Agreements, dated as of February 18, 2000, by and between Indianapolis Life Insurance Company, Bankers Life Insurance Company of New York, IL Annuity and Insurance Company, Western Security Life Insurance Company and AmerUs Capital Management Group, Inc. filed as Exhibits 10.1, 10.3, 10.4 and 10.2, respectively, to AmerUs Life Holdings, Inc.'s report on Form 8-K/A on March 6, 2000, are hereby incorporated by reference.
- 10.31 Advance, Pledge and Security Agreement, dated April 12, 2000, by and between the Federal Home Loan Bank of Topeka and American Investors Life Insurance Company, Inc., filed as Exhibit 10.48 on Form 10-Q, dated May 15, 2000, is hereby incorporated by reference.
- 10.32 Institutional Custody Agreement, dated April 12, 2000, by and between the Federal Home Loan Bank of Topeka and American Investors Life Insurance Company, Inc., filed as Exhibit 10.49 on Form 10-Q, dated May 15, 2000, is hereby incorporated by reference.
- 10.33 Line of Credit Application, dated April 12, 2000, by and between the Federal Home Loan Bank of Topeka and American Investors Life Insurance Company, Inc., filed as Exhibit 10.50 on Form 10-Q, dated May 15, 2000, is hereby incorporated by reference.
- 10.34 Stock Purchase Agreement, dated February 1, 2000, by and among AmVestors Financial Corporation, Creative Marketing International Corporation and the Stockholders of Creative Marketing International Corporation, filed as Exhibit 10.51 on Form 10-Q, dated May 15, 2000, is hereby incorporated by reference.



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- 10.35 Stock Purchase Agreement, dated February 23, 2000, by and among American Investors Sales Group, Inc., Community Bank Marketing, Inc. and Community Financial Services, Inc., filed as Exhibit 10.52 on Form 10-Q, dated May 15, 2000, is hereby incorporated by reference.
- 10.36 Agreement for Advances, Pledge and Security Agreement, dated March 12, 1992, by and between Central Life Assurance Company and the Federal Home Loan Bank of Des Moines, filed as Exhibit 10.53 on Form 10-Q, dated May 15, 2000, is hereby incorporated by reference.
- 10.37 Agreement for Advances, Pledge and Security Agreement, dated September 1, 1995, by and between American Vanguard Life Insurance Company and the Federal Home Loan Bank of Des Moines, filed as Exhibit 10.54 on Form 10-Q, dated May 15, 2000, is hereby incorporated by reference.
- 10.38 Agreement and Plan of Merger, dated September 30, 1998, by and among AmVestors Financial Corporation, Senior Benefit Services of Kansas, Inc., Senior Benefit Services Insurance Agency, Inc., National Senior Benefit Services, Inc. and Richard McCarter, filed as Exhibit 10.55 on Form 10-Q, dated May 15, 2000, is hereby incorporated by reference.
- 10.39 Eighth Amendment to Credit Agreement dated as of June 23, 2000 to the Credit Agreement dated as of October 23, 1997 among AmerUs Life Holdings, Inc., various Lender Institutions, the Co-Arrangers and The Chase Manhattan Bank, as Administrative Agent, filed as Exhibit 10.57 on Form 10-Q, dated August 14, 2000, is hereby incorporated by reference.
- 10.40 Affirmation Agreement to Facility and Guaranty Agreement dated February 12, 1999 by American Mutual Holding Company, survivor of a merger with AmerUs Life Holdings, Inc. in favor of the Agent and the Lenders, dated September 20, 2000, filed as Exhibit 10.58 on Form 10-Q, dated November 14, 2000, is hereby incorporated by reference.
- 10.41 Amendment to Facility and Guaranty Agreement dated February 12, 1999 among The First National Bank of Chicago and AmerUs Group Co., dated September 20, 2000, filed as Exhibit 10.59 on Form 10-Q, dated November 14, 2000, is hereby incorporated by reference.
- 10.42 Acknowledgement and Assumption Agreement to Credit Agreement dated October 23, 1997, among American Mutual Holding Company and The Chase Manhattan Bank, as Administrative Agent for Various Lender Institutions, dated September 20, 2000, filed as Exhibit 10.60 on Form 10-Q, dated November 14, 2000, is hereby incorporated by reference.
- 10.43 AmerUs Group Co. 2000 Stock Incentive Plan, dated November 15, 2000, filed as Exhibit 99.9 to the registration statement of AmerUs Group Co. on Form S-8, Registration Number 333-50030, is hereby incorporated by reference.
- 11\* Statement Re: Computation of Earnings per share.
- 99.1 Retirement Agreement, dated March 14, 2000, by and between Victor N. Daley and AmerUs Life Holdings, Inc., filed as Exhibit 99.8 on Form 10-Q, dated May 15, 2000, is hereby incorporated by reference.
- 99.2 First Amendment to Employment Agreement, dated as of April 15, 1999, to the Employment Agreement dated as of September 19, 1997, among Mark V. Heitz, AmVestors Financial Corporation, American

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- Investors Life Insurance Company, Inc., AmVestors Investment Group, Inc., American Investors Sales Group, Inc., and AmerUs Life Holdings, Inc., filed as Exhibit 99.4 on Form 10-Q dated August 13, 1999, is hereby incorporated by reference.
- 99.3 Supplemental Benefit Agreement, dated as of April 15, 1999, among Roger K. Brooks and AmerUs Life Holdings, Inc., filed as Exhibit 99.5 on Form 10-Q dated August 13, 1999, is hereby incorporated by reference.
- 99.4 Form of Supplemental Benefit Agreement, dated as of April 15, 1999, among AmerUs Life Holdings, Inc. and Victor N. Daley, Michael G. Fraizer, Thomas C. Godlasky and Gary R. McPhail, filed as Exhibit 99.6 on Form 10-Q dated August 13, 1999, is hereby incorporated by reference.
- 99.5 Amended and Restated Employment Agreement, dated as of April 15, 1999, among Marcia S. Hanson and AmerUs Life Holdings, Inc., filed as Exhibit 99.7 on Form 10-Q dated August 13, 1999, is hereby incorporated by reference.

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- 99.6 Agreement and Release, dated as of December 31, 1999, by and between Marcia S. Hanson, AmerUs Life Holdings, Inc., Registrant, American Mutual Holding Company, and all of their respective subsidiaries and affiliates, filed as Exhibit 99.6 on Form 10-K, dated March 8, 2000, is hereby incorporated by reference.
- 99.7 Form of Supplemental Benefit Agreement, dated as of February 7, 2000, among AmerUs Life Holdings, Inc. and Victor N. Daley, Michael G. Fraizer, Thomas C. Godlasky and Gary R. McPhail, filed as Exhibit 99.7 on Form 10-K, dated March 8, 2000 is hereby incorporated by reference.

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\* included herein

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